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North Carolina Supplemental Retirement Plans

Manager Updates

January 28, 2013

MARSH & McLENNAN COMPANIES

MERCER Research note

Manager:	Sands Capital Management (Sands)			
Title:	Select Growth Equity update			
Date:	16 January 2013			
Author:	Carey Freimuth			
Peer reviewer:	Jack Liu			
Strategies reviewed in this note:				
Product group/ category	**Strategy name**	**Current rating**	**Recommended rating (*)**	**ESG rating (**)**
US Equity - Large Cap Growth	**Select Growth Equity**	A (T)	A (T)	ESG4

(*)*The recommended ratings in this document may be subject to an approval process and may be subject to change. For the most recent approved ratings please refer to your consultant or to GIMD as appropriate.*

(**) For more information on ESG ratings please refer to your consultant or to the 'Guide to Mercer Ratings' on GIMD as appropriate.

Details of research meeting(s) covered by this note:

Date	Location	On-site?
1 November 2012	Arlington, VA	Yes

Manager attendees:

David Levanson – Senior Portfolio Manager, Senior Research Analyst
Ashraf Haque – Research Analyst
Thomas Trentman – Research Analyst, Portfolio Manager
Michael Raab – Research Analyst, Portfolio Manager
Luke Iglehart – Consultant Relations

Mercer attendees:

Carey Freimuth
Hoa Quach

Rationale for A rating

Sands' Select Growth Equity strategy benefits from a skilled and experienced team that follows a well-defined process to identify leading growth companies in attractive businesses. The firm allocates significant resources to fully understand each company prior to making an investment decision. Sands' deep team of seasoned analysts and thorough fundamental research are competitive advantages.

Mercer Evaluation Summary

Factor	Rating (-, =, + or ++)	Comments
Idea Generation	++	Sands' deep investment team is solely dedicated to finding large cap companies that meet its focused definition of a leading growth company. This definition, combined with a concentrated low-turnover approach, focuses the research process on a narrow universe of stocks and allows Sands to allocate significant resources in getting to know each company prior to making an investment decision. The ability for the investment team to uncover profitable investment ideas over the long-term is a strength of the strategy. In addition, the team shares in a common belief in what drives a profitable investment and has shown a willingness to challenge each other to ensure that the best ideas are in the portfolio.
Portfolio Construction	+	A unique feature of Sands' investment process is known as business space diversification. Companies in the portfolio will typically have exposure to multiple business lines, and these exposures are monitored to ensure that all key sectors are represented in the portfolio. We view business space diversification as a strength of the strategy, especially given the concentrated nature of the portfolio.
Implementation	+	Given current assets under management, we believe Sands has ample capacity to implement investment ideas. The strategy invests primarily in large cap names and is managed in a low turnover fashion. Nevertheless, given the concentrated nature of the strategy, we believe it is important that the firm control growth in assets under management, particularly with its global strategy, to retain trading flexibility.
Business Management	+	Sands is 100% employee-owned and focused on large cap growth investing. In 2005, the firm reorganized into a LLC which enabled it to distribute equity to its employees. All investment professionals have equity ownership and the team has remained stable. Overall, we have a favorable view of its business management. However, the firm is highly reliant on the success of a single product. The firm introduced a global strategy which leverages the team's strength in growth investing and helps to diversify some of the firm's product risk.
Overall Rating (A, B+, B or C) **A (T)**	Sands follows a well-defined process to identify leading growth companies in attractive businesses. Sands has successfully applied this process to its management of large cap growth portfolios and has aligned its research in a global fashion over time. The firm's definition of a leading company and the application of business space diversification are the defining features. In addition, the depth to which the firm gets to know its companies and the resources it employs support the concentrated nature of the portfolio. Sands' deep team of seasoned analysts and thorough fundamental research provides a competitive advantage. Sands' organizational structure is fully supportive of the research process, and the widespread distribution of equity ownership promotes stability.	
Additional Observations	Given the portfolio's loose constraints and concentrated nature, tracking error can be high at times. Short-term deviations relative to the benchmark can be quite significant and clients invested with Sands must be willing to take a long-term perspective. The strategy is best classified as aggressive growth.	

Key product details

Inception Year	1992
Assets under management in strategy	$22.5 billion as at 31 December 2012
Estimated capacity	$30 billion
Open/Closed	Open to All Investors
Most suitable benchmark index for strategy	Russell 1000 Growth
Outperformance target (% per annum) - Manager's estimate	2-3
Expected tracking error range (%) - Manager's estimate	6-9

Issues to watch

Overlap with Global Growth Equity Strategy: The firm runs a Global strategy and there is approximately 50% overlap between the two strategies. Given the firm's concentrated approach, will it be sensitive to liquidity issues resulting from the overlap between the strategies as the Global strategy gains traction?

Highlights

- Little has changed with Sands' Select Growth Equity strategy since our last meeting. The team and the process remain the same and there has been little change in the actual holdings of the portfolio. The strategy handily outperformed its benchmark during 2012 by 940 basis points. We continue to have conviction in Sands' investment philosophy, process, and team and are not recommending any change to the rating.

- The team continues to focus on its six investment criteria, looking to continually evaluate its investment decisions. Over the past five years, the team identified some patterns that detracted from performance. A weaker fit with Sands' six investment criteria, failure to meet growth expectations, failure to anticipate the maturation of primary growth engines, and poor execution by company management were characteristics of the companies that underperformed. Conversely, patterns of successful companies were identified over the past five years to include development of key insights into a major shift within an industry, identifying a big gap between long-term projects and consensus estimates, and identifying dominant businesses at 'choke points' (the step in the value chain which allows the company the most control). This type of analysis demonstrates the team's commitment to constantly evaluating its process and stocks to provide a portfolio of its best ideas.

- Earlier in 2012, Sands created an Executive Management Team (EMT) to provide strategic leadership across the investment research, client service, and business management functions of the firm. Previously, this responsibility had fallen to four of the firm's most senior people; the creation of the EMT formalizes this function and expands the number of people to relieve some of the responsibilities from Frank Sands, Jr. The EMT is currently comprised of Frank Sands, Sr. (Chairman & Founder), Frank Sands, Jr. (Chief Executive Officer and Chief Investment Officer), Bob Hancock (Chief Operating Officer & Chief Compliance Officer), Bob Puff (Vice Chairman), Dave Levanson (Co-Portfolio manager, Global Growth), Tom Ricketts (Co-Portfolio manager, Select Growth), and Perry Williams (Co-Portfolio manager, Select Growth).
- The EMT meets once a month to review all departments. The group also has an annual offsite to plan the future of the firm. Ricketts believes the management team could expand to include some from the client relationship group and that maybe Sands would add one to three new members over the next five years. Given the size of Sands, the creation of a formal committee to focus on the management of the firm makes sense. Additionally, expanding the group that makes those decisions reinforces the importance of the senior portfolio managers to the firm.
- With approximately $22 billion in assets the Select Growth Equity strategy is the firm's largest offering. The Global Equity has approximately $3 billion under management but has been experiencing significant growth however we do not believe it impedes on the resources of the US research team. The overlap between the two is currently around 45% to 50% but this can vary over time.

Firm background and history

Sands Capital Management (Sands) was founded in 1992 by Frank Sands, Sr. and William Johnson. In 2000, Frank Sands, Jr. joined the firm. The following year, Johnson's ownership interest in the firm was bought out and redistributed to Sands, Jr. In 2005, the firm changed its ownership structure to a LLC in order to facilitate the transfer of control from Sands Sr. to Sands Jr. and provide a more efficient means to distribute equity to employees. Effective September 2008, Sands Jr. succeeded Sands Sr. as CEO and CIO. Sands Sr. remains involved in the investment process and is Chairman. The firm spread out economic interest to a sizable number of employees in 2009 and all senior and mid-level investment professionals (including research analysts) have ownership along with senior client service, trading, and operation personnel.

Key decision makers

The strategy is managed by a Frank Sands, Jr., who receives support from Sands, Sr. and an experienced team of global sector researchers. While the entire team has input into the process, Sands Jr. has the ultimate responsibility for investment decisions. A team of sector specific research analysts and associates also supports the strategy.

Product history

In addition to separate accounts ($25 million minimum), Sands manages assets for two sub-advisory relationships. The firm began managing assets for Touchstone (Touchstone Sands

Capital Growth Fund - previously called Constellation Sands Capital Growth Fund) in February 2005. Additionally, the firm sub-advises a fund for the IKANO Group in Europe. Sub-advised funds are managed similarly to separate accounts. The only difference is that the funds may hold slightly more cash as a means to provide liquidity for daily transactions. Please note the name was changed from Large Cap Growth to Select Equity Growth with the introduction of the Global Growth Equity strategy.

Investment style/philosophy

Sands is a bottom-up, quality growth manager. The firm builds concentrated portfolios of leading companies, which are broadly diversified across a number of business lines. Sands essentially follows a buy and hold philosophy with extremely low turnover and low transaction costs. The long-term investment horizon allows the companies in the portfolio to realize long-term business opportunities that lead to shareholder wealth creation.

Investment process

The process is bottom-up and fundamental in nature. The team's primary goal is to identify outstanding growth companies that lead and dominate attractive growth industries. Initial research looks for companies with above-average historical sales and earnings growth. This initial research results in stocks being added to or deleted from the Growth Company Watch List. The Watch List typically contains 250 to 300 potential leaders participating in growing sectors such as Technology, Health Care and Consumer/Retail. Seven qualitative success factors are then analyzed to identify the leaders within each attractive business space. Sands believes companies can lead and dominate by creating growth drivers (new products/services and entering new markets), developing and anticipating industry trends, creating competitive barriers, gaining market share, building financial muscle and a strong business model, displaying superior management ability, and applying technology to add value. Fulfilling these criteria is the most important part of the investment research process, providing a powerful filter for locating high quality companies. Companies that pass the leaders screens are added to the Company Leader List, which typically contains 60 to 80 companies in 15 to 20 growing industries. Purchase candidates are selected from the Leader List and are expected to possess dominant leadership in an attractive growth business with the potential to deliver sustainable, long-term earnings growth.

A stock will be sold if it becomes overvalued, if the business matures, if there is an adverse change in long-term fundamentals, or if reality differs from initial analysis.

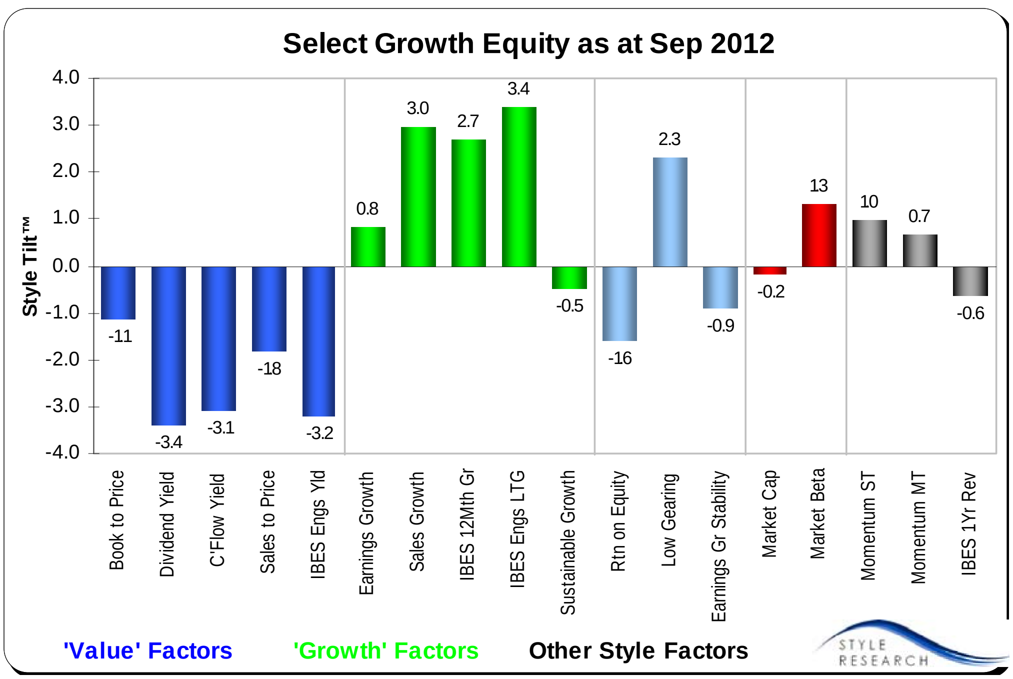
Portfolios will hold up to 30 stocks. Individual positions are maintained between 1% and 10% of the total portfolio. Sands does not constrain the portfolio based on sector exposure. However, the leading companies in the portfolio typically will have exposure to multiple business lines. Sands monitors this business line exposure to ensure that all key sectors are represented in the portfolio. Average market capitalization, while not specifically managed, is expected to be roughly in line with that of the S&P 500 Index. Turnover is low and averages around 20%.

Portfolio holdings analysis

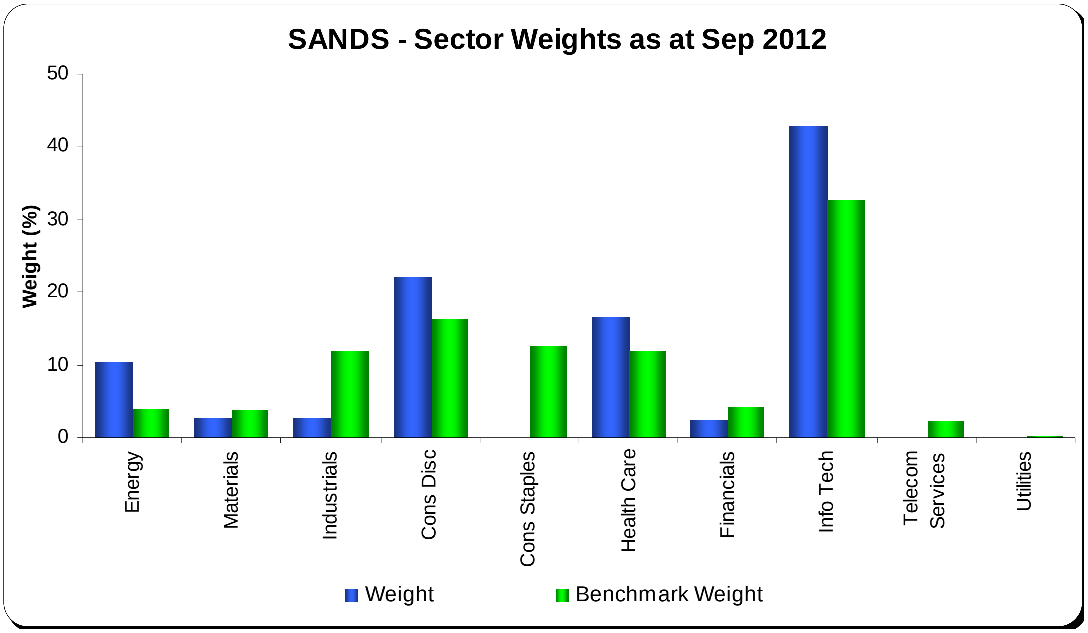
US Equity - Large Cap Growth - Select Growth Equity

Date of analysis	30 September 2012
Benchmark used for analysis	Russell 1000 Growth
Number of stocks	28
Predicted tracking error (%)	6.7
Average value score	-2.5
Average growth score	1.9
Adjustment used for Style Tilts	No Adjustment
Cash (%)	0.7

The following chart shows the 'style tilts' for the portfolio. Style analysis shows that the portfolio has a negative bias to value factors and positive tilts to growth and quality factors, which is what we would expect given Sands' process and since our last review. This style skyline is consistent with the portfolio's style characteristics since its inception and is what we would expect going forward.



The following chart shows the portfolio weightings to each sector. Similar to a year ago, the largest overweight remains to Technology with overweights to Consumer Discretionary and Healthcare. Energy now has a larger overweight relative to a year ago with Schlumberger in the top ten holdings. The remaining top ten holdings which comprise of 55.5% of assets include: Alexion, Allergan, Amazon, Apple, ASML, Google, Qualcomm, Salesforce, and Visa.



Past performance

US Equity - Large Cap Growth - Select Growth Equity

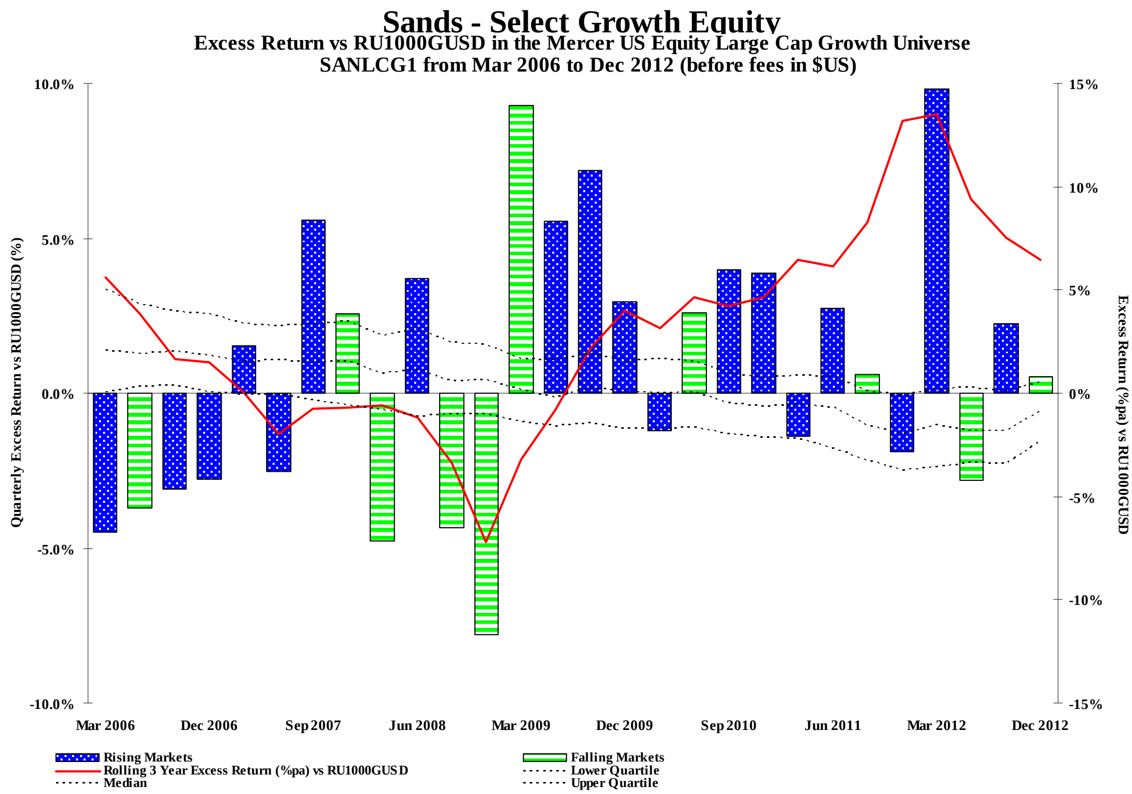
Track Record	Select Growth Equity Composite
Currency	$US
Benchmark	Russell 1000 Growth
Mercer Universe	US Equity Large Cap Growth ($US)
Track record type	Composite
Track Record Assets	$12.4 billion as at 31 December 2012

Rolling period chart

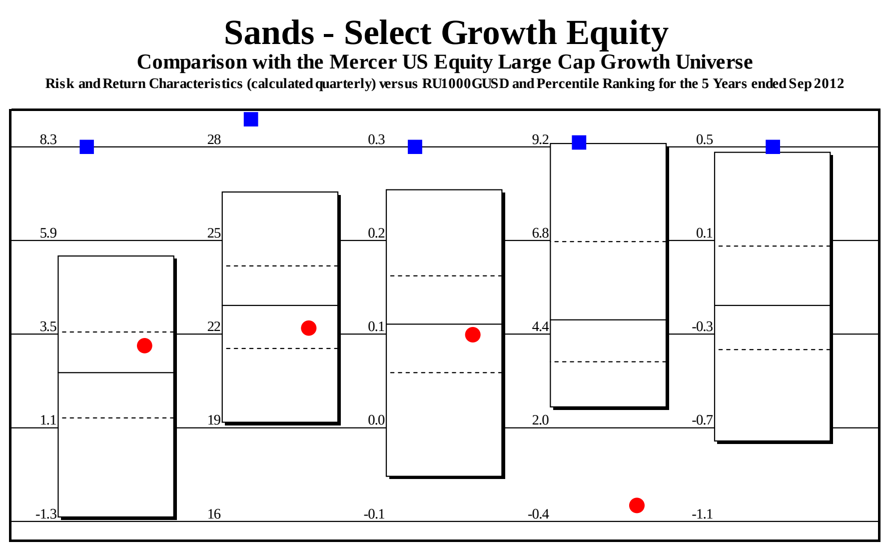
The Select Growth Equity portfolio is ahead of the Russell 1000 Growth Index on a one (by 940 basis points), three (by 640 basis points), and five (by 470 basis points), year basis. Over the past year earnings growth, a characteristic of Sands' portfolio, was rewarded by the market.

The top three contributors over a trailing three year period are Amazon, Salesforce, Visa, Las Vegas Sands and Alexion Pharmaceuticals. Visa is positioned at a choke point in the payment-processing value chain and its position in this value chain is its major competitive advantage, given that it operates in a relatively benign competitive environment.

The bottom detractors over that same time horizon are Netflix, Monsanto, Opentable and Cree. Netflix is an example of poor management decisions that disrupted growth, leadership, and an investment case and has since been sold. Cree was initially purchased for its leadership in manufacturing LED lighting components, believing its patents and technical trade secrets would defend its position. However, competitors began to produce "good enough" LED components for general lighting, which ultimately negatively affected pricing and gross margins. In retrospect Cree's competitive advantages were more marginal than initially expected.



Risk/return characteristics



	Return (% pa)	Std Deviation (% pa)	Reward to Risk Ratio	Tracking Error (% pa)	Information Ratio
SANLCG1	8.3 (0)	28.9 (1)	0.3 (3)	9.3 (5)	0.5 (2)
RU1000GUSD	3.2 (32)	22.2 (62)	0.1 (31)	0.0 (100)	na
5th Percentile	5.5	26.5	0.3	9.3	0.5
Upper Quartile	3.5	24.2	0.2	6.7	0.1
Median	2.5	22.9	0.1	4.7	-0.2
Lower Quartile	1.3	21.5	0.1	3.7	-0.4
95th Percentile	-1.2	19.1	-0.1	2.5	-0.8
Number of Funds	202	202	202	202	202

Further Detail

ESG and Active Ownership

Sands considers environmental, social, and, in particular, governance (ESG) issues in the context of their potential financial effect on a company's stock price, but the factors are not explicit drivers of the investment philosophy and process. A rating of ESG3 is appropriate.

Business Management

The compensation structure employed at Sands has been evolving for the last ten years, but at its core, the goal is to have alignment with client success. The bulk of an investment professional's compensation is in the form of a bonus with more senior professionals receiving a greater percentage of total compensation from incentive pay. Total compensation for all investment professionals include a salary based on their job functions, incentive compensation, and equity. The incentive compensation is comprised of both a quantitative and qualitative portion with the quantitative portion a greater percentage of the total. The quantitative portion is based on results of client portfolios with 10% weighted to one-year results, 40% to three-year returns, and 50% to rolling five-year numbers. The management team sets an absolute target bonus and a linear function is used to determine the amount over or under the target that a professional receives based on the relative portfolio performance. If the portfolio outperforms the benchmark, the professional will receive a multiple of the target amount. Benchmark performance results in a payment equal to the target amount.

Portfolio Construction

Sands has a two level approach to portfolio construction: strategic weights and tactical weights. The strategic weights are determined by how well the stock fulfills the six investment criteria and how it compares to other stocks in the portfolio. The portfolio is bucketed into small, medium, and large position sizes. The team will also consider risk when determining the bucket for a stock.

The team will tactically over- or underweight a stock versus its strategic weight based on shorter-term metrics such as valuation. There is no explicit limit to the tactical over/under weighting. However, historically, those weighting differences have been in the 50% to 150% range. The tactical weights are infrequent and not a focus of the team. At any given time, the team may have two to four such positions with expectations that they might last for 12 to 18 months.

The risk management process is integrated into the investment process. The goal is to avoid loss of capital. The key sources of risk considered by Sands are business risk, market risk, macro risk, and portfolio-level risk. Business risk is managed as part of the research process. Adherence to the six investment criteria helps the team to control the impact of business risk and the strategic weights balance the risk with the return potential. Market risk is managed through the specification of expected return ranges and the use of tactical weights. Macro risk is managed within the headwinds/tailwinds framework used for stock research and a focus on long-term secular forces. Sands manages portfolio-level risk by diversifying across geography and industry, monitoring overlapping growth drivers, staying aware of implied macro bets, and ensuring liquidity in the portfolio.

There is about 45% overlap in names between the global and US portfolios. Sands does not have rules regarding the level of overlap between the portfolios. Each portfolio management team is independent, but the research follows the same process. Even though the names may overlap, the timing of purchases and sales may be different for the portfolios. The availability of cash is a main determinant of when a stock is purchased for either portfolio.

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Mercer does not generally take the investment management fees of a given manager into account in determining ratings. Managers' fees charged for a specific strategy will often vary among investors, either because of differing account sizes, inception dates or other factors. Mercer does not perform operational infrastructure due diligence or personal financial or criminal background checks on investment managers.

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Risk warnings

- The value of stocks and shares, including unit trusts, can go down as well as up and you may not get back the amount you have invested.
- The value of Gilts, bonds, and other fixed income investments including unit trusts can go down as well as up and you may not get back the amount you have invested.
- Investments denominated in a foreign currency will fluctuate with the value of the currency.
- The value of investments in real property can go down as well as up, and you may not get back the amount you have invested. Valuation is generally a matter of a valuer's opinion, rather than fact. It may be difficult or impossible to realise an investment because the property concerned may not be readily saleable.
- Certain investments, such as illiquid, leveraged or high-yield instruments or funds and securities issued by small capitalization and emerging market issuers, carry additional risks that should be considered before choosing an investment manager or making an investment decision.
- For higher volatility investments, losses on realisation may be high because their value may fall suddenly and substantially.

