
WHY 'WHAT IF...?' IS THE MOST VITAL QUESTION FOR INVESTORS

Interview with Kirsty Gibson

MB Malcolm Borthwick

KG Kirsty Gibson

MB Hello, and welcome. Thanks for joining us. I'm Malcolm Borthwick, managing editor at Baillie Gifford.

Change is often uncomfortable. Cast your mind back to being told you couldn't see your friends or family because of Covid, or a time your travel plans were disrupted because a plane was cancelled.

For many of us, stock market volatility is the latest source of anxiety. And it's natural to feel concerned. Our brains are wired to prefer incremental change over sudden bursts of activity beyond our control. So, as investors, how are we thinking about the recent market turbulence?

To find out, I'm joined by Kirsty Gibson, an investment manager in the US Equities Team. But before we start, some important information. Please remember that, as with all investments, your capital is at risk and your income is not guaranteed.

Kirsty, thanks for joining us on the podcast.

KG Thanks, Malcolm. Thanks for having me back. It's been a long time since I was here last time.

MB There's lots of volatility on the stock market at the moment. Is this a good time or a bad time to be a growth investor?

KG It's a very exciting time to be a growth investor, but I think it's a very uncomfortable time to be a growth investor. That's because we've had a lot of questions over the past year probably about bubbles and overheating and growth-versus-value and what remains exciting.

Those questions are by no means unfounded, but what makes them most interesting to me is that they're representative of this idea of the human condition, that the



human brain is wired to handle incremental change. And we've experienced a lot of change over the past few years.

We'd all like to believe we're heading towards a period of stasis, where all of that change is bedded down and we can begin to relax into a new normality. But what's really interesting to me, and what makes being a growth investor really exciting right now, is what if we are just at the tip of the iceberg of what change is yet to come?

MB So how do you stay focused on the long term at times like this?

KG What we're trying to do is to find really great businesses. And in order to do that, we have to accept the uncertainty that comes with that. It's about recognising asymmetry. It's understanding that plans are not full of straight lines, that they tend to zig and zag, and it's recognising that straight away. It's therefore opening your mind to the possibility of what a company can become, what a business could achieve in the future rather than looking at what it is today and extrapolating from there.

Because I think that is how we as humans feel most comfortable, it's that we reason by analogy. We like to say, 'well, this becomes the *this* of this', Uber was the *this* of taxis, etc. I think we like to reason by analogy. And actually, we need to break out of that habit in order to imagine, if you're going to invest on a five- to ten-year view, what a company could be.

MB And imagination is all about thinking differently. Let's have a listen to this.

[Dee Hock:] *"We have all, individually, developed an internal model of reality which is based on the machine and on mathematics, and it's simply antithetical to human life and destructive of the biosphere."*¹

MB We have heard this person on the podcast before, because your colleague, Gary, talked about him in episode 21, when we talked about chaordic organisations, the balance between chaos and order. Tell me a little bit more about who this is and why what he says is significant.

KG So this is Dee Hock. And Dee Hock was actually the founder of Visa. Now, Visa came out of a necessity, I guess, with a group of banks in the US. And they decided that they needed a new way for people to be able to pay on credit, and they all clubbed together. And I guess you could say Dee Hock was the leader of that.

He wouldn't probably class himself as a founder because of this idea of chaordic organisations, this blending of chaos and order. He provided the guide rails. He helped them to lay down the guide rails and he led that business. And interestingly, when that was over, when he decided to take a step back from leading Visa, he actually returned to farming. He decided, 'well, my job is done', and that's where

¹ Source: *The Innovation Show with Aidan McCullen*, "Part 1: Visa Founder and CEO Dee Hock: One from Many: VISA and the Rise of Chaordic Organisation", <https://www.youtube.com/watch?v=J4h7cW8eOdu>, 07:45.



he spent the rest of his days, was doing that.

And I think this plays into this idea that humans have a preference for structure, and ultimately for control. And this runs counter to the creativity of human beings as a species. And you have to think outside of the box in order to invest on a long-term basis. I think that's why this quote rings a bell with me, is because we really want this kind of control. And the more we go through life, I guess the more we try to put controls on top of things. And actually, we need to break out of that and to think about things in a completely different way.

