IMPORTANT INFORMATION AND RISK FACTORS

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Monks invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up. The trust invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.

Monks can borrow money to make further investments (sometimes known as “gearing” or “leverage”). The risk is that when this money is repaid by the trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the trust will make a loss. If the trust’s investments fall in value, any invested borrowings will increase the amount of this loss.

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All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

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In managing The Monks Investment Trust PLC, the management team of Charles Plowden, Malcolm MacColl and Spencer Adair, seek to create a differentiated, actively managed global equity portfolio containing a diversified range of growth stocks. Recognising that growth objectives comes in many shapes and sizes, we have identified four sub-categories of growth that we believe will generate sustainable growth and lead to the Trust’s outperformance over the long term.

Monks Annual Past Performance
To 31 March each year

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returns</td>
<td>10.6%</td>
<td>-3.2%</td>
<td>53.9%</td>
<td>20.3%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

Source: Morningstar. Share price, total return.

Past performance is not a guide to future returns.
When analysing businesses, we focus on their underlying growth attributes and do not allow ourselves to be distracted by labelling companies according to sector or domicile. For us, it is ridiculous to think that the location of a company’s headquarters matters in this globalised world, or that all financial or technology stocks share common business characteristics.

We classify our investments into four growth categories: Growth Stalwarts, Rapid Growth, Cyclical Growth, and Latent Growth. We have a clear view of the inefficiencies we are exploiting within each growth category and the reasons why we expect investments to outperform. The use of these four designations also encourages diversity across the portfolio and provides us with a means of monitoring the operational performance of our investments. It is critically important to have clear expectations for every stock we own, so that we can monitor the progress of businesses without succumbing to the inevitable behavioural biases induced by short-term winners and losers in share price terms.

The use of these categories ensures that we continue to focus on the operational growth of your holdings and that the portfolio remains diversified and balanced. The following descriptions of each category and holdings within them illustrate these points.
1. GROWTH STALWARTS

These companies have durable franchises. We expect them to deliver robust profitability in most macroeconomic environments. Within this area we are often drawn to businesses where the competitive advantages include dominant local scale, customer loyalty and strong brands. Examples from the portfolio at the time of writing include the payment processor, MasterCard, and the Swiss global lift and escalator company, Schindler. We expect our Stalwarts to produce earnings and cash flow per share growth of around 10% p.a. over the long run. These are the types of long-duration businesses where the market fails to appreciate the benefits of compounding, as they may appear unexciting relative to more rapid or cyclical growth companies.

Where might we be wrong? Our chief concerns for the Stalwarts would be doubts over future earnings growth potential and the danger that the end markets may be maturing. Examples of stocks we have sold following such concerns are the Swiss food manufacturer, Nestlé and the US consumer staples business, Colgate-Palmolive.

Case Study

Prudential, the UK listed life assurance company, is a classic example of durability and the impact of compounding, having produced earnings per share growth of 11.6% p.a. over the past 12 years. We believe the market is underestimating the company’s strengths; in particular the open-ended growth opportunity in Asia where penetration rates of investment and life insurance products are low and likely to grow significantly faster than the underlying economies. Having invested more heavily than its peers over an extended period in the Asian market, Prudential has secured a long-lasting competitive advantage in the region. We believe this investment, coupled with rising household incomes and an aging population across Asia, will translate into solid growth for Prudential over the long term.

Prudential – Accelerating in Asia
Rapid growth and vast opportunity in Asian insurance
2. RAPID GROWTH

Most frequently, these are earlier stage businesses where the market opportunity is vast. We expect investments in this area to deliver high levels of revenue growth (at double digit per annum rates), and profit growth of 15–25%+ p.a. on a five year view. Commonly, these are innovative companies. Some attacking existing industry profit pools and some creating new markets for themselves. Examples from the current portfolio include the disruptive electric vehicle manufacturer Tesla, the highly innovative bio-tech company Abiomed, and the Indian financial institution ICICI Bank.

Our Rapid Growth stocks are often examples of companies with high near-term valuation multiples that other investors struggle to digest. However, we believe these valuation multiples will eventually be justified by the amount of sustainable long-term growth these companies are able to generate. Many are also examples of the inefficiency of the market failing to embrace the potential for large scale change. We welcome the high degree of uncertainty that accompanies these investments. Inevitably there will be losers, perhaps because of new entrants to the market, but we expect the upside from the winners to overwhelm their impact.

Case Study

Held on 11 November each year, Singles Day was ostensibly created as an antidote to Valentine’s Day – a celebration of China’s lonely hearts. Two decades later, Alibaba has helped evolve Singles Day into the world’s biggest e-commerce event. In 2017, $25 billion of gross merchandise volume transacted through Alibaba’s platforms during the 24-hour shopping extravaganza.

Alibaba is China’s largest e-commerce company. Despite the company’s sheer size and already dominant position in China, revenue growth continues to accelerate. We believe the market consistently underappreciates the scale and duration of Alibaba’s growth opportunity.