- Where investments are not domiciled and regulated locally, the nature and extent of investor protection will be different to that available in respect of investments domiciled and regulated locally. In particular, the regulatory regimes in some domiciles are considerably lighter than others, and offer substantially less investor protection. Where an investor is considering whether to make a commitment in respect of an investment which is not domiciled and regulated locally, we recommend that legal advice is sought prior to the commitment being made.

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RESEARCH NOTE

Manager:	Baillie Gifford & Company
Title:	Global and Emerging Market equities update and review
Author:	Michael Kinney
Peer reviewer:	Deb Clarke

Strategies reviewed in this note:

Product group/ category	Strategy name	Current rating	Recommended rating (*)	ESG rating (**)
International Equity - Global Equity - Core	**Global Opportunities**	A (T)	A (T)	ESG3
International Equity - Global Equity - Growth	**Global Alpha (+2-3%)**	A	A	ESG3
International Equity - Global Equity - Growth	**Long Term Global Growth (+3%)**	A (T)	A (T)	ESG3
International Equity - World ex US/EAFE Equity - Growth	**Long Term Global Growth ex NA (+3%)**	A (T)	A (T)	ESG3
International Equity - World ex US/EAFE Equity - Growth	**ACWI ex US Alpha (+2-3%)**	A	A	ESG3
International Equity - World ex US/EAFE Equity - Growth	**EAFE Plus Alpha (+2-3%)**	A	A	ESG3
International Equity - World ex US/EAFE Equity - Growth	**EAFE Pure Alpha (+2-3%)**	A	A	ESG3
Emerging Markets - Emerging Markets Equity	**Emerging Markets All Cap**	B+	B+	ESG3 (RI)
Emerging Markets - Emerging Markets Equity	**Emerging Markets Leading Companies**	B+	B+	ESG3 (RI)
International Equity - Global Equity - Growth	**Global Focus (+1.5%)**	R	N	ESG3
International Equity - World ex US/EAFE Equity - Growth	**ACWI ex US Focus (up to +2%)**	R	R	ESG3
International Equity - World ex US/EAFE Equity - Growth	**EAFE Plus Focus (up to +2%)**	R	R	ESG3
International Equity - World ex US/EAFE Equity - Growth	**EAFE Pure Focus (up to 2%)**	R	R	ESG3

Manager:	Baillie Gifford & Company	
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Details of research meeting(s) covered by this note:		
Date	**Location**	**On-site?**
(a) 23 Nov 2012	Edinburgh	Yes
(b) 4 Dec 2012	London (Mercer offices)	No
Manager attendees:		
Malcolm MacColl (Global Alpha, investment manager, a) Spencer Adair (Global Alpha, investment manager, a) Nick Thomas (EAFE Alpha, Deputy Chair of EAFE Alpha PCG and institutional clients department, a) Tom Coutts (EAFE Alpha, investment manager, a) Tom Record (EAFE Alpha, investment manager, a) Jonathan Bates (ACWI Alpha, investment manager, a) Robert Blaikie (dealer, a) Scott Nisbett (LTGG, product specialist, a) Gerald Smith (Global Alpha, investment manager, a) Mike MacPhee (Global Alpha, investment manager, a) Douglas Brodie (Global Discovery, investment manager, a) Will Sutcliffe (Emerging Markets, investment manager, a) Laurence Linklater (International Focus, product specialist, a) Andrew Telfer (CEO, b only) Colin Neilson (consultant relations, a & b)		
Mercer attendees:		
Michael Kinney (a and b), Deb Clarke (a only) and Andy Barber (b only)		

Rationale for rating

No changes in rating are proposed other than for one of the Focus strategies. The global products at Baillie Gifford source stock ideas from the regional and global sector analysts, who are experienced and whom we hold in high regard. Increasingly, stock ideas are also generated within the various strategy teams, and we find the culture of the firm means these ideas are efficiently discussed and shared between teams. We believe the firm's partnership structure has been successful in creating stability across the firm and providing the right incentives to create a culture striving for outperformance on behalf of clients.

In this note, we examine the "shared DNA" of the firm's global equity strategies. We find that although there is a commonality of style and approach across Baillie Gifford portfolios, there are still noticeable differences between strategies at stock level. We are impressed by the way in which the firm is able to achieve a subtle balance between having a common philosophy, approach and style, whilst also allowing teams autonomy in picking stocks.

We think that achieving this balance is tough to do, and that Baillie Gifford is one of only a few firms to do so successfully. They seem to work genuinely as one big team – sharing information and seemingly all wanting to succeed. The partnership structure and the fact that 50% of bonus is about teamwork and contribution to the broader team are contributors.

There is, to a degree, a concentration of business risk to the firm due to the common growth / quality style, but we maintain our view that the quality of intellectual capital generated by the firm's analysts is of a high standard.

Mercer Evaluation Summary

International Equity - Global Equity - Core - Global Opportunities

Factor	Rating (-, =, + or ++)	Comments
Idea Generation	++	This strategy draws on the Baillie Gifford analysts, whom we generally rate highly, as well as two experienced portfolio managers. The strategy is global in nature and can invest in a number of off-benchmark investments, some of which may be illiquid. However, the portfolio managers have a deep understanding of the investment thesis and their expected exit strategy from each investment. It is clear the portfolio managers have a depth of knowledge in the companies in which they invest but also a clear view of how the value might be recognised. The focus on absolute returns differentiates this strategy further from many of the other global strategies managed by the firm.
Portfolio Construction	+	Although they do not make extensive use of traditional risk models they have a focus on absolute risk; one they have applied for many years in the investment trusts they manage. Their ideas are weighted relative to the risk they contribute to the portfolio and the expected upside.
Implementation	+	Assets in the strategy are very low and there are no capacity concerns at present. However, there are a number of global strategies managed by Baillie Gifford and so there is a degree of overlap. We believe this is not sufficient to cause any immediate concerns on capacity. The team use the firm's dedicated dealing team.
Business Management	++	The partnership structure has almost certainly contributed to the stability across the firm. We do not anticipate any corporate activity with this firm. Baillie Gifford has consistently demonstrated the ability to attract and retain quality staff. By growing steadily over the years, it has been able to give opportunities to up and coming staff members. Many join as graduates, advancing through to senior positions.

Overall Rating (A, B+, B or C) **A (T)**	We rate the underlying Baillie Gifford analysts highly and have a high opinion of Smith. He and MacPhee have strong track records in investment trusts which they both manage using the same approach as they apply to the Global Opportunities strategy. This combination and the ability of this strategy to invest anywhere, across the spectrum in terms of capital structure and the ability to take on liquidity risk make this an attractive global equity strategy. Whilst we have no capacity concerns at present with this strategy, Baillie Gifford does manage a number of global equity strategies. Although the majority of these are more traditional in their approach we would not like to see further global strategies launched.

Additional Observations	This strategy is unlikely to be suitable as a core, stand alone global equity offering. The aim of the strategy is to provide returns above a broad equity market benchmark over the long term (c. 5 years), with similar levels of volatility. Smith describes the mindset as 'Absolute Return' but this is not an absolute return strategy (as it is equity driven and hence contains market risk), and it is not designed to be explicitly a low volatility strategy. The strategy is less suitable for investors with a shorter time horizon. Baillie Gifford will consider segregated accounts but would prefer investments to be in the pooled fund (a Dublin based Qualifying Investor Fund - QIF). This is a non-UCITS fund with monthly liquidity, weekly NAV published, and able to invest in a range of assets and derivatives. The management fee is 0.75% per year. A minimum of 80% of the portfolio will be invested in listed equities which are likely to have been purchased based on input from the relevant analyst. Hence this strategy is likely to have a growth bias, albeit with more of a 'top down' view than other Baillie Gifford portfolios. The investments made outside of listed equities are designed to improve returns rather than dampen volatility. The bias towards growth and some quality factors may make it more difficult for this strategy to outperform during periods when these market characteristics are out of favour. The fund can have a high exposure to Emerging Markets. This fund is not suitable for customised benchmarks.

Mercer Evaluation Summary

International Equity - Global Equity - Growth - Global Alpha (+2-3%)

Factor	Rating (-, =, + or ++)	Comments
Idea Generation	++	All of the global products at Baillie Gifford rely on the generation of ideas from the regional and global sector research analysts, whom we regard highly and have significant experience. These ideas are then discussed in a global context by the Global Alpha team consisting of Charles Plowden, Spencer Adair and Malcolm MacColl, who ask themselves an additional series of questions about each stock. The three have different, and complementary, personalities and perspectives, and have been focused solely on this strategy since 2008 (all have been involved since inception in 2005); we believe this is critical to this strategy's success. They have continued to evolve their process to ensure rigorous debate and that the very best ideas are included in portfolios.
Portfolio Construction	+	The Global Alpha team takes the best of the ideas from the regional and sector teams and place them in a global context. The portfolios are driven by stock selection. Individual positions sizes are generally well calibrated. The portfolio can at times have a tail of stocks with smaller position sizes, but these are generally in the higher-growth section of the portfolio. Whilst they have access to - and consider - risk models, there are relatively broad sector, stock and regional controls. They have developed sensible ways of viewing the portfolio in four different growth 'buckets' to help monitor positions.
Implementation	+	Baillie Gifford employs a team of dealers who are all based in Edinburgh but have extensive experience of dealing across the globe. They have been leaders in unbundling of commission and rigorously assess their brokers on a regular basis. There is scope to manage more assets under the Global Alpha approach, however we do note that at times there are constraints on how much can be invested in some mid cap ideas, particularly in UK stocks, due to the size of assets elsewhere within the firm.
Business Management	++	The partnership structure has almost certainly contributed to the stability across the firm. We do not anticipate any corporate activity with this firm. Baillie Gifford has consistently demonstrated the ability to attract and retain quality staff. By growing steadily over the years, it has been able to give opportunities to up and coming staff members. Many join as graduates, advancing through to senior positions.

Overall Rating (A, B+, B or C) **A**	The Global Alpha product takes a holistic approach to portfolio construction, putting analysts' research into a global context and constructing portfolios on a genuinely global basis. We have confidence in the team of three senior investors who focus solely on this strategy. Their different perspectives on the world and their willingness to use all the tools at their disposal, including high quality regional and sector research, leads us to believe they will outperform their benchmark, on a risk-adjusted basis, over a full cycle. Overall we believe this is a sensible way of accessing Baillie Gifford's research in a truly global context.

Additional Observations	The bias towards growth and some quality factors may make it more difficult for this strategy to outperform during periods when these market characteristics are out of favour. The fund can have a high exposure to Emerging Markets. This fund is not suitable for customised benchmarks.

Mercer Evaluation Summary

International Equity - Global Equity - Growth - Long Term Global Growth (+3%)

International Equity - World ex US/EAFE Equity - Growth - Long Term Global Growth ex NA (+3%)

Factor	Rating (-, =, + or ++)	Comments
Idea Generation	++	This is an experienced group of portfolio managers led by James Anderson, whom we rate highly. Whilst the high quality of the stock research carried out by the Baillie Gifford regional and global sector teams provides this team with a strong starting point from which to work, what makes this strategy stand out is the extra layer of research the team carries out to identify those companies that they consider to have the best long-term growth prospects globally allied to their ability to take a longer term view. They focus their additional research into ten questions, which help them identify long-term global winners.
Portfolio Construction	+	Portfolios are constructed from the team's best ideas on a purely bottom-up basis; risk controls are relatively loose. There are no formal constraints, but in practice a common sense fundamental overview is taken to ensure that the portfolios remain reasonably well diversified. Portfolios are concentrated and risk can be focused in relatively few names.
Implementation	+	Baillie Gifford employ a team of dealers, all based in Edinburgh and with extensive experience of dealing across the globe. They have been leaders in unbundling of commission and rigorously assess their brokers on a regular basis. The LTGG strategy has been closed to new assets at a sensible asset level such that capacity is not an issue.
Business Management	++	The partnership structure has almost certainly contributed to the stability across the firm. We do not anticipate any corporate activity with this firm. Baillie Gifford has consistently demonstrated the ability to attract and retain quality staff. By growing steadily over the years, it has been able to give opportunities to up and coming staff members. Many join as graduates, advancing through to senior positions.

Overall Rating (A, B+, B or C) **A (T)**	The general high quality of stock research carried out by the Baillie Gifford regional and global sector teams provides this team with a strong starting point from which to work. The talent and experience of the team leader, James Anderson, is another positive factor. What makes this strategy stand out is the extra layer of research that his team carries out to identify those companies that they consider to have the best long-term growth prospects globally. Baillie Gifford continues to be an organisation that is structured in a partnership and has been a very stable investment team. The partnership enables them to take long-term decisions and not be drawn into short-term fads. The competitive advantage of this team is their ability to think differently about investment ideas and to take a genuinely long-term perspective.

Additional Observations	This strategy is currently closed to new enquiries. This strategy is managed with a very long term (5 years plus) perspective, with very little regard to the composition of the world index, and investors would need to be willing to tolerate the potential for significant underperformance relative to the world index over shorter periods. The bias towards growth and quality stocks may make it more difficult for this strategy to outperform during periods when these market characteristics are out of favour. The portfolio can have a relatively high exposure to emerging markets. The departure of James Anderson would lead us to review the rating of this strategy. This fund is not suitable for customised benchmarks.

Mercer Evaluation Summary

International Equity - World ex US/EAFE Equity - Growth - ACWI ex US Alpha (+2-3%)

Factor	Rating (-, =, + or ++)	Comments
Idea Generation	++	The ACWI ex-US Alpha strategy relies on the generation of ideas from the regional and global sector research analysts, whom we regard highly and who are generally long-term veterans of Baillie Gifford. The Portfolio Construction Group (PCG) takes the best of the ideas from these teams and places them in a holistic international context; in this case under the leadership of Gerald Smith, an experienced emerging markets manager. Smith thinks laterally about ideas and provides strong challenge to the rest of the PCG which consists of experienced regional investors and two dedicated research specialists.
Portfolio Construction	+	This team works as one in order to identify ideas and implements them with joint responsibility. The portfolios are driven by stock selection and whilst they have access to - and consider - risk models, there are relatively broad sector, stock and regional controls. Positions are well calibrated across the portfolio.
Implementation	+	Baillie Gifford employ a team of dealers, all based in Edinburgh and with extensive experience of dealing across the globe. They have been leaders in unbundling of commission and rigorously assess their brokers on a regular basis. Turnover is typically low. The strategy has been closed to new assets at a sensible asset level such that capacity is not an issue.
Business Management	++	The partnership structure has almost certainly contributed to the stability across the firm. We do not anticipate any corporate activity with this firm. Baillie Gifford has consistently demonstrated the ability to attract and retain quality staff. By growing steadily over the years, it has been able to give opportunities to up and coming staff members. Many join as graduates, advancing through to senior positions.
Overall Rating (A, B+, B or C) **A**	The Alpha range of funds takes a more holistic approach to portfolio construction, putting the regional and sector research into an international context and constructing portfolios on a genuinely globally basis. The strength of this product lies in the regional and sector research analysts and the leadership of Smith, who brings extensive experience and constructive challenge to the investment ideas of the team.	
Additional Observations	This strategy is closed to new clients. Relative to the MSCI ACWI-ex US index, we do not believe this is a higher tracking error strategy. However, clients assessing the strategy against the MSCI EAFE index should note that the structure of the portfolio can diverge from that of this index, and that tracking error relative to EAFE could be high. The bias towards growth and quality stocks may make it more difficult for this strategy to outperform during periods when these market characteristics are out of favour. This strategy is not suitable for customised benchmarks. The departure of Gerald Smith would lead us to review the rating of this strategy. Smith has a number of additional responsibilities including managing the Global Opportunities strategy.	

Mercer Evaluation Summary

International Equity - World ex US/EAFE Equity - Growth - EAFE Plus Alpha (+2-3%)

International Equity - World ex US/EAFE Equity - Growth - EAFE Pure Alpha (+2-3%)

Factor	Rating (-, =, + or ++)	Comments
Idea Generation	++	The EAFE Alpha strategy relies on the generation of ideas from the regional and global sector research analysts, whom we regard highly and who are all long term veterans of Baillie Gifford. The Portfolio Construction Group (PCG) takes the best of the ideas from these teams and places them in a holistic international context, in this case under the leadership of James Anderson who provides effective leadership and extensive global experience. Anderson has clear views about long-term investing and is relatively benchmark unaware in his thinking; whilst this product is a benchmark aware product we believe he provides a different perspective when assessing stocks and whether they should be candidates for the EAFE Alpha portfolio.
Portfolio Construction	+	This team works as one in order to identify ideas and implements them with joint responsibility. The portfolios are driven by stock selection and whilst they have access to - and consider - risk models, there are relatively broad sector, stock and regional controls. Positions are well calibrated across the portfolio.
Implementation	+	Baillie Gifford employ a team of dealers, all based in Edinburgh and with extensive experience of dealing across the globe. They have been leaders in unbundling of commission and rigorously assess their brokers on a regular basis. Turnover is typically low. The strategy has been closed to new assets at a sensible asset level such that capacity is not an issue.
Business Management	++	The partnership structure has almost certainly contributed to the stability across the firm. We do not anticipate any corporate activity with this firm. Baillie Gifford has consistently demonstrated the ability to attract and retain quality staff. By growing steadily over the years, it has been able to give opportunities to up and coming staff members. Many join as graduates, advancing through to senior positions.
Overall Rating (A, B+, B or C) **A**	The Alpha range of funds takes a more holistic approach to portfolio construction, putting the regional and sector research into an international context and constructing portfolios on a genuinely bottom-up basis. The strength of this product is the regional and sector research analysts and the leadership of Anderson, who brings extensive experience and insightful investment ideas to the team.	
Additional Observations	This strategy is currently closed to new clients. The bias towards growth and quality stocks may make it more difficult for this strategy to outperform during periods when these market characteristics are out of favour. The fund tends to have a bias towards large cap stocks. This strategy is not suitable for customised benchmarks. The departure of James Anderson would lead us to review the rating of this strategy.	

Mercer Evaluation Summary

Emerging Markets - Emerging Markets Equity - Emerging Markets All Cap

Emerging Markets - Emerging Markets Equity - Emerging Markets Leading Companies

Factor	Rating (-, =, + or ++)	Comments
Idea Generation	+	This is a medium-sized, highly stable, team led by Richard Sneller. The approach combines rigorous bottom-up research with a macro-economic overlay, though company analysis remains the focus. In common with other Baillie Gifford products, the GEM product focuses on stocks that can sustain an above-average growth rate and trade at a reasonable price; however the focus on quality/growth companies is less evident in Sneller than the previous head of the team, Gerald Smith. Equally we note a slightly shorter-term focus with Sneller. However the team remains experienced and well resourced, travel extensively, have access to Baillie Gifford's other investment resources and rotate the country coverage to ensure they avoid 'group-think'.
Portfolio Construction	+	Portfolios are constructed by the lead portfolio managers from the team's best ideas. There are broad guidelines on company/industry/country weights and the overview of the Emerging Markets Investment Advisory Group ensures that the portfolios remain well diversified.
Implementation	+	The firm employs a team of full-time traders and has two dealing assistants. Both the All Cap and Leading Companies GEM products are currently closed to new business and the closures were made at quite a conservative level of assets under management.
Business Management	++	The partnership structure has almost certainly contributed to the stability across the firm. We do not anticipate any corporate activity with this firm. Baillie Gifford has consistently demonstrated the ability to attract and retain quality staff. By growing steadily over the years, it has been able to give opportunities to up and coming staff members. Many join as graduates, advancing through to senior positions.

Overall Rating (A, B+, B or C) **B+**	There are several very experienced investors on this team, which has been stable for many years. The team are conscious of the need to avoid group-think and we believe they take steps to avoid this. The approach is reasonably straightforward and relies on rigorous bottom-up research and the resources to visit companies regularly. Overall this is a sensible product that would be of interest to those seeking a growth-orientated emerging markets approach (noting that the strategy is currently closed to new business enquiries). Our views remain broadly positive, but Sneller appears to focus less on Baillie Gifford's core competencies (long term perspective; quality / growth companies) than we might expect.
Additional Observations	Product will exhibit a growth style relative to benchmark. Both the Global Emerging Markets All Cap and Emerging Markets Leading Companies strategies are closed to new accounts.

Key product details

	International Equity - Global Equity - Core - Global Opportunities	International Equity - Global Equity - Growth - Global Alpha (+2-3%)	International Equity - Global Equity - Growth - Long Term Global Growth (+3%)
Inception Year	2011	2005	2003
Assets under management in strategy	$133 million as at 30 September 2012	$13.6 billion as at 30 September 2012	$21.9 billion as at 30 September 2012
Estimated capacity	$5 billion	£12bn	Not stated / closed
Open/Closed	Open for Pooled Fund (call for availability for separate accounts)	Open to All Investors	Closed
Most suitable benchmark index for strategy	MSCI ACWI	MSCI AC World	MSCI AC World
Outperformance target (% per annum) - Manager's estimate	3%	2%–3%	3% over rolling 5 years
Expected tracking error range (%) - Manager's estimate	N/A [1]	Not targeted by the manager, but Mercer estimate is 3%-7%	N/A [1]

1 The strategy does not have a tracking error target and is not managed to tracking error limits. We would expect, however, the strategy to have a relatively high tracking error relative to MSCI ACWI.

	International Equity - World ex US/EAFE Equity - Growth - ACWI ex US Alpha (+2-3%)	International Equity - World ex US/EAFE Equity - Growth - EAFE Plus Alpha (+2-3%)	International Equity - World ex US/EAFE Equity - Growth - EAFE Pure Alpha (+2-3%)
Inception Year	2002	2003	2006
Assets under management in strategy	$13.4 billion as at 30 September 2012	$23.0 billion as at 30 September 2012	$1.6 billion as at 30 September 2012
Estimated capacity	Not stated / closed	Not stated / closed	Not stated / closed
Open/Closed	Closed	Closed	Closed
Most suitable benchmark index for strategy	MSCI ACWI ex US	MSCI ACWI ex US	MSCI EAFE
Outperformance target (% per annum) - Manager's estimate	2%-3%	2%-3%	2%-3%
Expected tracking error range (%) - Manager's estimate	3%-7%	3%-7%	3%-7%

	Emerging Markets - Emerging Markets Equity - Emerging Markets All Cap	Emerging Markets - Emerging Markets Equity - Emerging Markets Leading Companies
Inception Year	1994	2004
Assets under management in strategy	$7.2 billion as at 30 September 2012	$6.0 billion as at 30 September 2012
Estimated capacity	Not stated / closed	Not stated / closed
Open/Closed	Closed	Closed
Most suitable benchmark index for strategy	MSCI Emerging Markets	MSCI Emerging Markets
Outperformance target (% per annum) - Manager's estimate	2%-3%	3%
Expected tracking error range (%) - Manager's estimate	4%-10%	4%-10%

Issues to watch

- How many different global and international equity strategies can Baillie Gifford support?
- Who are the next generation of investment leaders at the firm?
- Across the firm, Baillie Gifford has large positions in some stocks, e.g. Baidu (in excess of 10%) and Tencent.
- To what extent will the culture of co-operation be tested if the firm's overall growth/quality style falls out of favour?
- The investment process for the Focus range of strategies now has much in common with the Alpha range. What is the rationale for maintaining separate strategies?
- Will the firm begin to market the Global Discovery team products? Will this dilute the team's intellectual capital?

Highlights

We spent a full day at Baillie Gifford, reviewing a broad range of the firm's global and international equity strategies. We found this a useful exercise in cross-checking the flow of ideas within the firm, enabling us to get a better understanding of the firm's intellectual capital "DNA".

We found a firm with a strong culture, with a strong sense of shared DNA and with incentives which encourage co-operation between teams. We also found that sharing DNA does not necessarily lead to identical portfolios – the international equity strategies can, and do, have their differences. Whilst recognisably from the same "family", portfolios are typically cousins rather than siblings. (The Holdings Analysis and Further Details sections of this note provide more details which compare and contrast portfolios.)

Portfolios typically have a number of features in common: a tilt towards growth factors and away from value; a positive tilt to quality factors; an overweight position in cyclical sectors at the expense of defensive sectors; a beta usually higher than that of the market; a relatively high allocation to emerging market securities relative to benchmark, and a performance pattern which is typically better in rising markets than falling markets. The differences between portfolios are evident in the strength of each of these signals, the degree of concentration of portfolios, and individual stock positions. The latter can be quite noticeable. An analysis of the unique stocks in each of the main strategies is made in Further Details, and we find these typically account for between 25% and over 50% of each strategy.

The common DNA between teams results in a correlation between the relative performance of different strategies. The following table shows performance relative to benchmark of the key strategies reviewed in this note. (See Performance Section for details of track records).

	2005	2006	2007	2008	2009	2010	2011	2012*
Global Opps	-	-	-	-	-	-	-	-3.4
Global Alpha	-	-1.8	-0.6	-2.3	11.1	5.1	0.8	1.1
LTGG	13.1	-3.8	5.9	-6.4	18.4	4.4	-1.5	5.4
ACWI Alpha	7.8	0.4	12.1	-0.4	7.1	4.4	3.1	4.7
EAFE+ Alpha	3.7	2.2	4.9	-0.4	5.5	6.2	2.8	0.3
EM All Cap	7.3	5.5	6.1	-2.7	17.5	-0.4	-0.7	-0.5

* 2012 is year to end Q3. Source: MSCI and Baillie Gifford as reported to GIMD.

The table highlights the relative strength of recent performance across the firm, principally due to the quality style aspects of the firm's DNA. This does represent a concentration risk to the firm, as there will surely come a time when the firm's quality/growth style acts as a headwind rather than a tailwind to performance.