MB But thinking in a completely different way and imagining isn't easy, is it?

KG No. If we just look at your iPhone in front of you, when Bardeen invented the transistor, no one predicted the iPhone. That was 1948. Of course, no one was going to predict the iPhone. And that's not unexpected. We have to accept that we cannot predict the future, but that doesn't mean that we can't hypothesise about the future.

I think there's a couple of characteristics that we can place emphasis on to understand if we think businesses can achieve different things and solve new problems that may or may not emerge in future. And one of those is to do with adaptability. It's the ability of a management team to be able to alter the path that they're on to navigate different situations, whether they be internal challenges or whether those be external forces like the macro environment, for example.

MB And give an example of a company that you can think of that fits into that.

KG I think most companies that you have, where you have a real strong founder leading that business, are very much adapting. So, a great example would be - actually, the previous time I was on the podcast, we spoke about synthetic biology - so a company would be, for example, Ginkgo Bioworks.

We first invested in Ginkgo when it was a private company. Ultimately, this business is looking to make biology programmable, so to put the tools of biology into human hands. And it was very much focused on the flavour and fragrance industry. That was the opportunity that they had in front of it.

You fast forward six, seven years now, and they are in agriculture and pharmaceuticals. They're doing some work with regard to monitoring, biosecurity, monitoring for pathogens, for things like Covid. And that's because that's a management team that's adapted with the fact that that business has evolved, and the opportunity set has grown over time.

MB So it's probably impossible to envisage what these conceptual breakthroughs are. Maybe also in the early days of Amazon, who was to know that it would be the cloud that would make so much revenue for the company in the future. So, is it more really about, sticking with what you're saying, about the culture of the organisation and the founders of those companies?

KG Yes. For me anyways, the starting point is to try and understand what motivates those individuals. It's about looking back at their childhood, their upbringing. It's



about how and why they make the decisions that they do, and then being able to think about the future at different junctures - because we're all going to hit those different forks in the road – at those forks in the road how do you think they are going to react based on the foundational beliefs that they have from life experiences that they have gone through? And that helps you to build conviction.

And ultimately, what we're talking about as a long-term investor is building hypotheses. And those hypotheses are about saying, 'what do I think could happen?' But a hypothesis is great, but if you don't have any conviction in that hypothesis, it's just an idea. And the only reason that you can make those ideas actionable is by starting to build your conviction in that idea. And some of that conviction comes from the fact that you learn and understand what motivates the management team.

MB Another example of a sector that's going through transformational change, in terms of imagining the future, is the metaverse. And in many cases, chatting to some investors within Baillie Gifford, they question whether or not the metaverse exists at all.

KG Yes, I think it's quite a difficult one, and I think there's a difference because there's lots of different companies now talking about it in different ways. On the one end of the scale, you have this idea of the full-scale 'we're going to live in a completely different world', and then at the other end, you have a company like Snap, for example, that's more talking about this idea of a mirrorworld. So, it's about augmented reality. It's about accentuating our world and adding a layer on top, rather than us living in a completely different world.

And actually, a private gaming company that we have in the portfolio as well, called Niantic, which was behind Pokémon GO, the CEO of that business, John Hanke, has quite strong views on this as well. This idea that, actually, what you want is you want people to go outside. We don't want people more in their heads. That would be his argument. We want people to go outside more. So, I think the jury is out. It's not necessarily clear that it's going to play in one way or another.

I like the idea of this mirrorworld, that you would get to a point where I could approach a statue, for example, and I could learn about the history of that statue or I could perhaps play a game with my friends or I can have a photo, etc. But it augments the world around us. It doesn't mean that we want to block the current world and create a new one. It's more about taking what we have around us and saying, well, how do we make this better?

MB So was that his idea behind Pokémon, in the sense you go around collecting figures, that he wanted to get people outside and for it to be more immersive?

KG Yes, it's one of his big things.

MB Wow.

KG It's one of his big things. It has been. There's a letter on the Niantic website, where he's made a declaration of what he believes, and why. And so, I think that Niantic



and Snap are more closely aligned in that respect. A lot of what Snap is trying to do is to say, we can make the Snap camera and the lenses that Snap has available to everyone. We can power your mobile app. So, Disney's mobile app, when you go into their parks, all that augmented reality is powered by Snap's cameras.