Alibaba’s willingness and ability to commit significant levels of capital to expansion has further entrenched its position. Growth of its ecosystem into online payments, logistics, media, entertainment and cloud computing demonstrate the dynamism of the end markets in which Alibaba now operates. With its mighty international ambitions likely to amplify already impressive growth rates, there is little sign of the Alibaba juggernaut slowing down.

Alibaba – Singles Day E-commerce Revenues

Gross merchandise volume on Singles Day from 2011 to 2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Billion USD</th>
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</thead>
<tbody>
<tr>
<td>2011</td>
<td>0.82</td>
</tr>
<tr>
<td>2012</td>
<td>3.04</td>
</tr>
<tr>
<td>2013</td>
<td>5.80</td>
</tr>
<tr>
<td>2014</td>
<td>9.30</td>
</tr>
<tr>
<td>2015</td>
<td>14.30</td>
</tr>
<tr>
<td>2016</td>
<td>17.79</td>
</tr>
<tr>
<td>2017</td>
<td>25.30</td>
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Source: Company reports.
© Visual China Group/Getty Images.
3. CYCLICAL GROWTH

Companies in this category will have material secular growth prospects, but will also be subject to the influence of macroeconomic or capital cycles, and sometimes both. Here we look for businesses which are adaptable, with management teams we trust to allocate capital skilfully. Examples of holdings which have displayed these attributes over recent years include the Swedish based bank, Svenska Handelsbanken and the Taiwanese semiconductor manufacturer, TSMC. Typically, we would expect the earnings of these businesses to increase 10–15% per annum over the course of a complete cycle.

We think that Cyclical Growth stocks most commonly become mispriced because of the market’s lack of patience and the tendency of many investors to focus on and extrapolate current trading conditions. We believe that money can be made as perceptions of the cycle change and investors attach higher valuation multiples to growing earnings. When considering why we may misjudge investments in this area, we are particularly wary of the behavioural risk of confusing secular with merely temporary influences.

Case Study

CRH is an international building materials group with revenues currently split 47% Europe, 51% Americas and 2% Asia. The group quarries, manufacturers and delivers cement, aggregates, asphalt and various other building materials. The attraction of this industry is its low value to weight ratio, creating local businesses with negligible international competition and regional pricing. While this industry can appear to generate fairly dull GDP-like growth, timely acquisitions and synergies offer us attractive growth characteristics. We believe CRH’s future returns could be significant following prudent acquisitions, such as the purchase of assets from Lafarge/Holcim, which add significantly to both the top-line and operating profit. Moreover, they have bought leading market shares in several European and Canadian markets. We believe our patience and resolve to hold stocks like CRH as it makes counter-cyclical deals should deliver strong returns over the longer term, resulting in the next cyclical peak, outstripping the last. We expect depressed end markets and margin pressure to alleviate with a return to growth in the US and careful allocation of capital to Emerging Markets.
4. LATENT GROWTH

These are firms with often unspectacular recent operational records. The market expects them to either shrink or produce very low growth. However, our analysis has identified a company-specific catalyst or series of catalysts, which we believe will allow above average earnings and cash flow growth to re-emerge. We expect to make money in these stocks as the market’s expectations for earnings growth are upgraded and higher valuation multiples are attached to the profit stream. Again, these are investments where our time horizon and willingness to embrace change allows us to exploit inefficiencies. The greatest risk associated with investing in these unfashionable opportunities is misanalysis of the underlying business strength, in which case our portfolio framework provides us with the discipline to sell and move on.

Case Study

AP Moller Maersk is a Danish based conglomerate, best known for its global shipping container business, Maersk Line. Container shipping has been a challenging business for the last 10 years, plagued by slowing demand and chronic over supply of capacity. However, we believe there are early signs capacity is set to contract over the medium term, for two principal reasons: increasing levels of ships being scrapped and a wave of supply-side consolidation. The number of global shipping companies has halved from a peak of ~20 in recent years, with more consolidation to come – AP Moller Maersk’s recent acquisition of Hamburg Sud is testament to this. Increased capital discipline and a reduction in supply-side capacity will provide the catalyst required to improve both pricing and profitability. AP Moller Maersk is currently the most profitable business in the container shipping industry and has the strongest balance sheet, both of which will support further acquisitions and expansion into higher-margin industries such as freight-forwarding. We believe it is our patience in allowing these catalysts to play out that will generate attractive returns over the longer term.
CONCLUSION

There is evidence that businesses which produce high levels of long-term earnings growth are likely to produce excess shareholder returns. Although it may seem obvious that share prices should follow fundamentals, we believe that there are a number of recurring inefficiencies within the market which lead to the mispricing of growth stocks. We believe that Monks’ long time horizon and pragmatic use of growth categorisations allows us to successfully exploit these inefficiencies by holding a wide variety of growth stocks. Our research process focuses on identifying multi-year growth winners; we think that this increasingly sets us apart from other investors and potentially enables us to deliver strong long-term returns to clients. Indeed, we believe that our approach is becoming more effective as the market focuses increasingly on an ever-shorter timeframe for its own dysfunctional reasons.
If you require further assistance or information, please contact Baillie Gifford & Co Limited, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN

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