We think there is a good balance between shared philosophy and the latitude that each team has to construct portfolios. We observed at several points during the day how teams shared (and acted on) stock ideas. Encouragingly, we think this is because teams want to share ideas, and the motivations for this are (a) the realisation that the teams can get good ideas from each other, and (b) the partnership structure and team-oriented compensation structures. 50% of bonus is dependent on teamwork and contribution to the broader team, which also helps foster co-operation, as does the fact that individual strategy teams do not have their own P&L. In short, the teams co-operate because they want to, and not because they are forced to.

It is in this context that we note Gerald Smith's decision to relinquish the title of Chief Investment Officer (see News Item on GIMD dated 13 September 2012), and we have no real concerns over this change. The shared DNA owes more to culture than it does to any individual, whilst the role of CIO (perhaps even in titular form) would risk impeding the autonomy each team has to do its own work and stock selection. We are relaxed that he has taken the decision to no longer have a CIO role.

Baillie Gifford continues to recruit primarily at graduate level, which has a lot to do with the firm's culture. Some hires from other firms are made, but these tend to be the exception. Graduate recruitment means new staff absorb the culture at outset, learn the Baillie Gifford way of doing things, and begin to establish personal relationships across the firm. In some way, it is like raising children. The firm seeks to train them well, but also recognises that at some point they have to trust them and allow them to go off independently and manage portfolios in the Baillie Gifford way. The firm is making more of an effort, however, to achieve greater cognitive diversity within its graduate intake. A perusal of the staff list will show many senior professionals educated at Oxford, Cambridge, or St Andrew's, whereas younger professionals have often come from further afield.

We do notice, however, an increase in the number of dedicated researchers allocated to some teams, and (anecdotally) an increase in ideas generated within each team. The medium/longer term challenge for the firm will be to prevent this becoming a drift in style and philosophies between teams, but we do not see this as an immediate threat. We also note that having multiple sources of research could cause some confusion for companies in which they invest, as different Baillie Gifford professionals research the same stock. The firm is aware of the latter risk, and we have no immediate concerns over the issue.

Another potential challenge will be in achieving this co-operation between teams when performance deteriorates, as it inevitably will when growth/quality is out of favour. The risk is that it will create internal tensions between teams. What are currently healthy rivalries (noticeably between LTGG and Global Alpha) could become less healthy. We do not see this at present, but that is the risk.

Highlights on the individual strategies reviewed in this note are given in the evaluation summaries above and the Further Details section.

In the second of our two meetings, we met with Andrew Telfer, CEO. We find Telfer to be a man who thinks about issues and questions very carefully, and a discussion of this is made in Further Details. We remain comfortable with the firm's partnership structure and business strategy.

Firm background and history

Baillie Gifford & Co is an independent investment management firm based in Edinburgh, 100% owned and managed by the partners in the business. Baillie Gifford was formed in 1908 and began managing money in 1909 when it launched an investment trust, which it still manages today (Scottish Mortgage Investment Trust). The firm has been managing pension fund assets since 1948, however they began to concentrate on this market in the late 1970s and pension funds now account for a significant proportion of the business. The firm has also successfully gained business from overseas, such that international clients now account for more than half of assets under management. The partnership culture has been important in recruiting and retaining investors, and they remain committed to this structure.

Profile: International Equity - Global Equity - Core - Global Opportunities

Key decision makers

Gerald Smith and Michael MacPhee have overall responsibility for the strategy. Smith joined Baillie Gifford in 1987 and was appointed CIO in 2011 (a title which was dropped by the firm in September 2012), having previously been Deputy CIO and, until 2008, Head of Emerging Markets. MacPhee joined Baillie Gifford in 1987 and was Head of the European equity team (2003-2008). They are directly supported by two analysts: Benedikt Wagner, who has worked on the emerging markets and US teams as part of his rotation, and Andrew Hunt who has worked in the Global Discovery team as part of his rotation.

The team is supported for idea generation by the regional equity and global sector teams. Smith remains responsible for the Portfolio Construction Group (PCG) for ACWI ex US Alpha mandates.

Product history

Smith and MacPhee began to development the strategy in 2008. It was one of a very few number of new products supported for development by Baillie Gifford – Smith and MacPhee gave up their respective research responsibilities to focus on the development and launch of this product.

The strategy was launched in February 2011, however it follows a very similar approach to the Monks Investment Trust also managed by Smith, and Mid Wynd Investment Trust managed by MacPhee (the latter has a smaller cap bias than Monks given its lower asset base). The key difference for Global Opportunities is the lack of any leverage that is used in the investment trusts (this should be taken into account when assessing the track records of the investment trusts).

Investment style/philosophy

This is a bottom-up, research driven strategy, managed with an absolute return mindset and the ability to invest up to 20% in non-equity assets. The process is typically seeking high growth opportunities. They seek to exploit a number of market anomalies - short-termism, misunderstanding of risk, investment myopia and benchmark fixation. Ultimately the aim is to take advantage of the asymmetric returns which these anomalies create.

Investment process

The team leverages research done by the regional and global sector teams as well as developing their own ideas from contacts they have and their past experience. The process is clear as to which market anomalies it is seeking to exploit and is designed to enable them to do that. Those anomalies are:

- Short-termism - they believe the market is preoccupied with short-term themes and trends presenting them with frequent and significant investment opportunities.
- Misunderstanding of risk - investments are often considered risky if they are volatile or have fallen significantly. This provides them with investment opportunities because they see the only real risk as the risk of a permanent loss of asset value.
- Desire for smoothed returns - investors prefer companies with smooth earnings progressions resulting in plenty of attractive investment opportunities elsewhere.
- Benchmark fixation - the regard for benchmarks provides compelling investment opportunities.
- Investment myopia - the trend towards specialisation and narrower areas of responsibilities leave opportunities for those who have an ability to see the wider picture.
- Unrecognised growth potential - the tendency to extrapolate trends from the recent past into the future leads to growth potential going unrecognised, particularly during economic or cyclical downturns. Growth potential resulting from corporate action or restructuring benefits may also go unrecognised.

The process starts with as broad a universe as possible and the team monitors ideas which arise from the regional and sector teams. They then apply their own analysis in order to understand the reason for the mispricing, in a global context, and then may undertake some additional analysis or work with the research team. There is an emphasis on the long-term investment case, the team see this as one of the inefficiencies they are exploiting, and they are not concerned with short-term performance.

The ideas for the non-equity investments are most likely to come from others areas of Baillie Gifford. They will lever off ideas from a range of teams such as the fixed income team, currency team, small cap team (Global Discovery team) and diversified growth team, as well as the large regional and emerging market equity teams; the latter largely for listed equity ideas. They will not short stocks, but will use derivatives.

Although this fund invests across different asset classes, it is driven by bottom-up opportunities rather than top-down macro calls.

The aim of the strategy is to provide a good total return; targeting a total return greater than MSCI ACWI by 3% per annum or more, measured on a five-year rolling basis. The strategy is broadly diversified in order to reduce the likelihood of large losses and to reduce the overall level of volatility. Portfolios are constructed with no reference to the benchmark; typically with between 100 and 150 positions. However there will be at least 80% in listed equities; up to 20% can be outside the listed equity universe. The only other guidelines are a minimum of 40 "effective positions", i.e. the number of positions which would give the same level of diversification if the portfolio were an equally weighted one, a minimum of 7 effective sectors and 4 effective countries. Turnover is expected to be relatively low at between 25 and 50% per annum.

Profile: International Equity - Global Equity - Growth - Global Alpha (+2-3%)

Key decision makers

Charles Plowden, Joint Senior Partner, heads a team of three who take joint decisions for the Global Alpha Strategy. They are dedicated to this strategy, with no portfolio other management duties. Spencer Adair and Malcolm MacColl make up the remainder of the team. Plowden joined Baillie Gifford in 1983 and was previously the head of the UK equity team. He also gained experience in the North American, Emerging Market and European equity teams. Adair joined in 2000 and has previously worked in the Japanese, UK and European equity teams as well as the fixed income team. MacColl, a partner, joined in 1999 and previously worked on the UK small cap and North American equity teams.

The team is supported for idea generation by the regional equity and global sector teams. The also team has the direct support of two dedicated analysts, Helen Xiong and Felix Amoako

Product history

This strategy has been managed by Plowden, MacColl and Adair since inception in 2005 but all three moved to focusing solely on this strategy in 2008.

Investment style/philosophy

The investment approach is bottom-up based upon long-term fundamental research, with a focus on identifying well-managed, quality, under-appreciated growth stocks that have sustainable competitive advantages. A core belief is that share prices ultimately follow earnings and free cash flow. Attention is paid to the broader macro economic view identifying potential growth areas.

Investment process

The Global Alpha investment process starts with the work of the regional investment teams and global research specialists, who collectively follow around 3,000 companies. This stage of the process focuses on the qualitative assessment of companies. Fundamental analysis has a strong growth flavour with an emphasis on quality companies with above average growth prospects operating in niche or non-cyclical markets or industries. Emphasis is also placed on an assessment of the strengths of company management. To this end, company visits and meeting the management are considered an important source of information.

Once the regional teams have identified ideas, these are promoted to the Global Alpha team by way of the Portfolio Review Group (PRG). The PRG consists of the three Global Alpha managers, regional research representatives, a global sector research representative and two client service directors.

At the PRG meetings, the regional representatives rank the stocks that are currently in the portfolio and those that they think warrant inclusion. Stocks are categorised in one of four 'growth buckets': growth stalwarts, rapid growth, cyclical growth and latent growth. Ideas are debated in a global context, but where more work needs to be done the investment managers can either take this forward themselves, ask the regional representative to undertake the work, or refer it to the global sector research specialists.

The three managers have ultimate responsible for portfolio construction and performance. After considering debate within the PRG, these three consider three questions of each potential holding when constructing the portfolio:

1. How does the business compare globally? - designed to test the long-term durable competitive advantages of the stock.
2. Where do they differ from the market? - designed to establish whether the attractions of the stock are not reflected by the broader market.
3. What does the stock bring to the portfolio? - designed to seek out whether the stock is bringing a new theme to the portfolio or whether it is replicating an investment already held.

All three investment managers have an equal say in investment decisions. If one strongly disagrees with the other two, they will undertake further work in order to achieve broader agreement before any final decision is taken.

Careful consideration is given to position sizes. There are three broad groups of holding size: 0.5%, 1.0% and 1.5%+. Only the highest conviction stocks are normally holdings above 1.5% of the portfolio. Companies in which there is a greater degree of risk or uncertainty are typically 1.0% or less. Portfolios are concentrated with between 70 and 120 stocks. There are upper limits relative to the benchmark for stocks of +6%, Sectors +10% and regions +20% (there are no minimum weights). Currency is not hedged.

Sell decisions are a result of a frequent reassessment of the holdings. There are four situations that can result in a sell decision; an adverse change in business fundamentals, a loss of confidence in management, valuation, and a portfolio asset allocation decision.

Profile: International Equity - Global Equity - Growth - Long Term Global Growth (+3%)

Profile: International Equity - World ex US/EAFE Equity - Growth - Long Term Global Growth ex NA (+3%)

Key decision makers

The LTGG strategy team of 7 comprises 4 portfolio managers responsible for portfolio decisions and 3 supporting analysts. The team is headed by James Anderson who joined the firm in 1983. Anderson has wide-ranging experience within the firm, and was CIO between 2006 and 2011. He is also manages the Scottish Mortgage Investment Trust and supports a number of international equity strategies. On the LTGG team, he works alongside fellow portfolio managers Mark Urquhart (joined in 1996), Tom Slater (joined 2000) and Julien Reynolds (joined 2007). Anderson, Urquhart and Slater have spent their entire careers at Baillie Gifford. They are supported by three dedicated analysts, Marina Ofrikhter, Jenny Davis and Wanyi Yao (who is based in China).

The team is further supported for idea generation by the regional equity and global sector teams.

Product history

The strategy has been managed by Anderson and team since inception in 2003.

Investment style/philosophy

The team believes that the shares of companies with sustainable competitive advantages that grow their earnings faster than the market will outperform the market over the long term - provided the shares are purchased at a reasonable price. Portfolios are concentrated and are constructed on a bottom-up basis with no constraints other than some broad diversification rules.

Investment process

This team leverages research done by the regional and global sector teams; testing their ideas but also undertaking their own layer of additional research. The team will also generate their own investment ideas. The emphasis is on the long-term investment case, and the team are not concerned with short-term performance. The approach to picking stocks is to find those expected to have sustainable future earnings and cash flow growth above that of the market average; the team must be able to understand and articulate why the market has misinterpreted the company's growth prospects. If they cannot outline the reason for the market mispricing, then they will not buy the stock.

The team's investment approach is based around their own ten questions, eight of which are related to industry and company fundamentals and two of which are related to stock price valuation:

1. Is there sufficient market potential to allow sizeable increase in sales for the next 5 years?
2. What happens then?
3. What is your long-term competitive advantage?
4. Are your people consistently better than their people, if so, why and at what?
5. Why do your customers like you and why will they continue to do so?

6. Are your margins worthwhile?
7. Will they rise or fall?
8. How do you allocate capital? (capex, dividend and exit strategies)
9. Is the stock attractively valued?
10. Why doesn't the market understand this?

Portfolios typically consist of 30 to 60 stocks, with stock weightings ranging from 1.5% to 10%. Portfolios will tend to have a growth, quality and small to mid-cap size bias. The portfolios are monitored on a fundamental basis to make sure that there is a reasonable level of diversification by country, sector and theme, and the portfolio will be invested in at least 6 countries and 6 sectors. Turnover is expected to average out at less than 25% per annum. There is no currency hedging.

Profile: International Equity - World ex US/EAFE Equity - Growth - ACWI ex US Alpha (+2-3%)

Key decision makers

Gerald Smith is the Chair of the Portfolio Construction Group (PCG) of 6 people for ACWI ex-US Alpha mandates. Smith joined Baillie Gifford in 1987 and was appointed CIO in 2011 (a title which was dropped by the firm in September 2012), having previously been Deputy CIO and, until 2008, Head of Emerging Markets. The PCG also comprises 3 regional equity managers and 2 dedicated international research specialists. The PCG collectively shares responsibility for decision-making and is further supported for idea generation by the regional and global sector research teams. The Deputy Chair of the PCG, who assists in much of the day-to-day management, is Angus Franklin.

Investment style/philosophy

The investment approach is bottom-up, based on fundamental research, with a focus on identifying quality, growth stocks that have an identifiable competitive advantage. Attention is paid to the broader macro economic view identifying potential growth areas.

Investment process

Portfolios are constructed on a bottom-up basis using input from the specialist regional and global sector teams; taking their best ideas and placing them in an international context.

Stock ideas are debated at the PCG weekly meeting; the overall portfolio is reviewed at the more formal monthly meeting, where the views of the Investment Advisory Committee (IAC) are also taken into account. The IAC, which takes recommendations from the regional teams, global sector teams and portfolio managers, considers valuation levels, economic outlook and currency prospects and provides a framework for where the most interesting investment themes are likely to be found going forward.

The PCG looks to ensure that all good ideas are fully implemented, insights shared and any issues addressed. It has responsibility for the overall portfolio, ensuring it has no unintended risks and that the regional portfolio managers are challenged on their stocks in an international context. The PCG collectively shares responsibility for decision-making. There is no lead portfolio manager, and there is no formal voting mechanism by which stocks are selected for the portfolio. Rather, if a member of the PCG is still convinced of the case for a stock after vigorous debate, then that stock will be selected for the portfolio. The purpose of the PCG is to ensure that all the managers involved in this strategy are aware of the issues affecting the overall portfolio and that the discussion of stocks is made in an international context, rather than simply a regional one.

Stock selection has a strong growth flavour and an emphasis on quality companies with above average growth prospects operating in niche or non-cyclical markets or industries. Opportunities are identified through in-house research with individuals on the PCG having responsibilities in a regional team or a global sector team. Emphasis is placed on an assessment of the strengths of company management; to this end, company visits and meeting the management are considered to be key.

Portfolios hold between 70 and 110 stocks. There are limits relative to the benchmark for stocks of +/- 6%, industries +/- 7.5%, and countries +/- 9%. Emerging market exposure is not formally constrained, but limited by any client guidelines. Currency is rarely hedged, and on a defensive basis only.

Profile: International Equity - World ex US/EAFE Equity - Growth - EAFE Plus Alpha (+2-3%)

Profile: International Equity - World ex US/EAFE Equity - Growth - EAFE Pure Alpha (+2-3%)

Key decision makers

James Anderson is the Chair of the Portfolio Construction Group (PCG) of 8 people for EAFE Alpha mandates. Anderson joined the firm in 1983, and has wide-ranging experience within the firm. He was CIO between 2006 and 2011, and also manages the Long Term Global Growth strategy and the Scottish Mortgage Investment Trust. The PCG also comprises 2 regional equity managers, 2 members of the institutional clients department and three dedicated international research specialists. The PCG collectively shares responsibility for decision-making and is further supported for idea generation by the regional and global sector research teams. The Deputy Chair of the PCG, who assists in much of the day-to-day management, is Nick Thomas.

Investment style/philosophy

The investment approach is bottom-up, based on fundamental research, with a focus on identifying quality, growth stocks that have an identifiable competitive advantage. Attention is paid to the broader macro economic view identifying potential growth areas.

Investment process

Portfolios are constructed on a bottom-up basis using input from the specialist regional and global sector teams; taking their best ideas and placing them in an international context.

Stock ideas are debated at the PCG weekly meeting; the overall portfolio is reviewed at the more formal monthly meeting, where the views of the Investment Advisory Committee (IAC) are also taken into account. The IAC, which takes recommendations from the regional teams, global sector teams and portfolio managers, considers valuation levels, economic outlook and currency prospects and provides a framework for where the most interesting investment themes are likely to be found going forward.

The PCG looks to ensure that all good ideas are fully implemented, insights shared and any issues addressed. It has responsibility for the overall portfolio, ensuring it has no unintended risks and that the regional portfolio managers are challenged on their stocks in an international context. The PCG collectively shares responsibility for decision-making. There is no lead portfolio manager, and there is no formal voting mechanism by which stocks are selected for the portfolio. Rather, if a member of the PCG is still convinced of the case for a stock after vigorous debate, then that stock will be selected for the portfolio. The purpose of the PCG is to ensure that all the managers involved in this strategy are aware of the issues affecting the overall portfolio and that the discussion of stocks is made in an international context, rather than simply a regional one.

Stock selection has a strong growth flavour and an emphasis on quality companies with above average growth prospects operating in niche or non-cyclical markets or industries. Opportunities are identified through in-house research with individuals on the PCG having responsibilities in a regional team or a global sector team. Emphasis is placed on an assessment of the strengths of company management; to this end, company visits and meeting the management are considered to be key.

Portfolios hold between 70 and 85 stocks. There are limits relative to the benchmark for stocks of +/- 6%, sectors +/- 9% and countries +/- 9% (sector and country limits are also subject to absolute ranges). Currency is rarely hedged, and on a defensive basis only.

Exposure to emerging markets for the EAFE Plus Alpha strategy is limited by client guidelines, and is typically 20%. For the EAFE Pure Alpha strategy there is no exposure to emerging markets.

Profile: Emerging Markets - Emerging Markets Equity - Emerging Markets All Cap

Profile: Emerging Markets - Emerging Markets Equity - Emerging Markets Leading Companies

Key decision makers

The Emerging Markets team of 10 is led by Richard Sneller. Emerging market portfolios are co-managed by Sneller and Will Sutcliffe. Both Sneller and Sutcliffe are partners at Baillie Gifford, having joined the firm and industry in 1994 and 1999 respectively. The team consists of an additional eight emerging market investment professionals who have a rotating regional research focus.

Product history

Baillie Gifford has been running the core Global Emerging Markets All Cap strategy since 1994. Growth in assets led to the All Cap strategy being closed, and so in 2004 the Emerging Markets Leading Companies strategy was launched. This follows the same approach but with higher market cap and more stringent liquidity criteria. This strategy was also closed to new accounts in 2010.

Investment style/philosophy

The emerging markets team believes that it can add value by long-term investment in well-managed quality businesses that have superior profit growth and enjoy sustainable, competitive advantages in their marketplace. Country allocation is driven predominantly by decisions on individual stocks, though a top-down view feeds into the stock decisions.

Investment process

The team conducts detailed research on a bottom-up and top-down basis.

All Cap: The investable universe is all stocks that meet the liquidity criteria of being tradable to cash within 8 days.

Leading Companies: The investable universe is all stocks have at least $1bn free float and/or $5m daily turnover.

Baillie Gifford focuses on five key areas - industry background, competitive advantage, financial strength, management attitudes and valuation. Stock research includes detailed analysis of financial statements focusing on earnings growth, cash flow growth, profitability (return on equity and capital), debt and interest cover and valuation based on multiples. Macroeconomic analysis includes changes in economic growth rate, inflation, monetary policy, international competitiveness of industry, savings rate, Government debt levels and current account position. All holdings are reviewed quarterly and in-depth analysis is conducted following profit statements, large price movements and other significant events. Emphasis is placed not only on the "number-crunching", but on an assessment of the strengths of company management. To this end, company visits are an important part of the process.

Whilst stock research and selection is the responsibility of the team and the relevant lead portfolio manager, an Emerging Markets Investment Advisory Group (EMIAG) meets quarterly to review broader regional themes and to review all the portfolios for consistency.

Each portfolio is allocated to an individual manager, who is responsible for all buy and sell decisions. When an attractive company is identified the investment thesis must be made to the team at the Wednesday afternoon meeting, the team will challenge the recommendation before a final buy or sell rating is agreed. Only when the decision has been agreed can the portfolio managers implement the idea in the most appropriate way for their portfolios. A meeting between all investment teams is held on a Friday, where other teams are formally advised of new ideas that may be suitable for their portfolios and are given the opportunity to purchase.

Stocks will be sold if they become overvalued, there is an adverse change in fundamentals, confidence in management declines or for risk control reasons. Turnover is expected to be approximately 40-80%. The team work to a 2-3 year time horizon.

All Cap: There are broad guidelines on company/industry/country weightings. Countries/industries should not exceed 10%, or twice the benchmark weight, whichever is greater, subject to a cap of 20% of the portfolio. Companies should not exceed 5%, or twice the benchmark weight, whichever is greater, subject to a cap of 10% of the portfolio. The aim is that the portfolio is invested in a minimum of 15 countries/industries and a minimum of 75 companies. Tracking error will usually range between 4% and 10%. Portfolios typically contain 100-120 stocks and are expected to display a growth style. Currency hedging is not incorporated into the process.

Leading Companies: There are broad guidelines on company/industry/country weightings. Industries/country weights should be within a maximum of 20% relative to the index at the time of purchase, stocks should be within 5%. Tracking error will usually range between 4% and 10%. Portfolios contain 40-80 stocks and are expected to display a growth style. Currency hedging is not incorporated into the process.

Portfolio holdings analysis

International Equity - Global Equity - Core - Global Opportunities

Date of analysis	30 September 2012
Benchmark used for analysis	MSCI World
Number of stocks	88
Predicted tracking error (%)	8.0
Average value score	-4.8
Average growth score	3.2
Adjustment used for Style Tilts	No Adjustment
Cash (%)	12.7

The ability of the strategy to hold up to 20% in securities other than listed equities means a number of holdings will have been excluded from our analysis. Further portfolio holdings data based on Style Research analysis is given in Further Details.

The style profile is broadly consistent with other Baillie Gifford strategies, namely

- A strong tilt towards growth factors
- A positive tilt to some quality factors, particularly low gearing
- A current overweight position in cyclical sectors at the expense of defensive sectors
- A predicted beta greater than 1
- A high allocation to emerging market securities relative to benchmark

Features of the portfolio which distinguish it from other global/international Baillie Gifford strategies include:

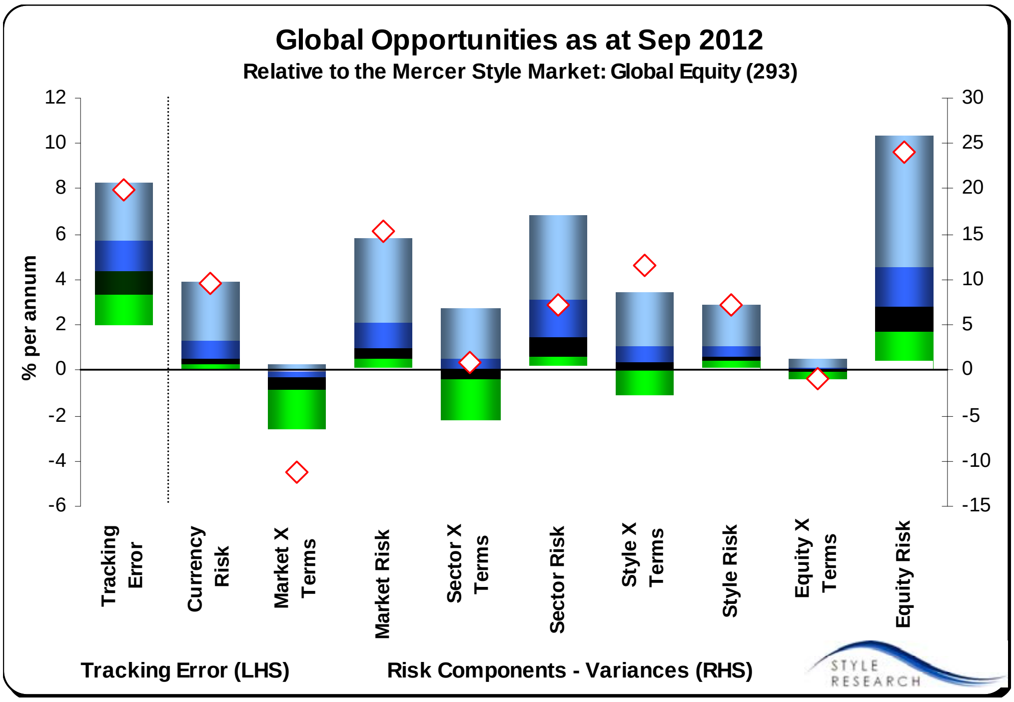
- Allocation to securities other than non-listed equities
- Very low coverage, at 1.8%, meaning the active share is over 98%.
- The proportion of the portfolio held in stocks unique to the portfolio (i.e. not held by other portfolios analysed in this section) is 58%, and higher than the unique proportion for other strategies (see Further Details).