MB Another company that I'm really interested in that you invest in, Kirsty, is Zipline and how that's transforming the logistics industry.

KG Yes. So Zipline is an autonomous drone delivery company and it's based in San Francisco. And I think when you say drones, everybody thinks of the military, and that's not what Zipline is looking to do. It's looking to transform what is possible in logistics. And it was founded with the mission of creating the first logistics system that serves all humans equally. And it's making really great progress against this goal while disrupting existing last-mile logistics solutions.

Their company has had a really direct impact in helping many nations in Africa with the delivery of, well, actually, blood products, but since then, Covid vaccines as well. They started out in Rwanda, where the government actually hired Zipline to deliver blood and medical supplies to hard-to-reach rural locations.

They set up what they call nests, which are little launch sites where they launch these drones. And these drones will fly to more rural hospitals or health centres, and they can deliver things like blood and medical supplies.

Now what's really interesting is this allows governments to better manage their planning, because you can actually therefore send things that are closer to expiry date. You can actually send them at that point because you know they're going to arrive in time. You know that they're on a flight that's going to take less than 24 hours, etc.

And actually, Zipline's automated delivery system is now the largest in the world. And it's flown significantly more miles and made more commercial deliveries than its closest competitors. At the time of their last public disclosure, they'd had over 300,000 commercial flights, covering more than 20 million miles, and all done autonomously and all done with zero incidences of injury to anybody. Because I think what people fear is a drone falling out the sky and dropping on their head.

So, they now actually operate on three continents and they're currently running a commercial trial in the US for Walmart, delivering people with their groceries delivered to their garden.

When I was last in the US earlier this year, the CEO showed me a video. He went on a walkabout, I guess, with the CEO of Walmart and him to this place called Pea Ridge in Arkansas, which is where they've been doing this experiment. And he's basically standing in people's back gardens and watching fully-grown adults almost jumping up and down when a drone came in and dropped a bag of Walmart shopping on their front lawn.

So, there's an opportunity there for them to expand into the grocery delivery in the US, and also potentially delivering pharmaceutical products as well in the US.



They've got a few relationships there. But it's just really interesting that this has been a business that's been highly, highly successful in really solving a logistics problem in emerging markets. And they're taking that learning and bringing it back into the US.

MB Yes, visually, it's extraordinary looking at their website in terms of how they have launchpads just to fire off the drones, isn't it? It's extraordinary.

KG Yes. And they've delivered over a million Covid vaccines in Rwanda and Ghana. And I think there was a piece of work done by the Bill and Melinda Gates Foundation that showed Zipline's has had a direct influence on the ability of the individuals in rural parts of Africa to access vaccinations.

MB And that's a great positive note to end the podcast, Kirsty. Thanks very much for joining us.

KG Thank you very much.

MB And thanks to you, the listeners, for investing your time in this podcast. And if you enjoyed the conversation, you can check out more of our thoughts on the ideas that are shaping the future and your investments at baillieghifford.com/insights.

And if you're listening at home, you're listening in the car, wherever you're listening, stay well, and we look forward to bringing you more insights in our next podcast.

Risk Factors

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication was produced and approved in October 2022 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

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

The images used in this communication are for illustrative purposes only.



Important Information

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

Financial Intermediaries

This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

Europe

Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018. Baillie Gifford Investment Management (Europe) Limited is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. Baillie Gifford Investment Management (Europe) Limited is also authorised in accordance with Regulation 7 of the AIFM Regulations, to provide management of portfolios of investments, including Individual Portfolio Management ('IPM') and Non-Core Services. Baillie Gifford Investment Management (Europe) Limited has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. Through passporting it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions ("FinIA"). The representative office is authorised by the Swiss Financial Market Supervisory Authority (FINMA). The representative office does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.



Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 and a Type 2 license from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Telephone +852 3756 5700.

South Korea

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

Japan

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

Australia

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a "wholesale client" within the meaning of section 761G of the Corporations Act 2001 (Cth) ("Corporations Act"). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this material be made available to a "retail client" within the meaning of section 761G of the Corporations Act.

This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

South Africa

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

North America

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its



portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

Israel

Baillie Gifford Overseas is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This material is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