The predicted tracking error, 8.0%, is relatively high compared to the peer group, which we believe merits a (T) designation

In summary, we believe the characteristics of the portfolio are consistent with what we would expect given the investment philosophy and process, and we would expect them to persist.

The following chart shows the 'style tilts' for the portfolio.

The following chart shows the components of risk (variance) against the benchmark and relative to other managers in the peer group.



International Equity - Global Equity - Growth - Global Alpha (+2-3%)

Date of analysis	30 September 2012
Benchmark used for analysis	MSCI World
Number of stocks	98
Predicted tracking error (%)	4.6
Average value score	-2.8
Average growth score	0.9
Adjustment used for Style Tilts	No Adjustment
Cash (%)	2.9

Further portfolio holdings data based on Style Research analysis is given in Further Details.

The Global Alpha portfolio continues to display the tilts we would expect, reflecting Baillie Gifford's research focus on quality growth companies. Specifically they include tilts to companies with earnings growth stability, low financial gearing, away from large market cap companies and tilts to growth factors – although we note the growth tilts in general are more modest in the Global Alpha strategy compared to other Baillie Gifford strategies.

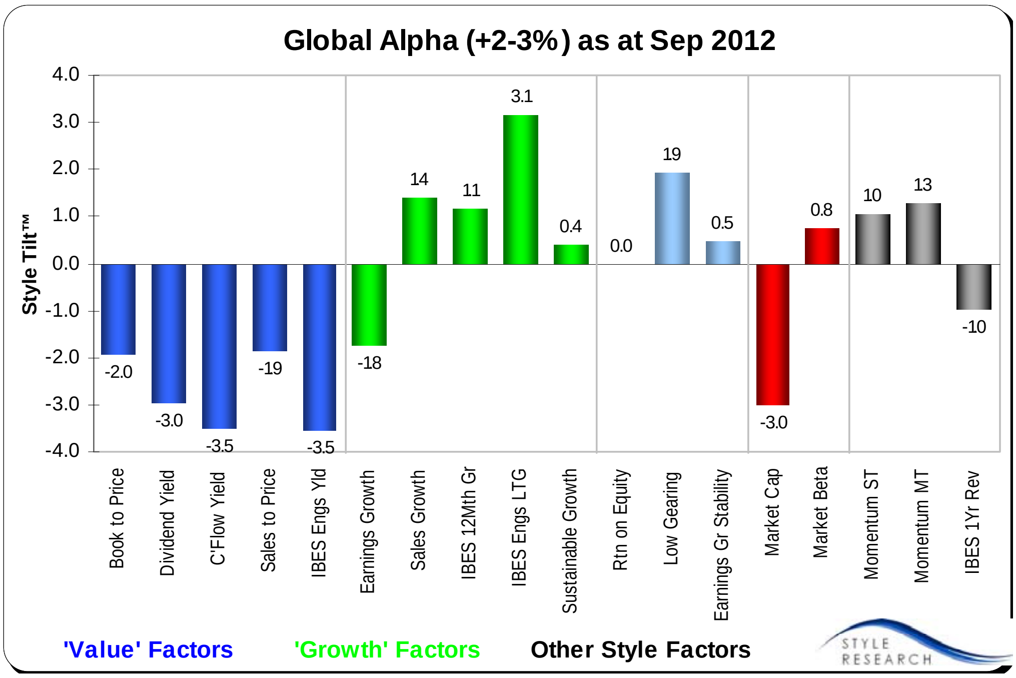
The portfolio remains relatively diversified with 98 names as at September 2012, and a predicted tracking error of 4.6%. The analysis has used the MSCI World Index as benchmark, rather than the MSCI ACWI, and we believe the tracking error would be lower if the analysis was made against the MSCI ACWI index. The key drivers of tracking error risk are market risk and stock-specific risk. The former is mainly due to the portfolio's overweighting in the emerging markets, and the commensurate underweighting in the US. The regional biases have generally been a persistent feature of the portfolio.

The style profile is broadly consistent with other Baillie Gifford strategies:
- A tilt towards growth factors and away from value.
- A positive tilt to some quality factors, particularly low gearing.
- A current overweight position in cyclical sectors at the expense of defensive sectors
- A predicted beta greater than 1
- A high allocation to emerging market securities relative to benchmark

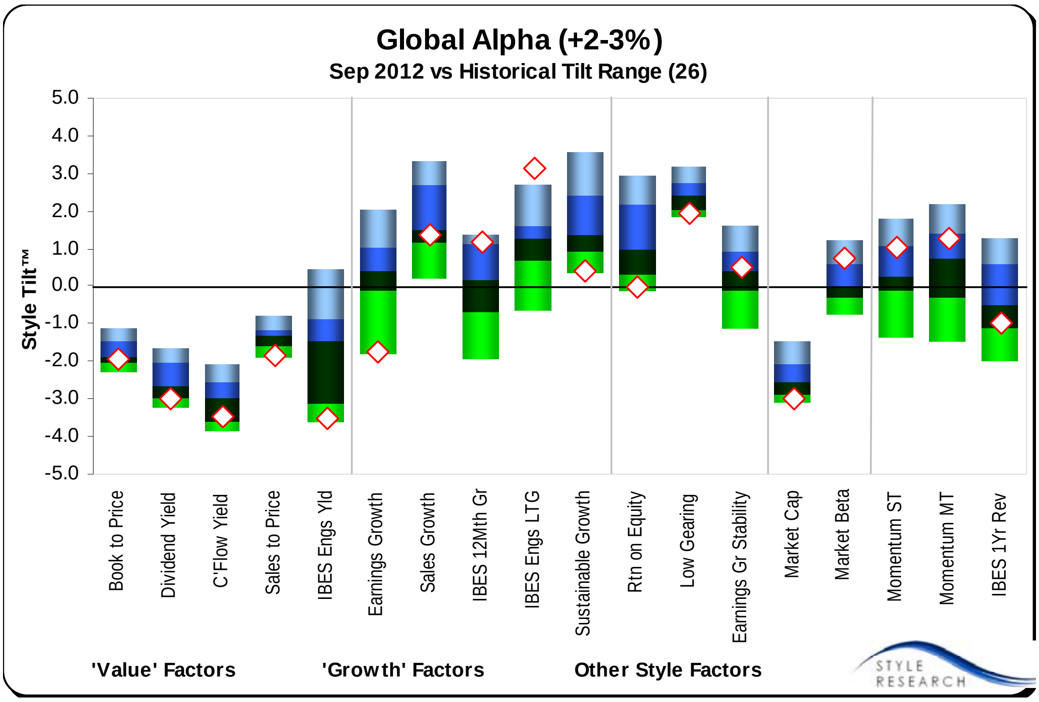
Compared to other global strategies (Global Opps and LTGG) the predicted tracking error of the Global Alpha strategy is more in line with the peer group average.

The characteristics of the portfolio are consistent with what we would expect given the investment philosophy and process, and we would expect them to persist.

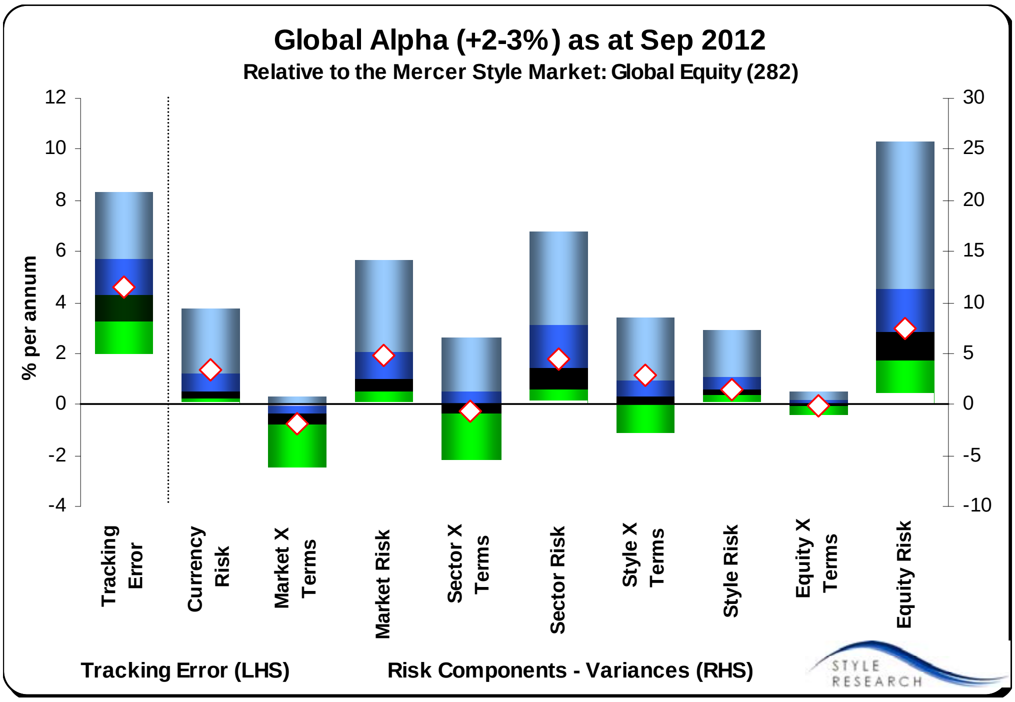
The following chart shows the 'style tilts' for the portfolio.



The following chart shows the 'style tilts' for the portfolio relative to its own history.



The following chart shows the components of risk (variance) against the benchmark and relative to other managers in the peer group.



International Equity - Global Equity - Growth - Long Term Global Growth (+3%)

Date of analysis	30 September 2012
Benchmark used for analysis	MSCI World
Number of stocks	31
Predicted tracking error (%)	10.0
Average value score	-3.3
Average growth score	3.7
Adjustment used for Style Tilts	No Adjustment

Further portfolio holdings data based on Style Research analysis is given in Further Details.

The portfolio remains consistent with our expectations, with a highly concentrated, quality-growth orientated portfolio. As a result tracking error remains very high (31 names with a predicted tracking error of 10.0%), which clearly merits a (T) designation. Stock-specific risk continues to be the main driver of the high predicted tracking error. The predicted beta of the portfolio, 1.12, is also noticeably high compared to peers.

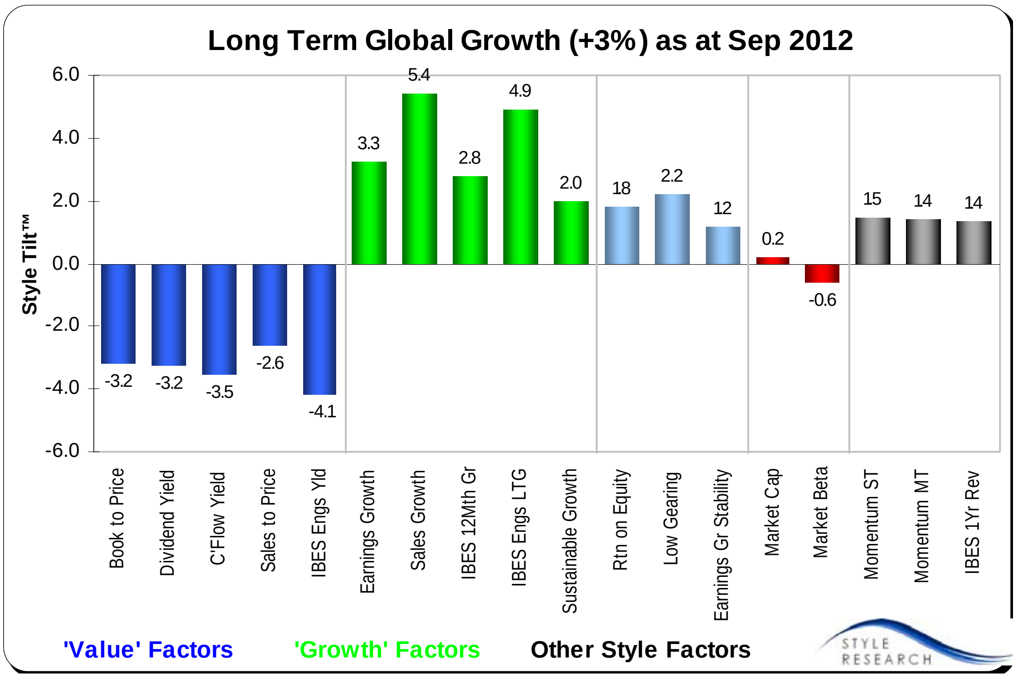
There is a consistent focus on companies with high top line growth (sales growth), high sustainable earnings growth (ROE times retained earnings), high ROE, and low gearing. These are similar characteristics to other Baillie Gifford portfolios, but the exposures tend to be more evident; unsurprising given the unconstrained and concentrated nature of the LTGG portfolio.

The portfolio maintains its exposure to technology focused growth stocks such as e-Bay, Google, Amazon, Apple, in addition to the specifically Chinese focused Baidu (Chinese search engine) and Tencent (online gaming in China). As such it is not a surprise to see the Information Technology sector having the largest weighting in the portfolio; 38%. Equally we note that the weight to China is high at 17%, and total emerging market exposure is at 22%.

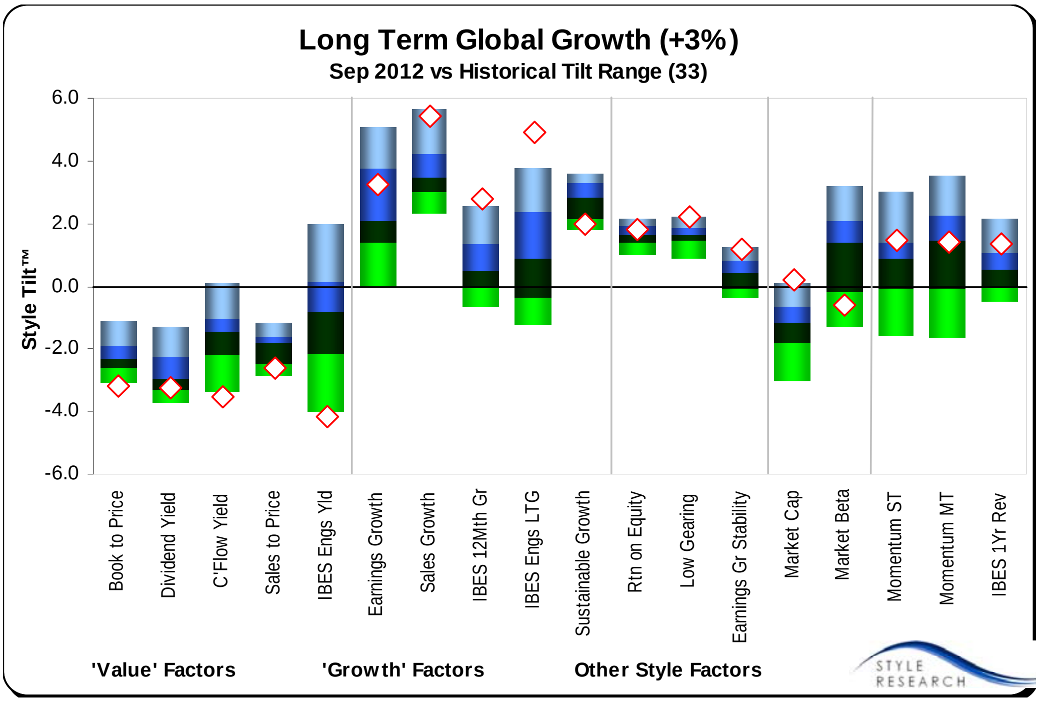
Compared to other Baillie Gifford international/global equity strategies, LTGG has more of a bias to mid and large cap stocks. (Other strategies having more of a tilt to smaller cap stocks.)

The characteristics of the portfolio are consistent with what we would expect given the investment philosophy and process, and we would expect them to persist.

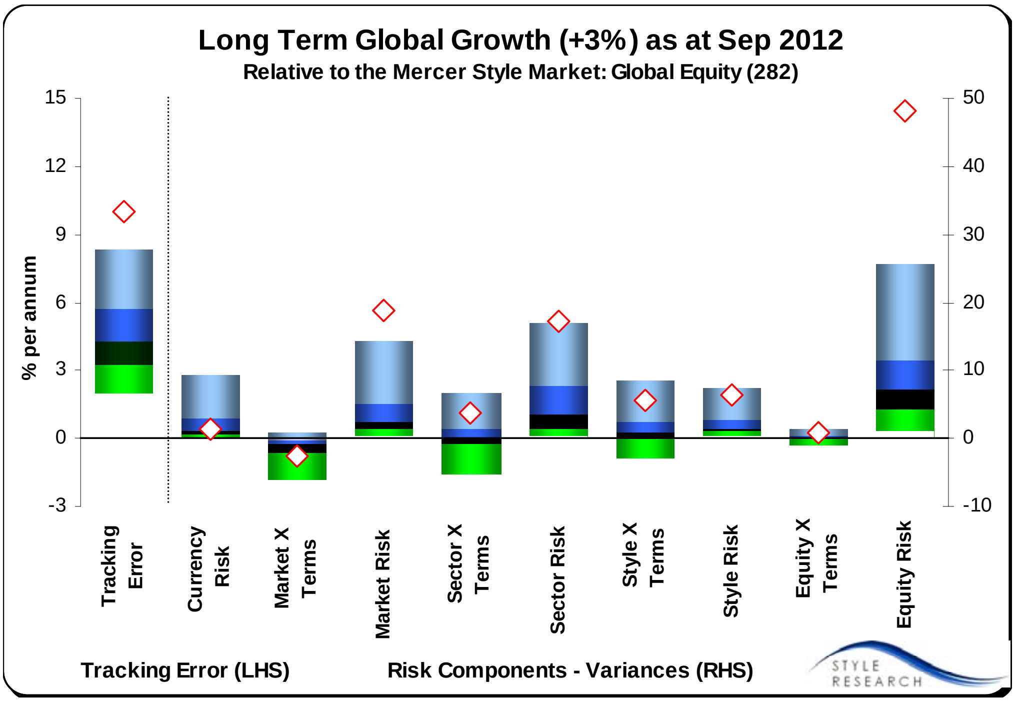
The following chart shows the 'style tilts' for the portfolio.



The following chart shows the 'style tilts' for the portfolio relative to its own history.



The following chart shows the components of risk (variance) against the benchmark and relative to other managers in the peer group.



International Equity - World ex US/EAFE Equity - Growth - ACWI ex US Alpha (+2-3%)

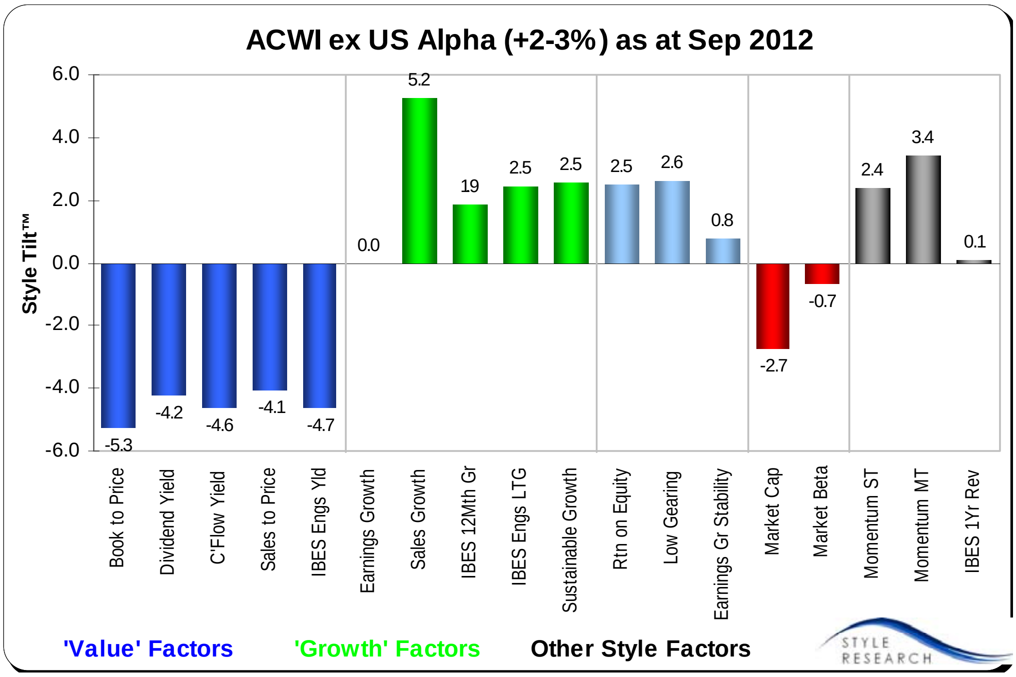
Date of analysis	30 September 2012
Benchmark used for analysis	MSCI EAFE
Number of stocks	85
Predicted tracking error (%)	5.6
Average value score	-4.6
Average growth score	2.4
Adjustment used for Style Tilts	No Adjustment
Cash (%)	1.3

Further portfolio holdings data based on Style Research analysis is given in Further Details.

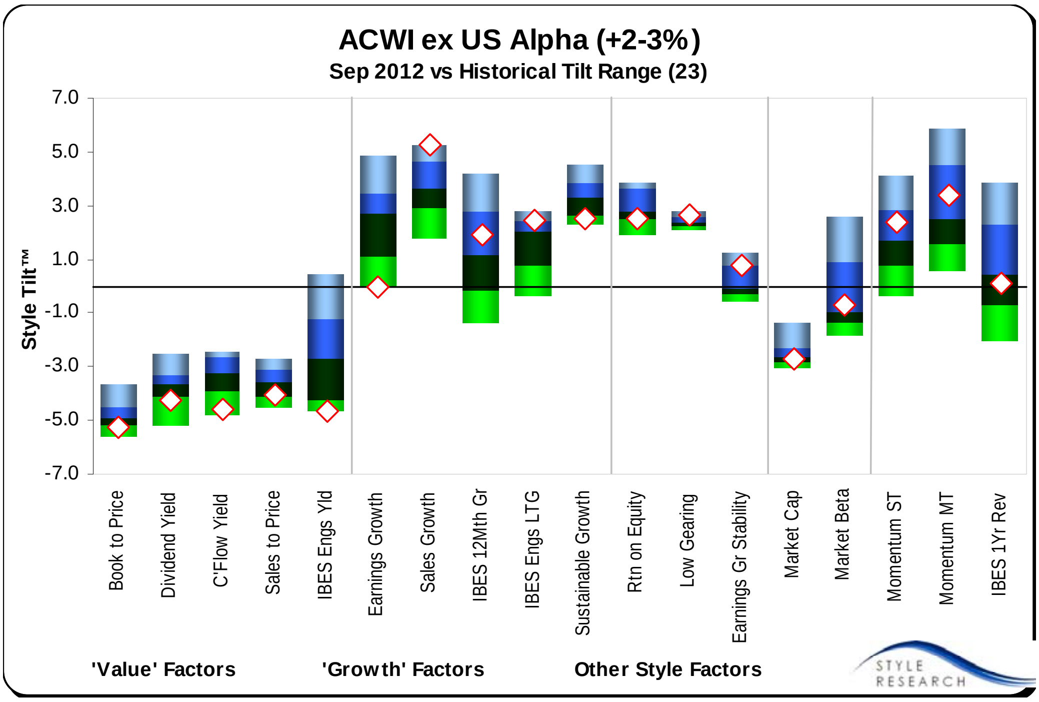
The structure of the portfolio is consistent with both its own history and its investment philosophy and process.

The style profile is broadly consistent with other Baillie Gifford strategies:
- A tilt towards growth factors and away from value
- A positive tilt to quality factors.
- A current overweight position in cyclical sectors at the expense of defensive sectors
- A predicted beta greater than 1
- A high allocation to emerging market securities relative to benchmark

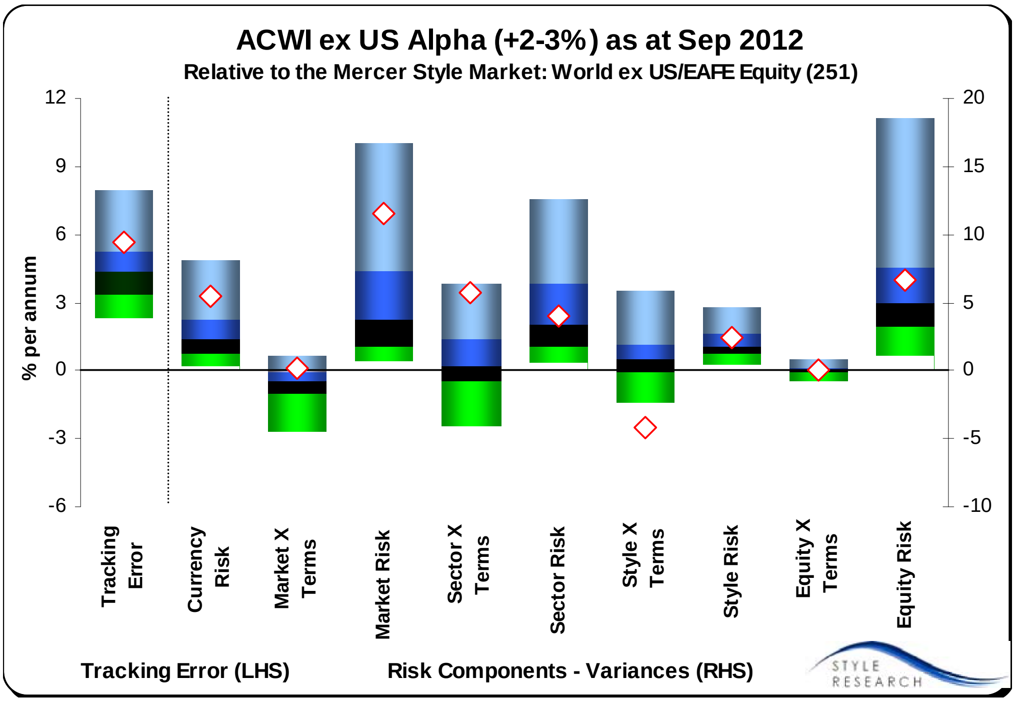
The following chart shows the 'style tilts' for the portfolio.



The following chart shows the 'style tilts' for the portfolio relative to its own history.



The following chart shows the components of risk (variance) against the benchmark and relative to other managers in the peer group.



International Equity - World ex US/EAFE Equity - Growth - EAFE Plus Alpha (+2-3%)

Date of analysis	30 September 2012
Benchmark used for analysis	MSCI EAFE
Number of stocks	82
Predicted tracking error (%)	6.0
Average value score	-3.3
Average growth score	3.0
Adjustment used for Style Tilts	No Adjustment
Cash (%)	0.9

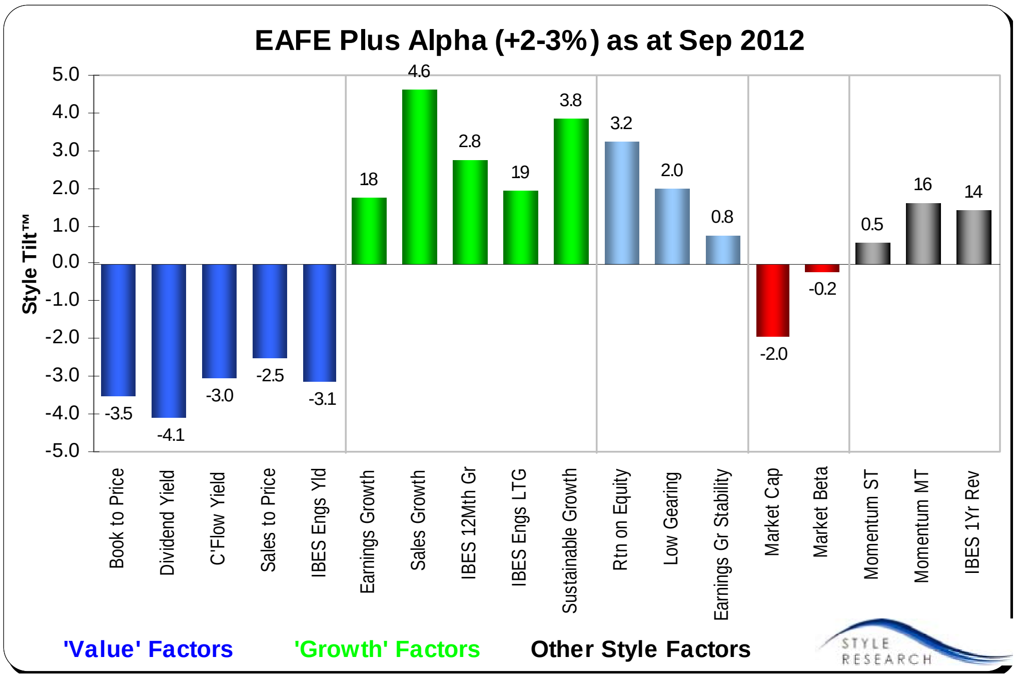
Further portfolio holdings data based on Style Research analysis is given in Further Details.

The structure of the portfolio is consistent with both its own history and its investment philosophy and process.

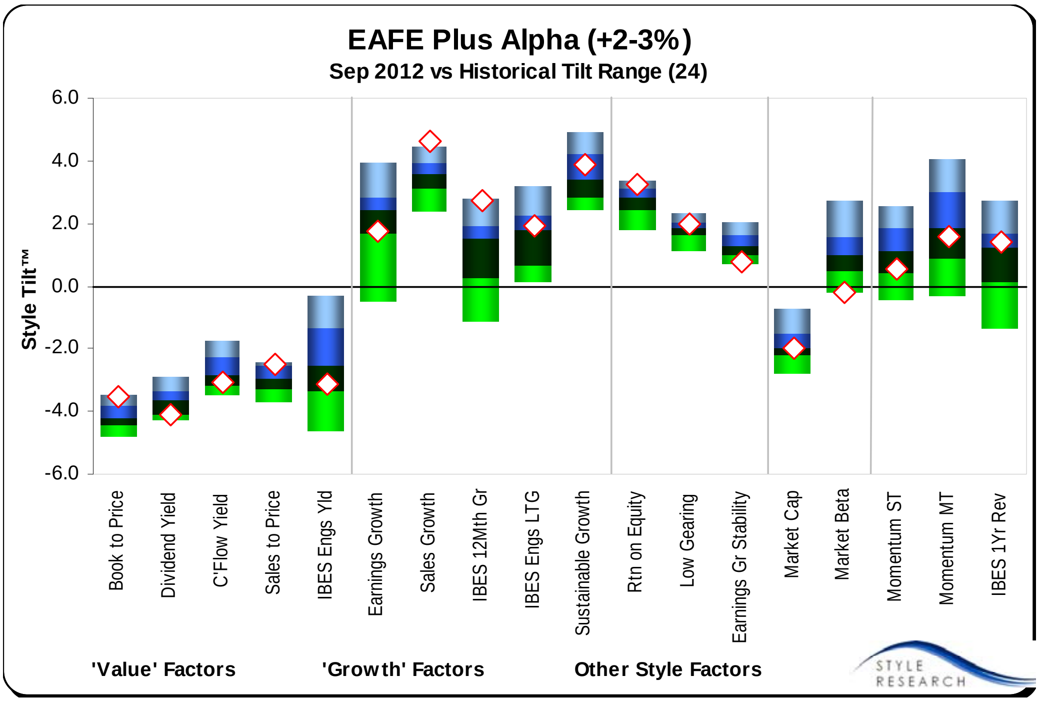
The style profile is broadly consistent with other Baillie Gifford strategies:
- A tilt towards growth factors and away from value
- A positive tilt to quality factors.
- A current overweight position in cyclical sectors at the expense of defensive sectors
- A predicted beta greater than 1
- A high allocation to emerging market securities relative to benchmark

The overweight position in cyclicals, particularly IT stocks, is significant. Although many Baillie Gifford international portfolios have this characteristic, it is most noticeable in EAFE Plus and in LTGG, both of which are managed by committees chaired by James Anderson.

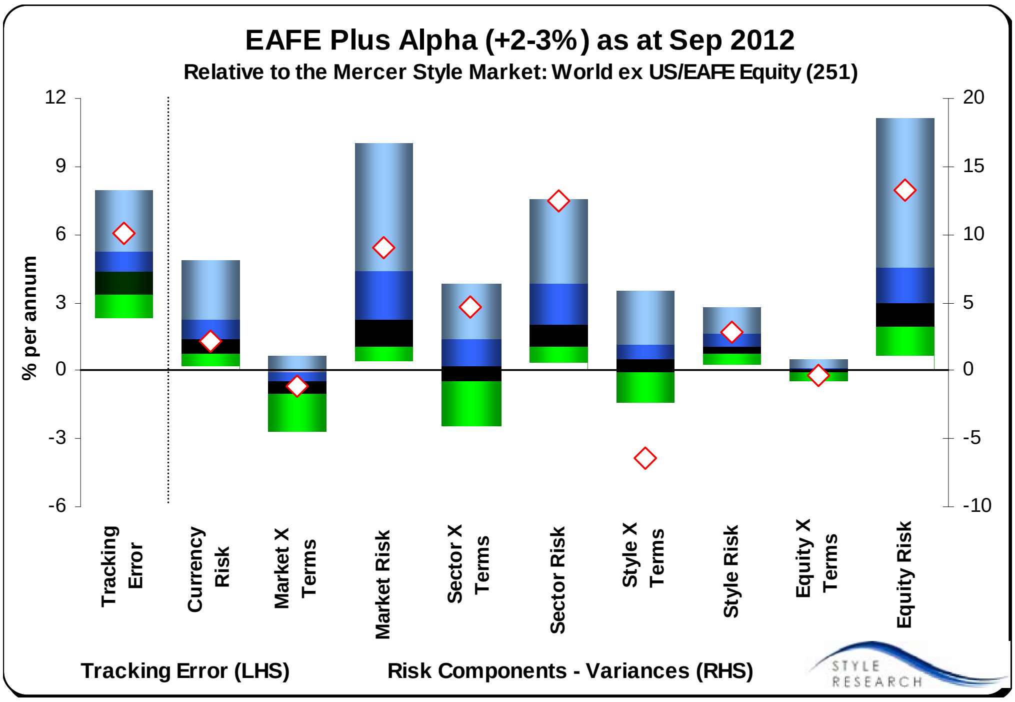
The following chart shows the 'style tilts' for the portfolio.



The following chart shows the 'style tilts' for the portfolio relative to its own history.



The following chart shows the components of risk (variance) against the benchmark and relative to other managers in the peer group.



Emerging Markets - Emerging Markets Equity - Emerging Markets All Cap

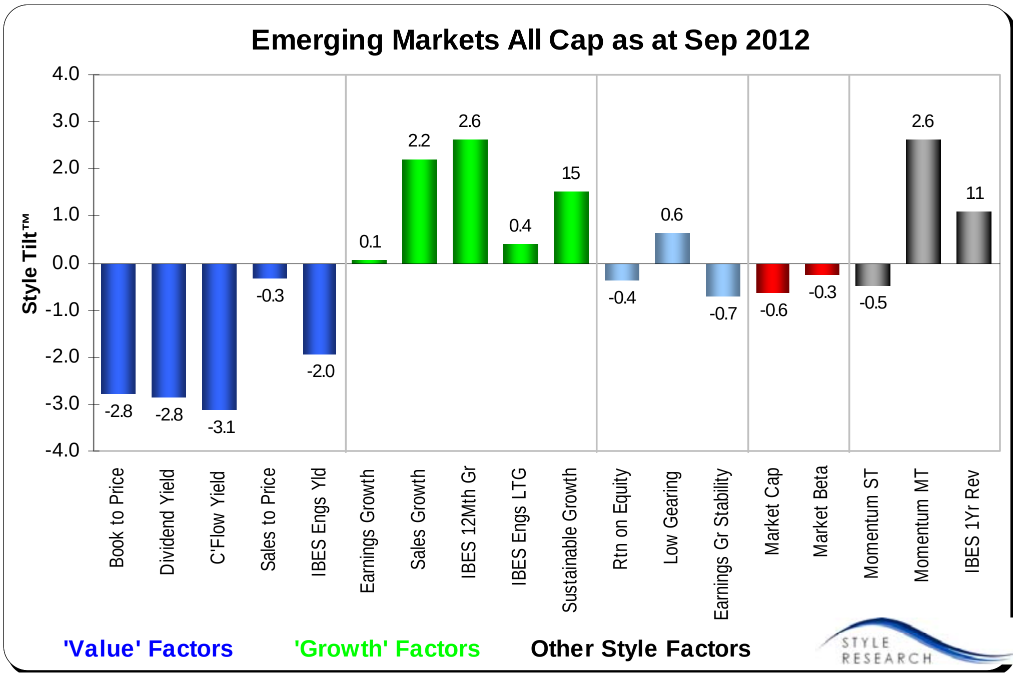
Date of analysis	30 September 2012
Benchmark used for analysis	MSCI Emerging Markets
Number of stocks	96
Predicted tracking error (%)	5.7
Average value score	-2.2
Average growth score	1.4
Adjustment used for Style Tilts	No Adjustment
Cash (%)	0.9

Further portfolio holdings data based on Style Research analysis is given in Further Details.

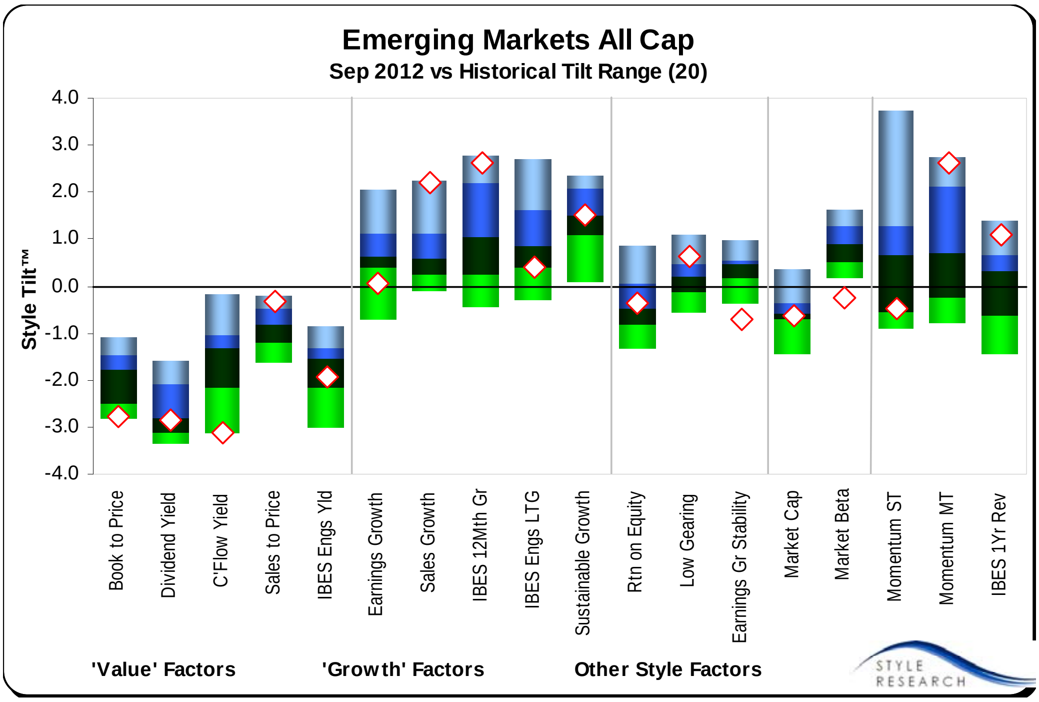
The value and growth characteristics are in line with the portfolio's history, and with what we would expect given the manager's investment philosophy and process. The main contributor to tracking error risk is stock-specific risk. Sector and geographical allocations are broadly in line with the index.

The portfolio is broadly consistent with Baillie Gifford's international/global equity strategies in that it has a tilt towards growth factors and away from value. However, in some other regards it stands apart. For example, the bias toward cyclical sectors is much less evident, and the coverage ratio (26.2%) is relatively high compared to other Baillie Gifford strategies.

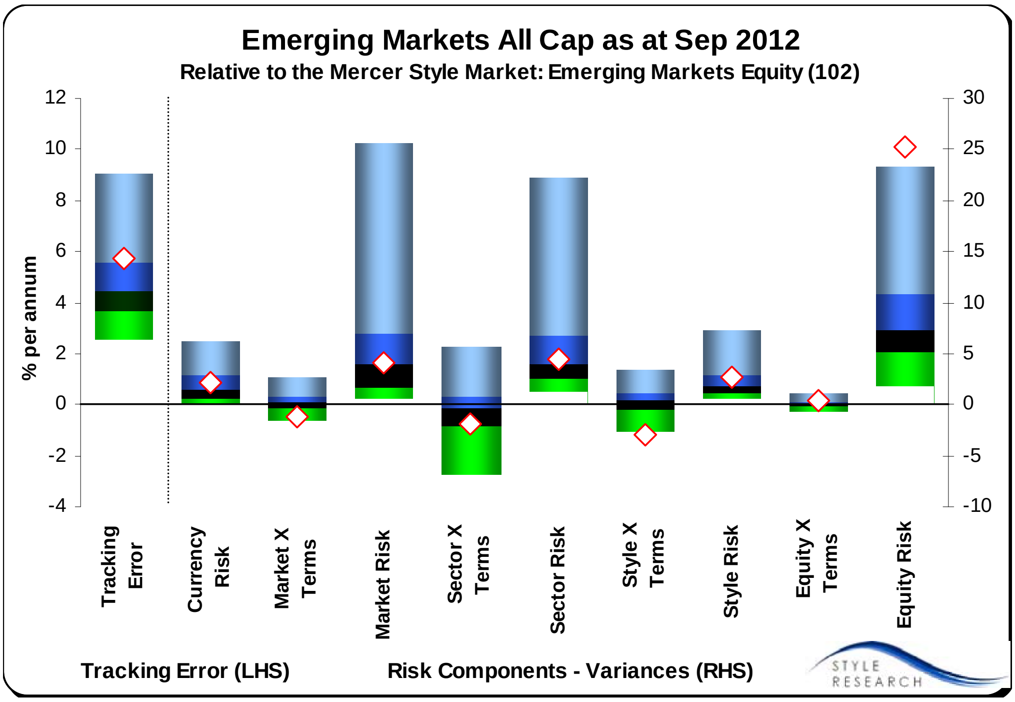
The following chart shows the 'style tilts' for the portfolio.



The following chart shows the 'style tilts' for the portfolio relative to its own history.



The following chart shows the components of risk (variance) against the benchmark and relative to other managers in the peer group.



Past performance

The following table, a copy of which was also given in the Highlights section, shows performance relative to benchmark of the key strategies reviewed in this note.

	2005	2006	2007	2008	2009	2010	2011	2012*
Global Opps	-	-	-	-	-	-	-	-3.4
Global Alpha	-	-1.8	-0.6	-2.3	11.1	5.1	0.8	1.1
LTGG	13.1	-3.8	5.9	-6.4	18.4	4.4	-1.5	5.4
ACWI Alpha	7.8	0.4	12.1	-0.4	7.1	4.4	3.1	4.7
EAFE+ Alpha	3.7	2.2	4.9	-0.4	5.5	6.2	2.8	0.3
EM All Cap	7.3	5.5	6.1	-2.7	17.5	-0.4	-0.7	-0.5

* 2012 is year to end Q3. Source: MSCI and Baillie Gifford as reported to GIMD.

The table highlights the relative strength of recent performance across the firm, principally due to the firm's general quality style. A commentary on each individual strategy's performance follows shortly, but before that we show more summary performance characteristics which compare and contrast the different strategies over the 5 years to end Q3 2012.

	Global Opps*	Global Alpha	LTGG	ACWI Alpha	EAFE+ Alpha	EM All Cap
Ex Ret	-	2.1	1.8	3.2	2.4	0.7
Alpha	-	2.5	2.9	3.4	2.9	1.0
Beta	-	1.0	1.2	1.0	1.1	1.1
% Out	-	65	53	58	57	50
% Out Up	-	71	68	59	62	59
% Out Down	-	59	38	58	52	42
Standard Dev	-	23.0	26.5	24.8	26.1	31.5
Tracking Er	-	3.7	8.5	3.8	4.1	3.8

* no data for Global Opps as track record is less than 5 years.

For all the 5 strategies for which we have 5-year data,

- Each made a positive excess return
- The beta was greater than or equal to one
- In outperformance was not simply due to the beta exposure – the "alpha" was greater than zero
- The batting average, or the % of months in which the strategy outperformed the market, was greater in rising markets than falling markets

In terms of differences, the most noticeable is that the tracking error for LTGG is much higher than that of other strategies, and furthermore that it had the highest beta.

Commentary on individual strategies follows.

International Equity - Global Equity - Core - Global Opportunities

Track Record	Global Opportunities
Base Currency	$US
Benchmark	MSCI AC World
Mercer Universe	Global Equity
Track record type	Composite
Track Record Assets	$US133 million as at 30 September 2012

The track record for the strategy starts at the beginning of March 2011, and so to Sep 2012 is 19 months long. This is too short to draw any meaningful conclusions.

In the short period since inception, the strategy has had two quarters of noticeable underperformance, Q4 2011 and Q3 2012. The main driver on both occasions was stock selection.

- In Q3 2012, the manager underperformed in a rising market principally due to stocks not held, e.g. Apple, Google (both of which are held by some other international strategies at the firm) and some of the large pharmaceutical and oil companies. Of stocks held, the largest negative contributor was IP Group PLC, with other detractors being Chariot Oil & Gas, TripAdvisor and Facebook.
- Conversely in Q4 2011, IP Group was the strongest contributor to performance. (It remains the largest position in the portfolio). Stocks which hindered performance over the quarter include Yoox, RIM (the makers of the Blackberry) and Odontoprev.

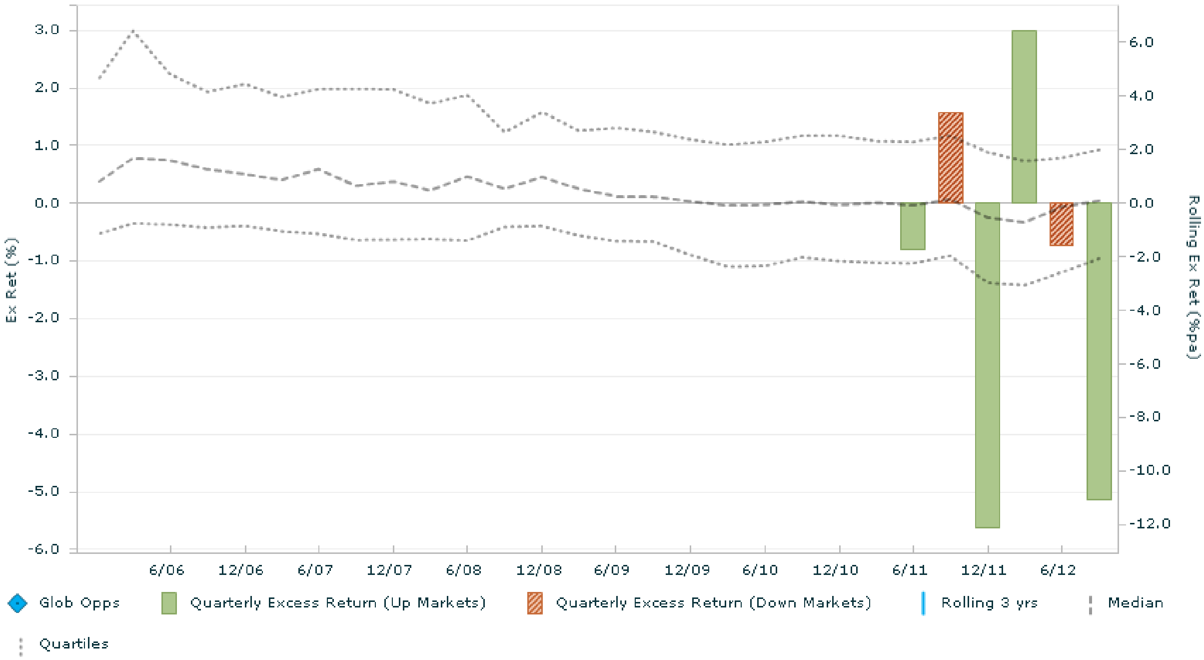
Although we noted in the previous section that the style of the portfolio is consistent with other international strategies managed by the firm, we do note the portfolio has a considerable numbers of “unique stocks”. Of 85 stocks in the portfolio, 32 are held by other portfolio assessed in this report, and 53 are unique (representing 58% of the portfolio). There is scope for performance to differ from other strategies due to stock-specific factors.

The final chart in this section shows that underperformance (labelled as “Ex Ret”) has come from negative alpha rather than due to beta.

Global Opportunities

Quarterly Excess Return vs. MSCI AC World with rolling 3 yr line in $US (before fees) over 7 yrs ending September-12

Comparison with the Global Equity universe



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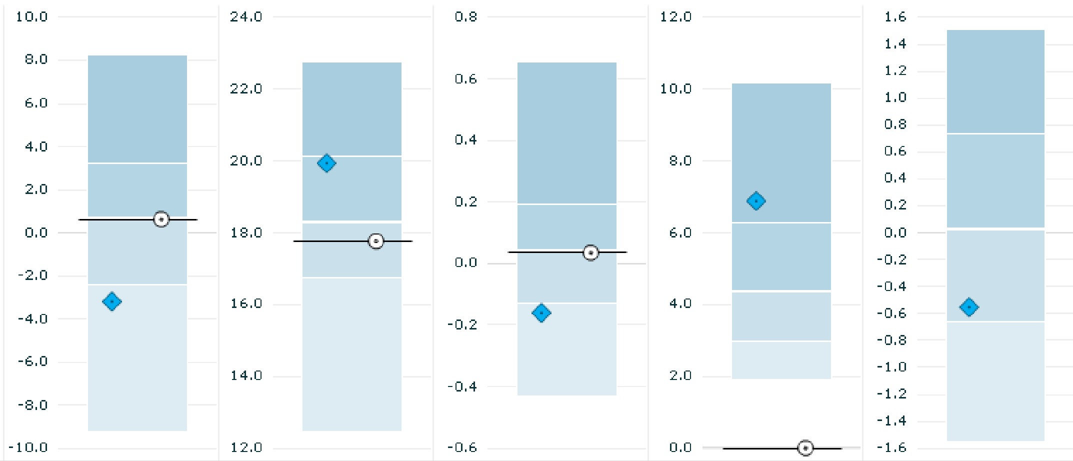
Global Opportunities

Performance characteristics vs. MSCI AC World in $US (before fees) over 1 yr and 7 mths ending September-12 (monthly calculations)

Comparison with the Global Equity universe (Percentile Ranking)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
Glob Opps	-3.2 *(79)*	19.9 *(27)*	-0.2 *(78)*	6.9 *(19)*	-0.6 *(71)*
MSACW	0.6 *(51)*	17.8 *(59)*	0.0 *(52)*	0.0 *(100)*	-
5th Percentile	8.2	22.8	0.7	10.2	1.5
Upper Quartile	3.2	20.1	0.2	6.3	0.7
Median	0.7	18.3	0.0	4.4	0.0
Lower Quartile	-2.5	16.7	-0.1	3.0	-0.7
95th Percentile	-9.2	12.5	-0.4	1.9	-1.5
Number	448	448	448	448	448

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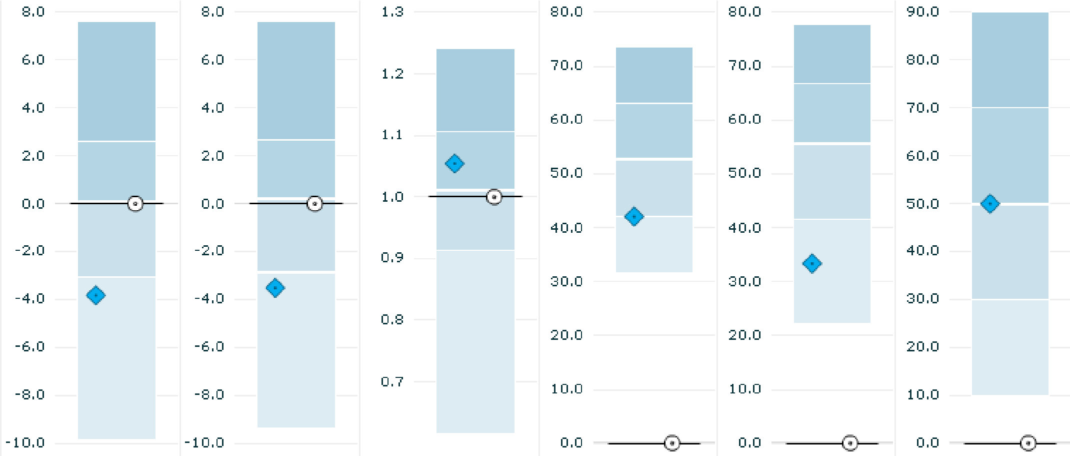
Global Opportunities

Performance characteristics vs. MSCI AC World in $US (before fees) over 1 yr and 7 mths ending September-12 (monthly calculations)

Comparison with the Global Equity universe (Percentile Ranking)



	Ex Ret (%pa)	Alpha (%pa)	Beta	% Out	% Out U	% Out D
Glob Opps	-3.8 *(79)*	-3.5 *(79)*	1.1 *(36)*	42 *(69)*	33 *(75)*	50 *(43)*
MSACW	0.0 *(51)*	0.0 *(52)*	1.0 *(54)*	0 *(100)*	0 *(99)*	0 *(99)*
5th Percentile	7.6	7.6	1.2	74	78	90
Upper Quartile	2.6	2.6	1.1	63	67	70
Median	0.1	0.2	1.0	53	56	50
Lower Quartile	-3.1	-2.9	0.9	42	42	30
95th Percentile	-9.9	-9.4	0.6	32	22	10
Number	448	448	448	448	448	448

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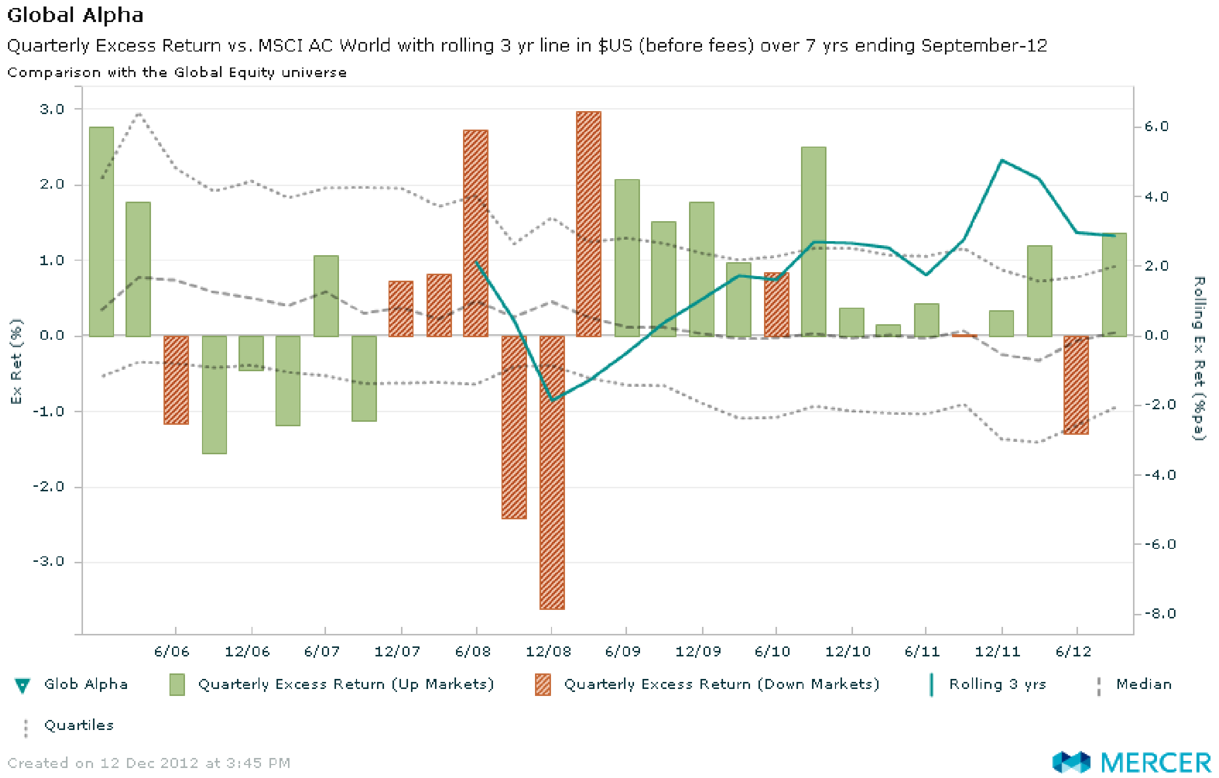
International Equity - Global Equity - Growth - Global Alpha (+2-3%)

Track Record	Global Alpha
Base Currency	$US
Benchmark	MSCI AC World
Mercer Universe	Global Equity
Track record type	Composite
Track Record Assets	$US10.1 billion as at 30 September 2012

Performance in recent quarters has been described in quarterly update notes on GIMD, and is consistent with what we would expect given the style of the portfolio. Over 2012, the strategy outperformed in rising markets (Q1 and Q3), and underperformed in Q2 when the market favoured defensive sectors (in which the portfolio is underweight).

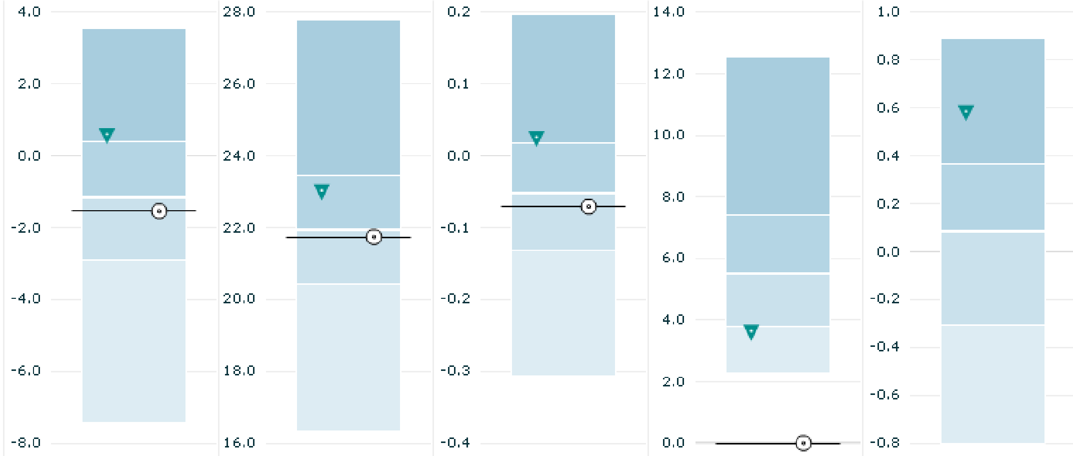
Longer term, performance remains above the index and in the upper quartile over 5 years. The observed (historic) tracking error over the same 5-year period is around the lower quartile of the peer group.



Global Alpha

Performance characteristics vs. MSCI AC World in $US (before fees) over 5 yrs ending September-12 (monthly calculations)

Comparison with the Global Equity universe (Percentile Ranking)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
Glob Alpha	0.6 *(23)*	23.0 *(31)*	0.0 *(24)*	3.7 *(79)*	0.6 *(13)*
MSACW	-1.5 *(55)*	21.7 *(53)*	-0.1 *(56)*	0.0 *(100)*	-
5th Percentile	3.6	27.8	0.2	12.6	0.9
Upper Quartile	0.4	23.5	0.0	7.4	0.4
Median	-1.1	22.0	-0.1	5.5	0.1
Lower Quartile	-2.9	20.4	-0.1	3.8	-0.3
95th Percentile	-7.4	16.3	-0.3	2.3	-0.8
Number	333	330	330	330	330

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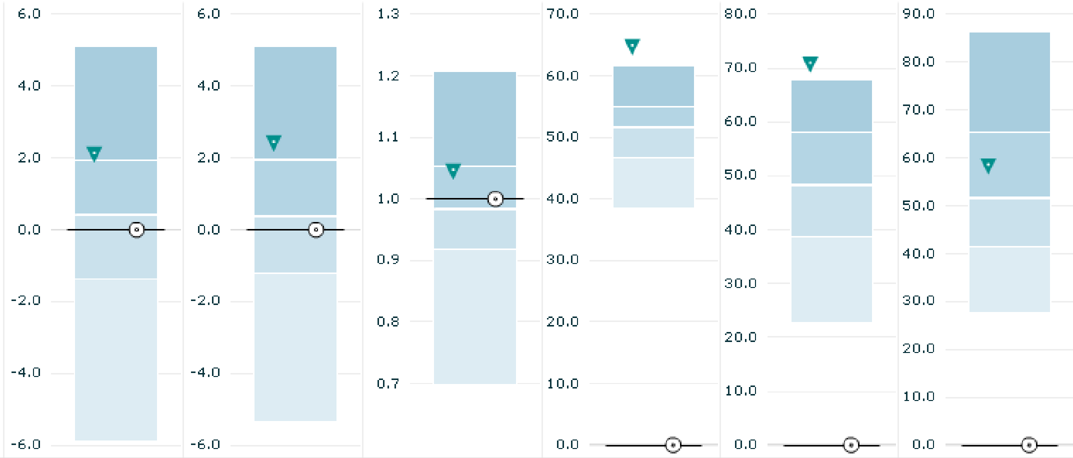
MERCER

Global Alpha

Performance characteristics vs. MSCI AC World in $US (before fees) over 5 yrs ending September-12 (monthly calculations)

Comparison with the Global Equity universe (Percentile Ranking)



	Ex Ret (%pa)	Alpha (%pa)	Beta	% Out	% Out U	% Out D
Glob Alpha	2.1 *(23)*	2.5 *(20)*	1.0 *(26)*	65 *(1)*	71 *(1)*	59 *(34)*
MSACW	0.0 *(55)*	0.0 *(57)*	1.0 *(43)*	0 *(100)*	0 *(100)*	0 *(100)*
5th Percentile	5.1	5.1	1.2	62	68	86
Upper Quartile	1.9	1.9	1.1	55	58	66
Median	0.4	0.4	1.0	52	48	52
Lower Quartile	-1.4	-1.2	0.9	47	39	41
95th Percentile	-5.9	-5.3	0.7	38	23	28
Number	333	330	330	330	330	330

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International Equity - Global Equity - Growth - Long Term Global Growth (+3%)

Track Record	Long Term Global Growth
Base Currency	$US
Benchmark	MSCI AC World
Mercer Universe	Global Equity
Track record type	Composite
Track Record Assets	$US12.0 billion as at 30 September 2012

Performance in recent quarters has been described in quarterly update notes on GIMD, and is consistent with what we would expect given the style of the portfolio. Over 2012, the strategy performed particularly well in Q1 when the cyclical exposure of the portfolio worked well in its favour. Sectors which helped performance were IT (holdings in Apple, Salesforce, Baidu and Tencent) and Consumer discretionary (Amazon).

Performance in Q2 was close to index, which we would expect in a more choppy market environment. However, performance in Q3 was more disappointing given the portfolio's style. A key detractor from performance over the quarter was Facebook.

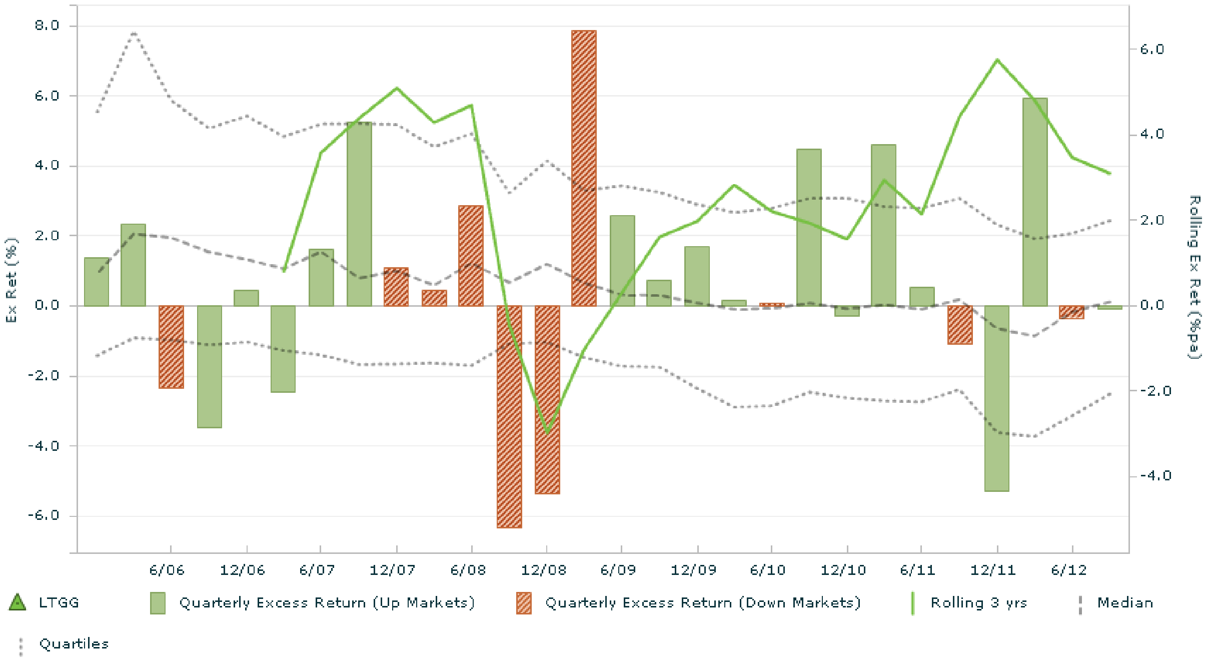
The final chart in this section shows that the observed beta has been high, which is consistent with our holdings analysis, and that performance has been particularly strong in rising markets.

This is a long-term strategy. Performance in the short term can be volatile (as in 2008) and clients should be aware of this.

Long Term Global Growth

Quarterly Excess Return vs. MSCI AC World with rolling 3 yr line in $US (before fees) over 7 yrs ending September-12

Comparison with the Global Equity universe



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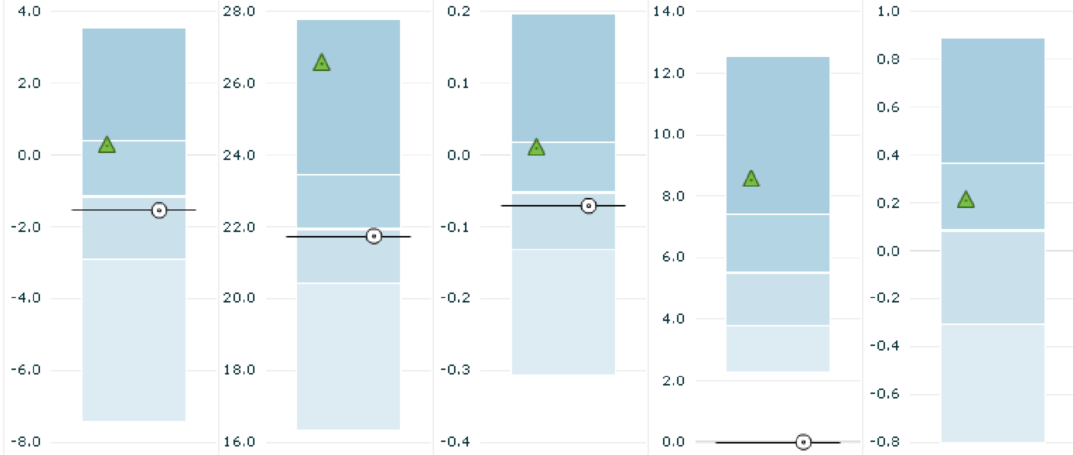
Long Term Global Growth

Performance characteristics vs. MSCI AC World in $US (before fees) over 5 yrs ending September-12 (monthly calculations)

Comparison with the Global Equity universe (Percentile Ranking)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
LTGG	0.3 *(27)*	26.5 *(8)*	0.0 *(27)*	8.5 *(19)*	0.2 *(39)*
MSACW	-1.5 *(55)*	21.7 *(53)*	-0.1 *(56)*	0.0 *(100)*	-
5th Percentile	3.6	27.8	0.2	12.6	0.9
Upper Quartile	0.4	23.5	0.0	7.4	0.4
Median	-1.1	22.0	-0.1	5.5	0.1
Lower Quartile	-2.9	20.4	-0.1	3.8	-0.3
95th Percentile	-7.4	16.3	-0.3	2.3	-0.8
Number	333	330	330	330	330

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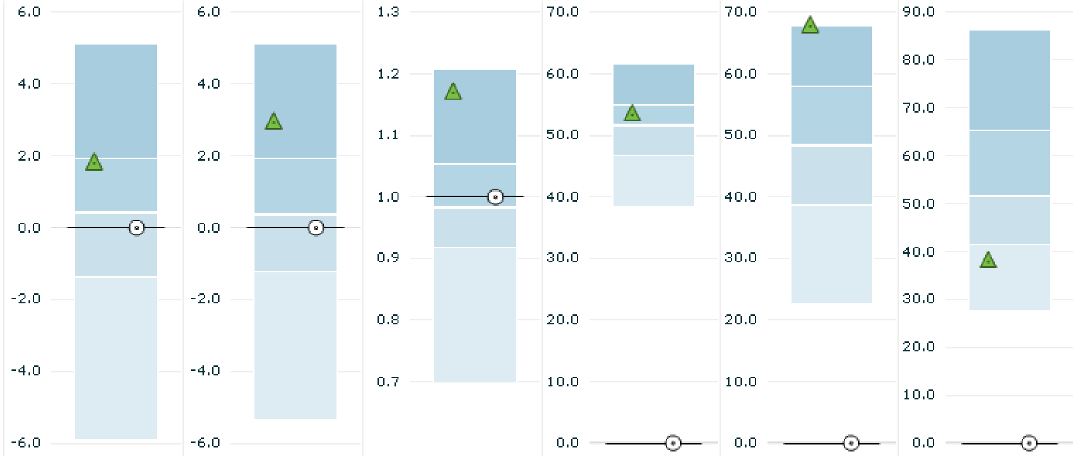
Long Term Global Growth

Performance characteristics vs. MSCI AC World in $US (before fees) over 5 yrs ending September-12 (monthly calculations)

Comparison with the Global Equity universe (Percentile Ranking)



	Ex Ret (%pa)	Alpha (%pa)	Beta	% Out	% Out U	% Out D
LTGG	1.8 *(27)*	2.9 *(16)*	1.2 *(8)*	53 *(29)*	68 *(4)*	38 *(81)*
MSACW	0.0 *(55)*	0.0 *(57)*	1.0 *(43)*	0 *(100)*	0 *(100)*	0 *(100)*
5th Percentile	5.1	5.1	1.2	62	68	86
Upper Quartile	1.9	1.9	1.1	55	58	66
Median	0.4	0.4	1.0	52	48	52
Lower Quartile	-1.4	-1.2	0.9	47	39	41
95th Percentile	-5.9	-5.3	0.7	38	23	28
Number	333	330	330	330	330	330

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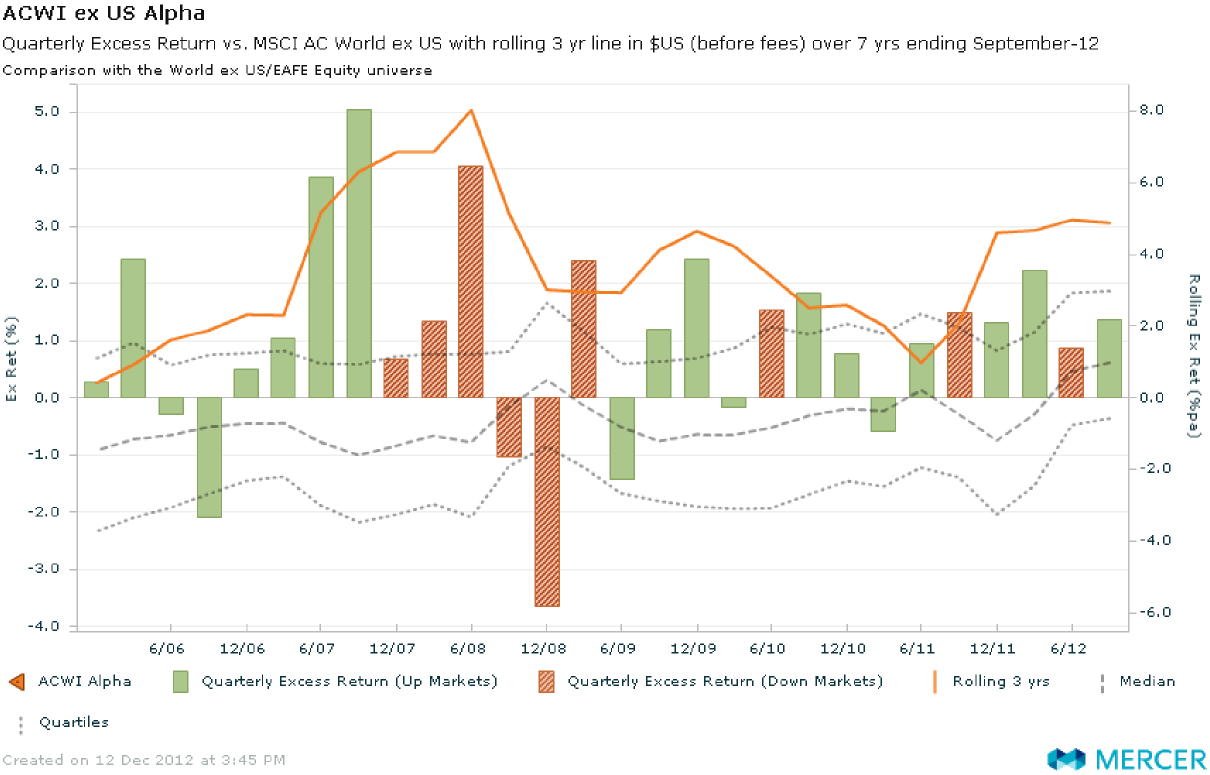
International Equity - World ex US/EAFE Equity - Growth - ACWI ex US Alpha (+2-3%)

Track Record	ACWI ex US Alpha Composite
Base Currency	$US
Benchmark	MSCI AC World ex US
Mercer Universe	World ex US/EAFE Equity
Track record type	Composite
Track Record Assets	$US11.9 billion as at 30 September 2012

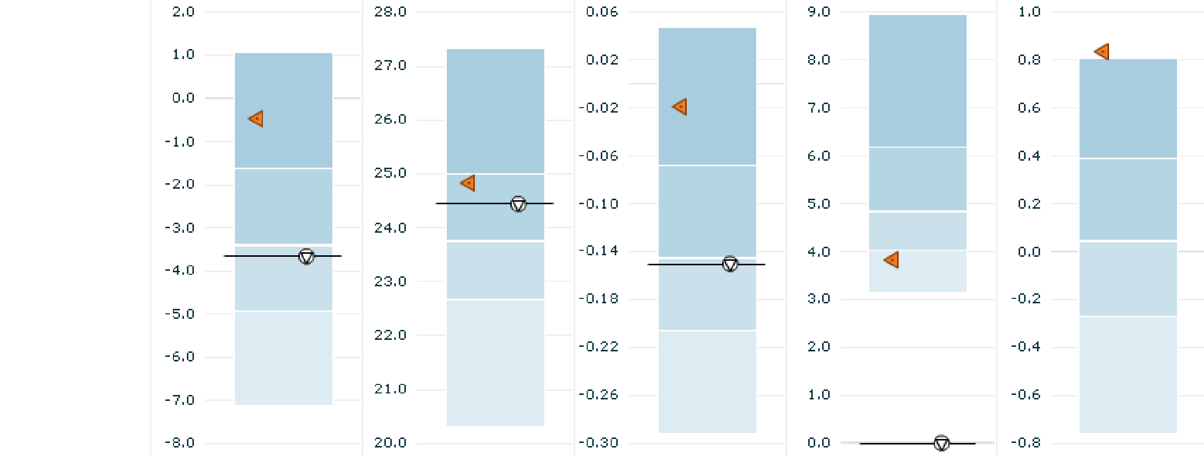
Performance has remained ahead of benchmark in 2012, and has been in line with expectations given the manager's style. Longer-term performance remains strong, and has been achieved at a tracking error close to the lower quartile of the peer group.



ACWI ex US Alpha

Performance characteristics vs. MSCI AC World ex US in $US (before fees) over 5 yrs ending September-12 (monthly calculations)

Comparison with the World ex US/EAFE Equity universe (Percentile Ranking)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
ACWI Alpha	-0.5 *(14)*	24.8 *(28)*	0.0 *(14)*	3.8 *(80)*	0.8 *(4)*
MSACWXUSF	-3.7 *(55)*	24.4 *(35)*	-0.2 *(52)*	0.0 *(100)*	-
5th Percentile	1.1	27.3	0.0	9.0	0.8
Upper Quartile	-1.6	25.0	-0.1	6.2	0.4
Median	-3.4	23.7	-0.1	4.8	0.0
Lower Quartile	-4.9	22.7	-0.2	4.0	-0.3
95th Percentile	-7.1	20.3	-0.3	3.1	-0.8
Number	312	306	306	306	306

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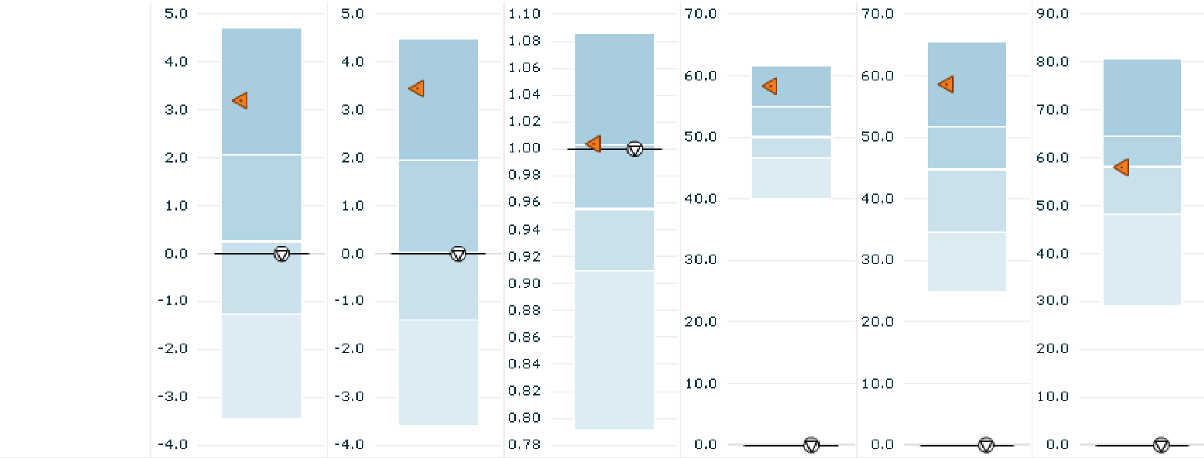
ACWI ex US Alpha

Performance characteristics vs. MSCI AC World ex US in $US (before fees) over 5 yrs ending September-12 (monthly calculations)

Comparison with the World ex US/EAFE Equity universe (Percentile Ranking)



	Ex Ret (%pa)	Alpha (%pa)	Beta	% Out	% Out U	% Out D
ACWI Alpha	3.2 *(14)*	3.4 *(10)*	1.0 *(24)*	58 *(10)*	59 *(14)*	58 *(39)*
MSACWXUSF	0.0 *(55)*	0.0 *(50)*	1.0 *(27)*	0 *(100)*	0 *(100)*	0 *(100)*
5th Percentile	4.7	4.5	1.1	62	66	81
Upper Quartile	2.1	1.9	1.0	55	52	65
Median	0.3	0.0	1.0	50	45	58
Lower Quartile	-1.3	-1.4	0.9	47	34	48
95th Percentile	-3.4	-3.6	0.8	40	25	29
Number	312	306	306	306	306	306

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International Equity - World ex US/EAFE Equity - Growth - EAFE Plus Alpha (+2-3%)

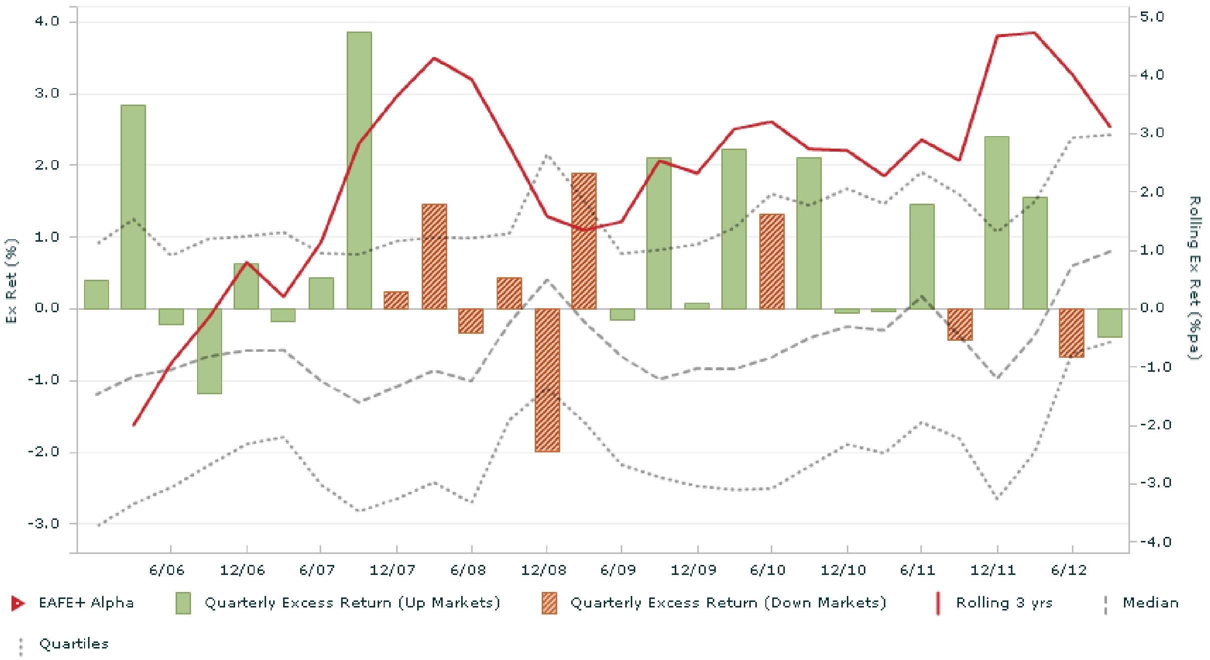
Track Record	EAFE Plus ALPHA composite
Base Currency	$US
Benchmark	MSCI AC World ex US
Mercer Universe	World ex US/EAFE Equity
Track record type	Composite
Track Record Assets	$US9.1 billion as at 30 September 2012

Performance has remained ahead of benchmark in 2012, and has been in line with expectations given the manager's style. Longer-term performance remains strong, and has been achieved at a tracking error close to the lower quartile of the peer group.

EAFE Plus Alpha

Quarterly Excess Return vs. MSCI AC World ex US with rolling 3 yr line in $US (before fees) over 7 yrs ending September-12

Comparison with the World ex US/EAFE Equity universe



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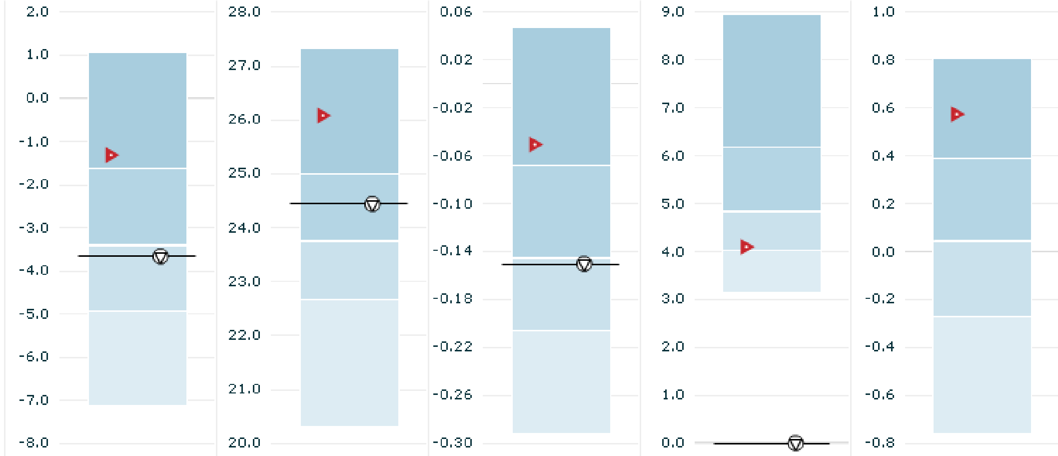
EAFE Plus Alpha

Performance characteristics vs. MSCI AC World ex US in $US (before fees) over 5 yrs ending September-12 (monthly calculations)

Comparison with the World ex US/EAFE Equity universe (Percentile Ranking)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
EAFE+ Alpha	-1.3 *(22)*	26.1 *(11)*	-0.1 *(20)*	4.1 *(72)*	0.6 *(14)*
MSACWXUSF	-3.7 *(55)*	24.4 *(35)*	-0.2 *(52)*	0.0 *(100)*	-
5th Percentile	1.1	27.3	0.0	9.0	0.8
Upper Quartile	-1.6	25.0	-0.1	6.2	0.4
Median	-3.4	23.7	-0.1	4.8	0.0
Lower Quartile	-4.9	22.7	-0.2	4.0	-0.3
95th Percentile	-7.1	20.3	-0.3	3.1	-0.8
Number	312	306	306	306	306

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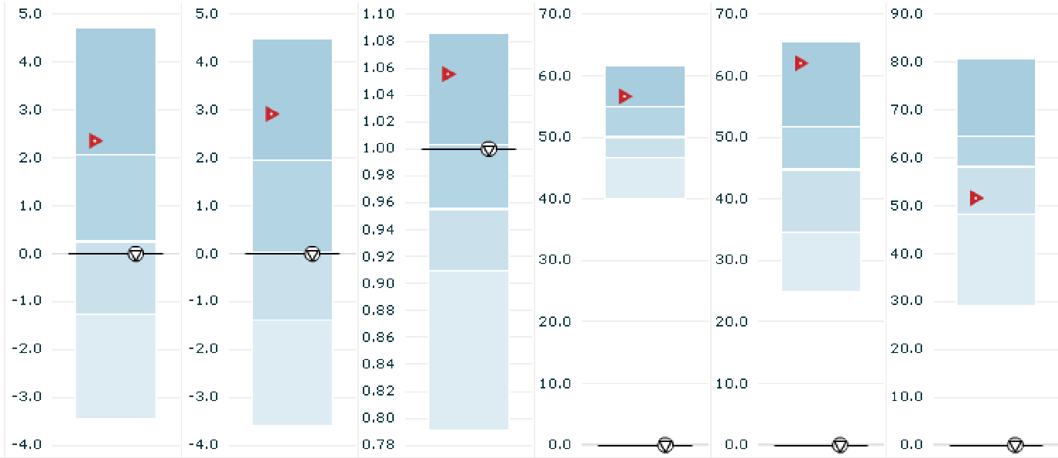
EAFE Plus Alpha

Performance characteristics vs. MSCI AC World ex US in $US (before fees) over 5 yrs ending September-12 (monthly calculations)

Comparison with the World ex US/EAFE Equity universe (Percentile Ranking)



	Ex Ret (%pa)	Alpha (%pa)	Beta	% Out	% Out U	% Out D
EAFE+ Alpha	2.4 *(22)*	2.9 *(16)*	1.1 *(9)*	57 *(15)*	62 *(8)*	52 *(58)*
MSACWXUSF	0.0 *(55)*	0.0 *(50)*	1.0 *(27)*	0 *(100)*	0 *(100)*	0 *(100)*
5th Percentile	4.7	4.5	1.1	62	66	81
Upper Quartile	2.1	1.9	1.0	55	52	65
Median	0.3	0.0	1.0	50	45	58
Lower Quartile	-1.3	-1.4	0.9	47	34	48
95th Percentile	-3.4	-3.6	0.8	40	25	29
Number	312	306	306	306	306	306

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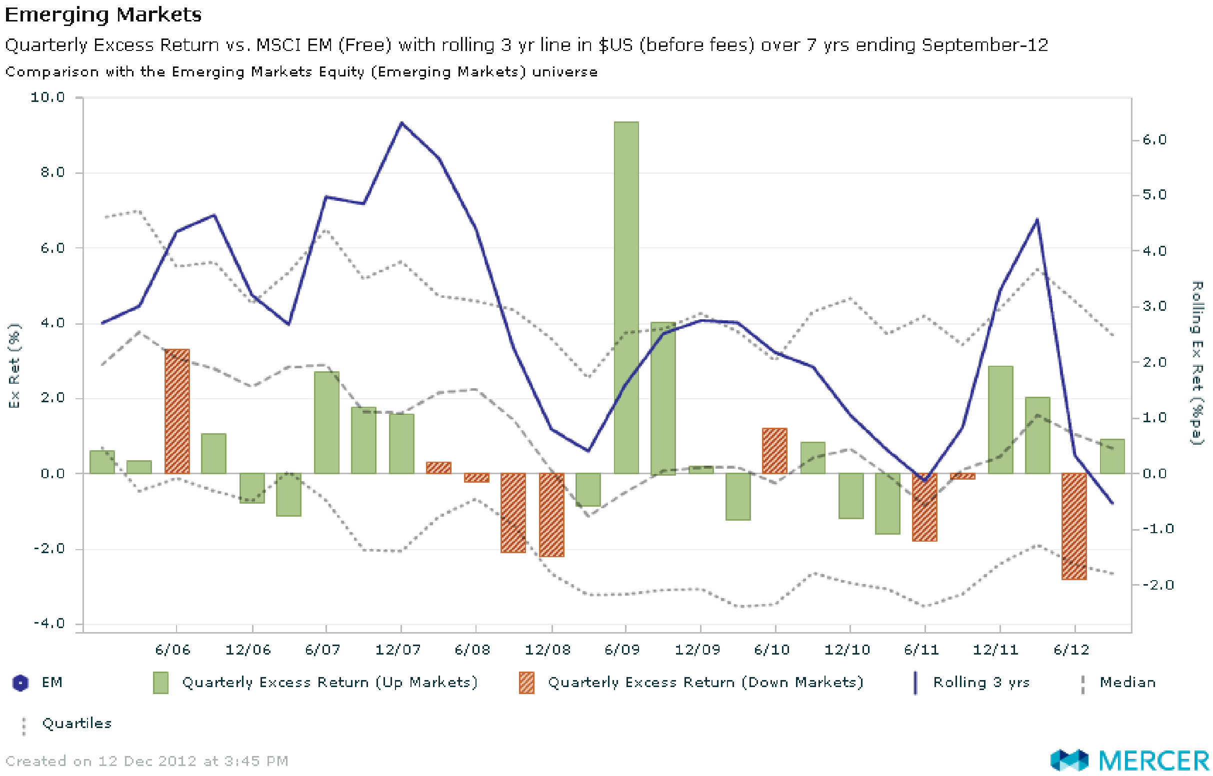
Emerging Markets - Emerging Markets Equity - Emerging Markets All Cap

Track Record	Emerging Markets
Base Currency	$US
Benchmark	MSCI EM
Mercer Universe	Emerging Markets Equity (Emerging Markets)
Track record type	Composite
Track Record Assets	$US8.4 billion as at 30 September 2012

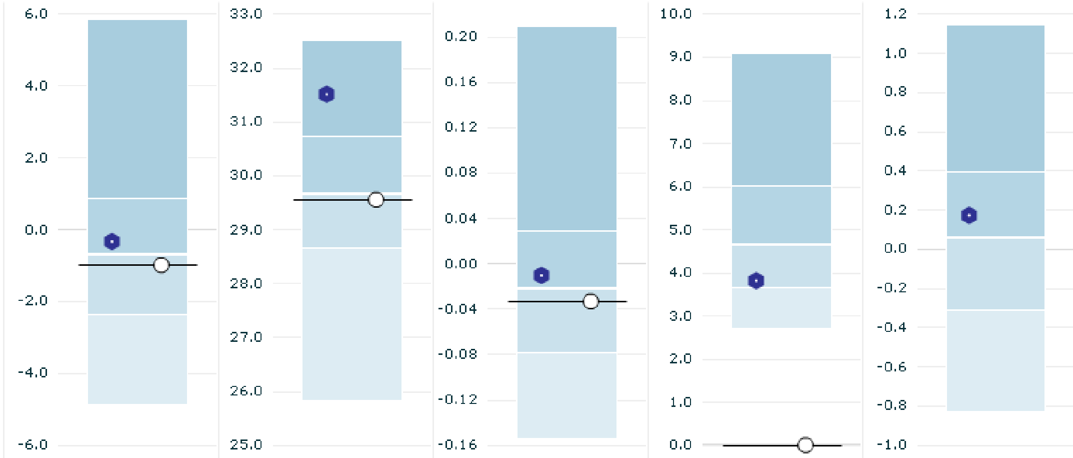
Performance remains marginally above both index and median over the 5 years to end September 2012. Historic tracking error over the same time period is around lower quartile.



Emerging Markets

Performance characteristics vs. MSCI EM (Free) in $US (before fees) over 5 yrs ending September-12 (monthly calculations)

Comparison with the Emerging Markets Equity (Emerging Markets) universe (Percentile Ranking)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
EM	-0.3 *(42)*	31.5 *(12)*	0.0 *(42)*	3.8 *(73)*	0.2 *(41)*
MSEMF	-1.0 *(55)*	29.6 *(54)*	0.0 *(56)*	0.0 *(100)*	-
5th Percentile	5.9	32.5	0.2	9.1	1.1
Upper Quartile	0.9	30.7	0.0	6.0	0.4
Median	-0.7	29.7	0.0	4.7	0.1
Lower Quartile	-2.4	28.7	-0.1	3.7	-0.3
95th Percentile	-4.9	25.8	-0.2	2.7	-0.8
Number	133	133	133	133	133

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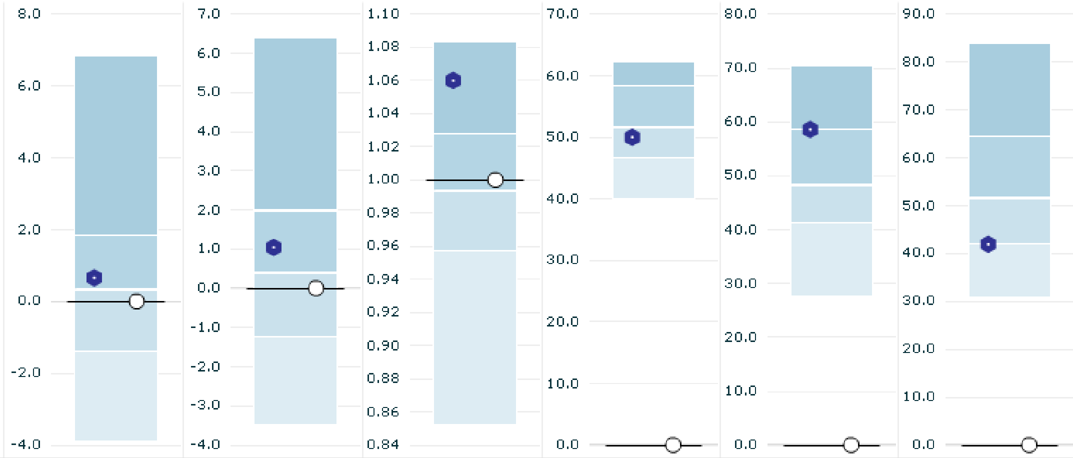
Emerging Markets

Performance characteristics vs. MSCI EM (Free) in $US (before fees) over 5 yrs ending September-12 (monthly calculations)

Comparison with the Emerging Markets Equity (Emerging Markets) universe (Percentile Ranking)



	Ex Ret (%pa)	Alpha (%pa)	Beta	% Out	% Out U	% Out D
EM	0.7 *(42)*	1.0 *(36)*	1.1 *(9)*	50 *(52)*	59 *(19)*	42 *(74)*
MSEMF	0.0 *(55)*	0.0 *(57)*	1.0 *(46)*	0 *(100)*	0 *(100)*	0 *(100)*
5th Percentile	6.8	6.4	1.1	62	70	84
Upper Quartile	1.8	2.0	1.0	58	59	65
Median	0.3	0.4	1.0	52	48	52
Lower Quartile	-1.4	-1.2	1.0	47	41	42
95th Percentile	-3.9	-3.5	0.9	40	28	31
Number	133	133	133	133	133	133

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Further Detail

ESG and Active Ownership

The firm is a signatory to the UN Principles for Responsible Investment, and a statement of the firm's compliance with the UK Stewardship Code is published on Baillie Gifford's website (updated October 2012).

Baillie Gifford has a dedicated corporate governance and ESG team which draws on data from various voting agencies such as ISS.

Although the firm has dedicated ESG resources, in our stock level discussions with portfolio managers it was not clear across the board that ESG consideration is always an integral part of the investment process. We believe there is progress with respect to ESG integration and active ownership, but that this evidence of this in the day-to-day investment progress is more limited, albeit with signs for potential improvement.

We believe an ESG score of 3 remains appropriate.

International Equity - Global Equity - Core - Global Opportunities

The process and team remained unchanged, with the sole exception of the addition of a second analyst, Andrew Hunt. The full team is:

GLOBAL OPPORTUNITIES				
Gerald Smith	IM	25 (25)	St Andrews, Oxford	MA, BPhil
Michael MacPhee	IM	23 (23)	Oxford	BA
Andrew Hunt	AN	6 (6)	Cambridge	BA
Benedikt Wagner	AN	3 (3)	Manchester, Oxford	BA, MSt

The strategy has struggled since inception in 2011, both in terms of performance and assets.

Reasons for relative underperformance are described in the performance section of this note, with the main driver being stock selection. However, we retain our confidence in Smith and MacPhee. We discussed a number of stocks, including IP Group (an idea sourced from the Global Discovery team), Eldorado, IAMGOLD, RIM, and Sky Deutschland. In each case, Smith was able to articulate the source of the stock idea, and the rationale for holding it in the portfolio. It is also clear that they work closely with other teams. We remain comfortable with the quality of work, but do wonder whether Smith is a good communicator, or is engaging as a leader.

The strategy has also struggled to raise assets. When the strategy was first launched, the intention was to make it available in pooled fund form only and to decline segregated accounts. However, the strategy has been slow to gain traction in the market and still only had $133m in assets by end Q3 2012. Recognising this may be a barrier to gaining traction, the firm is willing to consider segregated accounts, and particularly so for Australian clients where the tax environment can be an issue for clients investing in the pooled fund. Prospective clients should call for availability of segregated accounts.

The structure for the pooled fund is a Dublin-based QIF, which the firm has also identified as a possible barrier to gaining traction. We also understand it is possible the firm may re-visit the structure of the pooled fund.

International Equity - Global Equity - Growth - Global Alpha (+2-3%)

There has been no change to the team of Charles Plowden (the 'wise older head'), Spencer Adair (bullish, growth-oriented, engaging, glass half full), and Malcolm MacColl (focuses on the accounts to look at downside risk, and wonders if the glass may be half empty). We think the team has matured well, they seem to respect each other's views and they gave good explanations / rationalisations of their holdings.

We discussed a number of stocks, including Seattle Genetics (in the US) and Schibsted (in Norway). These are both ideas sourced by the Global Alpha team, but which are now also held in other Baillie Gifford strategies.

Seattle Genetics was an idea found by Adair, who used to be a doctor himself. He read a lot of medical papers, talked to the pharma team at BG. He passed the idea over to MacColl who asked different question, e.g. "who are management, and what is their incentivisation?".

We also like the ability for people to travel more and spend time in different regions to become immersed in the local culture. Although we didn't see evidence, it strikes us the research is of a depth and quality, with a range of inputs and a large element of 'roll your sleeves up and do the work', that we can say it is as good as many bigger houses. We like the fact that it is not silo research and people can find themselves working across different sectors / countries.

We noted throughout our conversation with Adair and MacColl a healthy rivalry with the LTGG team.

International Equity - Global Equity - Growth - Long Term Global Growth (+3%)

International Equity - World ex US/EAFE Equity - Growth - Long Term Global Growth ex NA (+3%)

We met with Scott Nisbet, a product specialist in the Institutional Clients Department as none of the investment managers were in Edinburgh on the day of our meeting. Mercer has prepared quarterly updates on the performance of the strategy in recent quarters (see GIMD), and we have no reason to change our positive view of the strategy.

The LTGG team has grown by 1, with the addition of Marina Ofrikhter who joined from the Global Discovery team. Wanyi Yao, an existing member of the team has moved to China as Baillie Gifford has have now opened an office in Shanghai. This had been flagged to us at our previous meeting, and so is no surprise. Tom Slater, one of the investment managers on the team, has also spent several months in California to help the firm "keep up" with events on the West Coast (the portfolio has a very strong bias to technology stocks), and we are told his time has been very productive – he has met (and produced research following) meetings with public companies, private companies and venture capital firms.

The portfolio still holds Facebook, which was bought at IPO. With hindsight, the team can see this was a mistake. Clients should continue to be aware this is a portfolio with a long-term time horizon, and the Facebook position illustrates how clients should be prepared to accept the risk of short-term underperformance if the team believes there is upside in the longer term.

Decision-making for the strategy does not rest with any one individual, nor are decisions made by a formal voting process by the team. Rather, decisions are made on the basis of enthusiasm. If a member of the team brings an idea, can debate the idea in the face of robust questioning, and is "still left standing" with enthusiasm for the stock, then the stock will be purchased for the portfolio. This is not necessarily a "James Anderson" show. Although we suspect he can be very influential in whether a colleague in the team maintains enthusiasm for a stock. Facebook is an example of how he does not always hold sway, as the stock was championed by Tom Slater and Mark Urquhart.

The team continue to make use of investigative journalists to undertake commissioned pieces of writing.

We note the large amount of assets in the strategy

International Equity - World ex US/EAFE Equity - Growth - ACWI ex US Alpha (+2-3%)

There have been no changes to the membership of the PCG since our last review, which comprises:

Name	Joined Industry / Firm	Responsibilities
Gerald Smith	1987 / 1987	Chairman & Global Equities
Angus Franklin	1994 / 1994	Deputy Chairman & International Research Specialist
Elaine Morrison	1989 / 1989	Developed Asian Equities
Andrew Strathdee	1995 / 1995	UK Equities
Jonathan Bates	1993 / 1993	International Research Specialist
Andrew Stobart	1991 / 1991	Emerging Market Equities

The team is further supported by another full time analyst, Andrei Kiselev, who joined the firm in 2009.

The strategy has been hard closed to new clients since spring 2012.

We met with Jonathan Bates, one of the full time members of the team. The ACWI PCG had once used a majority voting system to take decisions, but like the EAFE PCG and the LTGG team, now takes decisions based on group enthusiasm. (See EAFE Alpha section below for more discussion of this). The size of position of a stock is reflective of the amount of enthusiasm within the team (but this is not formulaic!). Bates, like many others we have spoken to in the firm, believes that too much consensus is not a good thing – and this is entirely consistent with they way in which teams are given autonomy, and how individuals within teams are given autonomy. He says the PCG is able to work in this way because the relationship between each member of the team has been established over many years. It works, in short, because of the culture.

Like other PCGs, AWI Alpha has increased the number of dedicated full time members. The reasons for this include making sure that tasks decided upon by the committee are actually followed up on, and that research on stocks held in the portfolio is kept up to date.

A stock we discussed was Eldorado, which is also discussed in Global Opportunities. Bates was quick to say this was a stock sponsored by Gerald smith, and not one which he necessarily agreed with.

International Equity - World ex US/EAFE Equity - Growth - EAFE Plus Alpha (+2-3%)

International Equity - World ex US/EAFE Equity - Growth - EAFE Pure Alpha (+2-3%)

The PCG now comprises:

Name	Joined Industry / Firm	Responsibilities
James Anderson	1983 / 1983	Chairman & Global Equities
Nick Thomas	1998 / 1998	Deputy Chairman & Institutional Clients Department
Tom Record	2002 / 2002	International Research Specialist
Kavé Sigaroudinia	1999 / 1999	International Research Specialist
Tom Coutts	1999 / 1999	European Equities
Sarah Whitley	1980 / 1980	Japanese Equities
Lawrence Burns	2009 / 2009	International Research Specialist
David Salter	1997 / 2001	Institutional Clients Department

Changes since our last review are:

- Ed Hocknell (Institutional Clients department) has retired (which was flagged in advance)
- Tom Record, who was previously an analyst in the Emerging Markets team, is now a full time analyst in the EAFE Alpha PCG
- Lawrence Burns has joined the PCG

The PCG now has three dedicated analysts. They do not assess the analysts based on their individual stock recommendations. Rather, bonus is assessed based 50% on overall team/product performance (based on 3 and 5 years) and 50% on behaviour. Previously, a 1 year figures was also used as part of the performance metric, but this was dropped about 18 months ago.

The EAFE Alpha strategies are formally closed, but it does sound like they can be flexible if the client is “interesting”. They mentioned some of the large and well known university foundation investors in the US as an example.

We discussed decision-making. As is the case for the ACWI Alpha team, there is no formal lead portfolio manager, and nor is there a formal voting mechanism by which stocks are selected. Rather, decisions are made on a group sense of overall enthusiasm for a stock idea. If a member of the PCG brings a stock idea to the table and, if after rigorous debate and challenge that team member is still convinced of the case for the stock, then the stock will go into the portfolio. We don’t think this approach could work at many investment firms, but the culture at Baillie Gifford does seem to make this possible, and it appears to work. Anderson does not dominate the PCG, and if anything he steps back during meetings and deliberately allows others to give their views. He is conscious of his own perceived status within the firm, and takes steps to offset this.

We discussed succession planning on the PCG. Anderson and Whitley are the two members with the longest experience, and who probably have a similar time-horizon to retirement (although we do not expect this soon in either case). Kavé Sigaroudinia is being signalled by some as the next leadership for the team. However, we understand that he is not currently being brought to client/consultant meetings as he has felt uncomfortable in recent client meetings. It remains to be seen how this will affect any potential leadership role.

The largest stock position in the portfolio at the time of our meeting was Baidu. Tom Record, who as already mentioned was formerly in the EM team, is confident the company has caught up with the competition in terms of mobile technology. It remains one of the largest positions across all Baillie Gifford portfolios.

Emerging Markets - Emerging Markets Equity - Emerging Markets All Cap

Emerging Markets - Emerging Markets Equity - Emerging Markets Leading Companies

Both strategies – All Cap and Leading Companies – remain closed to new investors.

The philosophy and process remain unchanged, and as discussed in previous research notes. The team has had some (relatively minor) changes:

Emerging Markets Team

	Number 1	Number 2
Andrew Stobart	Latin America	EMEA
Christine Zhang	Taiwan	China
Clare Hindley	Korea	ASEAN & India
Clément Chamboulive		Roving Asia
Joe Faraday	EMEA	Latin America
Mike Gush	China	Taiwan
Richard Sneller*	GEM	
Roddy Snell	ASEAN & India	Korea
Svetlana Viteva		Roving LatAm & EMEA
Will Sutcliffe*	GEM	

*Partner.

Since our last review, 3 people have left the team. Tom Record has moved to become a full time member of the EAFE Alpha PCG, Helen Xiong has moved to the Global Alpha team and Evonne Pasquill, has moved to the UK equity team. In each case, this is part of the natural rotation employed by Baillie Gifford, and does not cause us concern. The joiners to the team are Clare Hindley (an external recruit from Nevsky Capital), Svetlana Viteva and Clément Chamboulive (both of whom are recently joined graduates).

The emerging Markets team does not operate as a "PCG", but does have an advisory committee, the membership of which is as follows:

Although many features of the portfolio are consistent with global portfolios, the GEM portfolio is more "core-like". Sector allocations are much more in line with the benchmark than those of global portfolios, and the active share is somewhat lower (around 75%, whereas global portfolios are typically over 90%). Performance relative to benchmark has not been as strong as that of many of the firm's global strategies, but we note that growth style investing has not worked as well in emerging markets as it has in developed markets in recent years (particularly 2007 to 2010). Sutcliffe, whom we met, is of the view that 'safety' stocks (defensive stocks with visible earnings) could be in a bubble.

International Equity - Global Equity – Growth - Global Focus (+1.5%)

International Equity - World ex US/EAFE Equity – Growth - ACWI ex US Focus (up to +2%)

International Equity - World ex US/EAFE Equity – Growth - EAFE Plus Focus (up to +2%)

International Equity - World ex US/EAFE Equity – Growth - EAFE Pure Focus (up to 2%)

We had a brief update on the 'Focus' fund range with Laurence Linklater, a member of the Institutional clients Department. The Focus range covers a number of EAFE / ACWI ex-US strategies, the evolution which is described in a previous note on GIMD (19 Mar 2012). The three non-US versions of the approach have around $5bn in assets for 20 clients.

These strategies, which were once managed as regional bolt-togethers, are now managed by a PCG in a similar, holistic/global way to the Alpha range of strategies. The PCG has not changed since our last meeting, and comprises:

Name	Joined Industry / Firm	Responsibilities
Gerard Callahan	1991 / 1991	Chairman & UK Equities
Paul Faulkner	2000 / 2000	European Equities
Iain Campbell	2004 / 2004	Developed Asian Equities
Joe Faraday	2002 / 2002	Emerging Market Equities

The key differences between the Alpha and Focus products appear to be that:

a) Alpha is closed to new business, whereas Focus is open;
b) unlike the Alpha teams, Focus PCGs have no dedicated research analysts; and
c) the Focus PCG comprises individuals who are perhaps less high profile (in our view) than those in the Alpha PCG

From Baillie Gifford's perspective, we suspect the Focus strategies are a useful way of creating career opportunities for PCG members and to achieve new business growth whilst the Alpha strategies are closed. Indeed, Linklater said in the meeting that one of the greatest attractions to prospective clients is that "Alpha is closed, but you can have this instead". We do not propose undertaking further research at this time, and have retained the R rating for all non-US versions of the strategy.

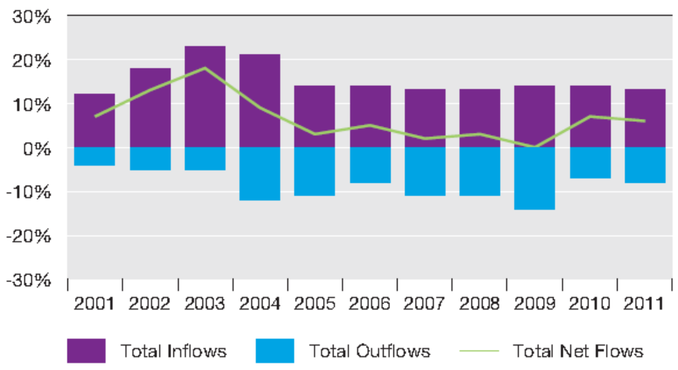
There is also a Global Focus strategy, which we did not discuss in this meeting. We understand it is still managed in a regional manger, and we propose moving the rating for this strategy to N.

Business Management

In the second of our two meetings, we met with Andrew Telfer, CEO, in London. Baillie Gifford has, in many ways, successfully retained the brand of a boutique partnership, yet it is not a small firm (at end June 2012, assets under management were $119bn). We discussed with Telfer the plans for the future development of the firm, its ownership structure, intergenerational issues and any plans for new strategies.

Inevitably, with such a large number of clients, products and assets under management, there are continually going to be flows both into and out of the business. Telfer believes that 6% growth in annual net fund sales is a sensible and sustainable target for the firm, and that given the firm will experience outflows then target inflows needs to be greater than 6%. The following table shows actual inflows and outflows in recent years

FUM Total Inflows and Outflows as % of AV FUM



Source: Baillie Gifford & Co.

The firm therefore needs to continue to grow, and this inevitably means that they will develop, and market, new products in due course. They do not have a formal schedule of new product launches, but Telfer mentioned the Global Discovery Team (small cap) and fixed income as potential sources of new product. Telfer is adamant, however, that they will only launch new products in areas that will benefit existing clients (i.e. where the new product will add to collective intellectual capital across the firm to the benefit of established products).

Not only will new products be required to sustain asset growth, but they will also be required to provide career opportunities for staff. Whilst we are broadly comfortable with the current number of strategies, growth in products – particularly global equity products – remains an issue to watch.

We discussed the partnership structure with Telfer. They have done a lot of thinking about this, and we were intrigued to learn that he has had a number of meetings with senior executives at competitor firms both in the UK and abroad. (It seems a little flattery can go a long way in getting these meetings!). Telfer is conscious that there are potential downsides to the current partnership structure. For example, it is “binary”. One is either a partner, or one is not, which can mean the incentives and interests of these two groups are different. He compares this to, say, a publically listed firm where everybody can have equity. This overcomes the different alignments problem between staff members, but does create other potential problems (e.g. external shareholders with different interests and different time horizons). He also compares it to a private company structure where some staff can be shareholders, but no one necessarily knows who they are (although that depends on the jurisdiction of the company).

Another challenge due to the partnership structure is the growth in the number of partners. Currently 37 in number (out of 752 total staff at Dec 2012), this growth has slowed down of late, and the selection process by which someone becomes a partner has become more complex. The number of partners also means they have begun to set up executive committees to avoid business management procrastination.

The problem remains, however, that by slowing down the growth in the number of partners, it risks exacerbating this binary partner/non-partner divide, and possibly act as a disincentive to members of staff who might now perceive partnership as being out of their grasp. Aware of this problem, Baillie Gifford has established the “D Scheme” for a small number of people at the firm. This is effectively a deferred compensation scheme in which deferred bonuses are doubled at outset and then increased during deferment in line with the growth in partnership profits.

We remain comfortable with the partnership structure and will be interested to see how they evolve.

Idea Generation

Global Discovery Team

We met with Douglas Brodie, head of the Global Discovery Team, which is a dedicated smaller company resource. As yet, the firm does not populate GIMD with any ‘Discovery’ strategies, but we have become increasingly aware in recent meetings of references to the team by other portfolio managers. It does seem to be respected internally as a source of intellectual capital in the small cap space. The team, including Brodie, comprises 7 (4 investment managers, 3 analysts) and has been in existence for about 3 years.

Currently, the team has 2 main purposes
a) to generate stock ideas for other teams
b) to manage a small number of specialist small cap funds, of around $1.1bn AUM in total:
  - $40m, Global Discovery
  - $$300m UK
  - $600m Pan Europe
  - $150m Japan

They believe that 80 to 90% of small cap companies “are rubbish”, and that it is quite quick and easy (“15 minutes”) to work out if a stock merits further research. For example, if they find a company has more than 4 or 5 competitors, they will move on. They look for less mature, entrepreneurial, unique companies with an innovative and differentiated strategy. Hence the approach is bottom up, and the typical hunting ground is stocks with a market cap of $100m-$2bn.

The team act as generalists, and for the specialist mandates that they manage will typically let stocks run rather than adjust position sizes. The regional funds have 50-100 names, with around 100 in global, and they tell us portfolios are likely to have overweight positions in IT and Healthcare.

We think the Global Discovery team is a valuable resource to Baillie Gifford and the main stream products, and is another factor behind our high ratings for those strategies. However, the concern is it will become an asset gathering machine once they have incubated strategies.

Portfolio Construction

The following tables summarise holdings data from the Style Research analysis for each strategy at 30 Sep 2012.

(1) Basic holdings data

Strategy:	Global Opps	Global Alpha	LTGG	ACWI Alpha	EAFE+ Alpha	EM All Cap
Benchmark:	MSCI World	MSCI World	MSCI World	MSCI EAFE	MSCI EAFE	MSCI EM
Num stocks:	88	98	31	85	82	96
Predicted Tr. Error	8.0	4.6	10.0	5.6	6.0	5.7
Coverage	1.8	8.7	5.0	10.8	10.8	26.2
Predicted Beta	1.01	1.09	1.12	1.06	1.07	1.01

The table shows that all the active share and predicted tracking error levels for Global Opps and LTGG are particularly high. For other strategies, tracking error is more in line with the relevant peer group. Active share (which is 100% minus coverage) is also relatively high for all strategies, apart from Emerging Markets which at around 74% is more in line with the peer group.

(2) Average style tilts

Strategy:	Global Opps	Global Alpha	LTGG	ACWI Alpha	EAFE+ Alpha	EM All Cap
Value	-4.8	-2.8	-3.3	-4.6	-3.3	-2.2
Growth	3.2	0.9	3.7	2.4	3.0	1.4
Quality	0.5	0.8	1.7	2.0	2.0	-0.2

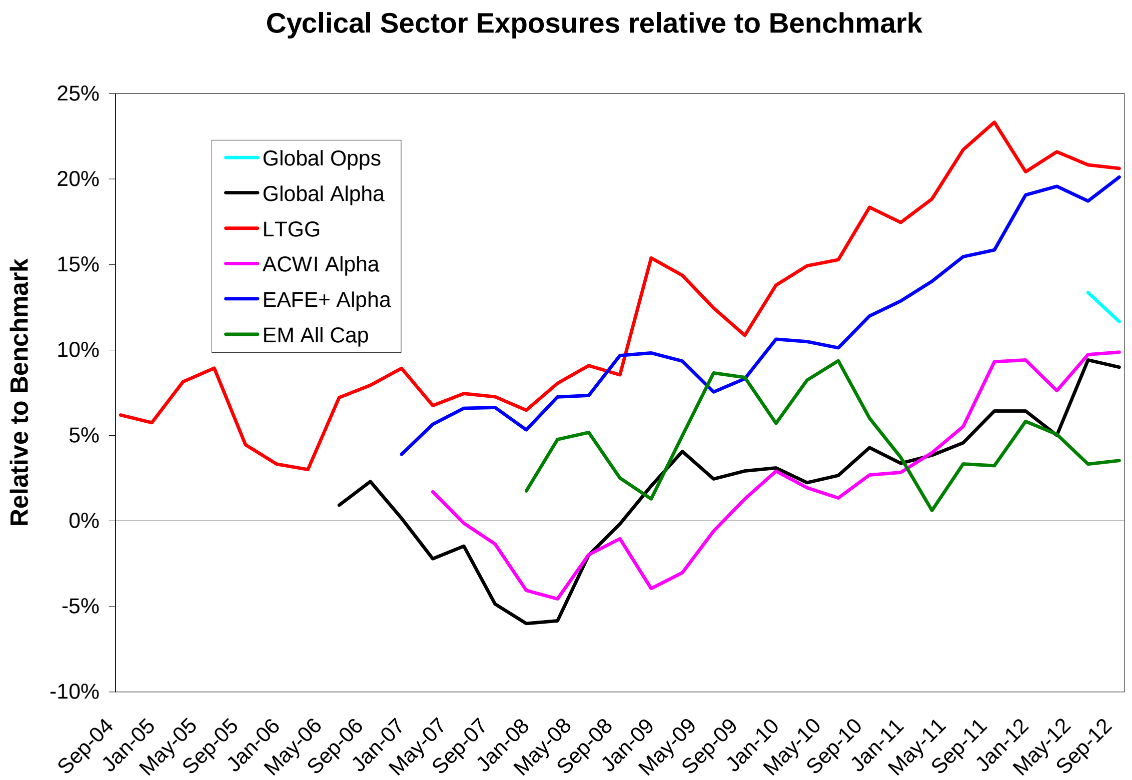
The average value style tilt is negative for all strategies in the table. Similarly, the average growth and quality tilts are positive (with the sole exception of negative quality for Emerging Markets). Amongst the global/international strategies, these overall average style tilts are less emphatic in Global Alpha.

(3) Sector exposures relative to benchmark

Strategy:	Global Opps	Global Alpha	LTGG	ACWI Alpha	EAFE+ Alpha	EM All Cap
Cons Staples	-6.0	-0.2	-3.7	2.8	-2.3	0.4
Energy	-0.2	-4.6	-10.8	2.6	-4.9	3.3
Health Care	2.2	0.6	1.5	-5.9	-3.5	-0.8
Tel Services	-4.1	-1.1	-4.1	-5.4	-5.4	-5.0
Utilities	-3.6	-3.6	-3.6	-4.0	-4.0	-1.4
Defensives	**-11.7**	**-9.0**	**-20.6**	**-9.9**	**-20.1**	**-3.5**
Cons Disc	4.6	6.8	14.9	0.5	9.8	-0.2
Financials	-0.7	0.0	-17.5	-2.5	-6.0	1.8
Industrials	7.9	4.0	1.1	2.9	2.7	0.0
Info Tech	-1.8	2.1	25.7	9.7	14.2	9.7
Materials	1.7	-3.9	-3.5	-0.7	-0.6	-7.8
Cyclicals	**11.7**	**9.0**	**20.6**	**9.9**	**20.1**	**3.5**

All 6 strategies have an exposure to cyclicals greater than that of the relevant benchmark. This is particularly noticeable for LTGG and EAFE+ alpha, both of which are managed by committees headed by James Anderson. In both cases, the key overweight sector is information technology. Sector weights relative to benchmark are less significant for the Emerging Markets strategy (which, as already noted, also has a lower active share than the other strategies).

The history of the relative weights of cyclical sectors is shown in the chart. This demonstrates that the relative weight to cyclical sectors has, generally, been persistent.



(4) Emerging market exposure relative to benchmark

Strategy:	Global Opps	Global Alpha	LTGG	ACWI Alpha	EAFE+ Alpha	EM All Cap
Em Mkts	20.2	17.8	22.3	25.4	19.0	-16.9

For the 5 international/global strategies, the benchmark used in the analysis is developed-markets only, and so the emerging market relative exposure is the same as the absolute exposure. However, in each case this is also greater than the relevant ACWI weighting to emerging markets. For the EM All Cap strategy, the benchmark is 100% emerging markets, so it does not surprise us that the relative exposure is negative. The salient observation from this table, however, is the consistent overweight position in emerging market equities for the global/international strategies.

(5) Number of stocks in common

The table shows how many stocks each pair of portfolios has in common. For example, LTGG and Global Alpha have 11 stocks in common.

	Global Opps	Global Alpha	LTGG	ACWI Alpha	EAFE+ Alpha	EM All Cap
Global Opps	85	16	4	14	8	8
Global Alpha		95	11	25	15	9
LTGG			31	5	11	3
ACWI Alpha				84	26	17
EAFE+ Alpha					77	12
EM All Cap						90

The highest number of "common stocks" is between EAFE+ Alpha and ACWI Alpha at 26. However, each of these portfolios has an even higher number of stocks not held by the other portfolios. Our deduction from the above table is that, despite the consistent style and sector exposures, the different strategies do have their differences at the stock level. We look at this further in the following tables.

(6) Weight in common stocks

Each cell shows the weight (%) in the 'row portfolio' held in stocks which are also held by the 'column portfolio'. For example, the 11 stocks (see above) held in common by LTGG and global Alpha represent 47% of the LTGG portfolio and 13% of the Global Alpha portfolio.

	Global Opps	Global Alpha	LTGG	ACWI Alpha	EAFE+ Alpha	EM All Cap
Global Opps	100	21	4	18	11	8
Global Alpha	16	100	13	31	19	9
LTGG	13	47	100	22	37	15
ACWI Alpha	18	38	8	100	37	23
EAFE+ Alpha	7	28	25	45	100	16
EM All Cap	10	19	4	28	19	100

The table, effectively, gives a portfolio weight to the common stocks in the previous table. Again, we see that the portfolios are not slaves to each other.

(7) Unique stocks

Strategy:	Global Opps	Global Alpha	LTGG	ACWI Alpha	EAFE+ Alpha	EM All Cap
Num stocks:	88	98	31	85	82	96
Num unique	53	45	10	30	35	62
% portfolio	58	44	25	30	33	56

The table shows the number of unique stocks in each portfolio. Note that this means unique to the 6 portfolios in the analysis – it does not mean the stock is unique to all Baillie Gifford portfolios. As well as the number of unique stocks, the table shows the weight of the portfolio in these unique stocks. Global Opps has the highest proportion of unique stocks, 58%. This is closely followed by EM All Cap, although we would expect this to be the case as this strategy has a different opportunity set of stocks to the global/international strategies.

(8) Style tilts (detail)

	Global Opps	Global Alpha	LTGG	ACWI Alpha	EAFE+ Alpha	EM All Cap
Book to Price	-2.2	-1.9	-3.2	-5.3	-3.5	-2.8
Divi Yield	-4.0	-3.0	-3.2	-4.2	-4.1	-2.8
C'Flow Yield	-5.7	-3.5	-3.5	-4.6	-3.0	-3.1
Sales to Price	-3.7	-1.9	-2.6	-4.0	-2.5	-0.3
IBES Engs Yld	-8.2	-3.5	-4.1	-4.7	-3.1	-1.9
Engs Growth	2.7	-1.8	3.3	0.0	1.8	0.0
Sales Growth	5.3	1.4	5.5	5.2	4.6	2.2
IBES 12Mth Gr	2.6	1.2	2.8	1.9	2.8	2.6
IBES Eng LTG	3.9	3.1	4.9	2.5	1.9	0.4
Sust Growth	1.8	0.4	2.0	2.5	3.8	1.5
Rtn on Equity	-1.0	0.0	1.8	2.5	3.2	-0.4
Low Gearing	3.5	1.9	2.2	2.6	2.0	0.6
Engs Gr Stabi	-1.0	0.5	1.2	0.8	0.8	-0.7
Market Cap	-4.7	-3.0	0.2	-2.7	-2.0	-0.6
Market Beta	-2.1	0.8	-0.6	-0.7	-0.2	-0.3
Momentum ST	-2.1	1.0	1.5	2.4	0.5	-0.5
Momentum MT	2.6	1.3	1.4	3.4	1.6	2.6
IBES 1Yr Rev	0.4	-1.0	1.3	0.1	1.4	1.1

The table gives more granularity to the average style tilts show in table (2) earlier. As before, we see a general consistency of style away from value and toward growth and quality. The table also shows that LTGG does not have the bias to small/mid cap stocks that is evident in the other strategies.

(9) Largest stock positions

We made an analysis of the largest (absolute, not relative) positions for each portfolio

- Only 1 stock appears in the top 10 of three portfolios
- 15 stocks appear in two portfolios
- 27 stocks only appear once

Despite the commonality of style, the analysis confirms the scope for individual teams and managers to have differences at the stock level.

Implementation

We spent time at the desk of Robert Blaikie, head trader at Baillie Gifford. He demonstrated to us the process by which he accepts orders from the portfolio managers, and then executes those orders in the market. We found nothing untoward. We noted that he does not aggregate orders from different teams, but rather executes order in full in the order in which he receives them from the different teams (both purchases and sales).

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NEWS ITEM

Manager:	Baillie Gifford & Company
Title:	New Partners announced
Date:	10th January 2013
Author:	Michael Kinney
Peer reviewer:	Sarika Goel

Baillie Gifford has announced that it will appoint three new Partners on 1st May 2013. The text of the announcement follows:

> *Baillie Gifford, the independent investment partnership, announces today that it will appoint three new Partners on 1st May 2013.*
>
> *The new Partners are: Spencer Adair, investment manager in the Global Alpha team; Kathrin Hamilton, director in the Clients Department responsible for North American clients; and Graham Laybourn, director of Legal and Regulatory Risk. Following the retirement of Angus McLeod (director in the Clients Department responsible for clients in Asia and the Middle East) after 28 years at the firm, the total number of Partners will be 39 from 1st May.*
>
> *Andrew Telfer, Joint Senior Partner, said:*
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> *"Our focus on generating superior long-term investment results for our clients and the delivery of excellent service continues to be the bedrock of our own growth in terms of clients, staff, and Partners. At a time of widespread pessimism about the outlook for global growth, we are finding many attractive investment opportunities around the world. The appointments of Spencer, Kathrin and Graham to the partnership will help us to continue to capitalise on these opportunities for the long term benefit of our clients."*
>
> *Baillie Gifford & Co employs 752 people and has assets under management of £85 billion as at 31 December 2012. An asset management firm founded in 1908, it is headquartered in Edinburgh where most of its staff live and work.*

Mercer View:

A Research Note reviewing many of Baillie Gifford's global and international equity strategies was recently posted. In that Note, we commented that we remain comfortable with the firm's partnership structure and business strategy.

In the same note, we also proposed retaining the A rating for the Global Alpha strategy. We are further encouraged to see that Spencer Adair is to become a partner of the firm, the other two members of the team, Charles Plowden and Malcolm MacColl, already being Partners. The other two announced appointments do not have a direct bearing on any of our ratings.

We do not propose any changes to ratings as a result of this announcement.

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