

Baillie Gifford Global Income Growth Fund

Global Equity Income

Introduction

The fund aims to deliver two outcomes to clients over the long term: a dependable income stream together with real growth in income and capital. Baillie Gifford believe the best way of meeting these objectives is to invest in companies which can deliver both of these outcomes – pay dependable dividends across the cycle and also have the prospect of real growth in profits, which in turn will lead to growth in dividends and capital over the long term. The typical company looked for is cash generative with cash flow resilience through cycles and its growth is capital light. This is a core global income producing fund with a strong performance record.



[Click here to read the Baillie Gifford approach to ESG investing.](#)

Why RSMR Rate this Fund

- Managed by one of the world's top growth investors
- Applying growth philosophy to dividend investing should ensure income stream outstrips inflation
- Diversified approach with no stock contributing more than 5% to total income
- Utilises wide knowledge base of firm
- High emphasis on businesses with strong ESG and sustainability considerations
- Managed by well-resourced income team who have built strong record

Fund Process

The fund utilises a global universe and so the income stream is diversified which helps ensure its resilience. The fund looks for around 60-80 names within a global universe of dividend payers of around 2,300 stocks. Baillie Gifford do not believe it is possible to quantitatively screen for dependable dividends, but rather they rely on bottom up stock picking.

Baillie Gifford has a long history of successful growth stock investing and so has a large proprietary research database. Many of these companies have a strong commitment to dividends and this database provides a healthy flow of ideas to the Global Income Growth team. The investment philosophy utilised by the team is long term in nature and before purchasing, the research process considers whether a stock is attractive enough to justify potentially holding in five to 10 years' time. The team are happy to take a long time to get to know a business before making an investment decision and portfolio turnover is only around 15-20% p.a. This fund looks to utilise both the research produced by this team, together with the wider knowledge base at the firm. Sources of ideas vary widely and include company meetings, conferences, trade shows, industry publications and quantitative filters. All members of the team are analysts and spend the bulk of their time on stock research.

The qualitative examination of companies is critical for the process with all major holdings met at least once a year. A 9-question research framework enables them to look at what a company does and what its competitive advantage is, and then go on to analyse whether this is sustainable over the long-term. Rising free cash flow should mean dividends will prove dependable and stocks are then assessed as to whether owning them will improve the overall portfolio, even if they are undervalued on their own merits. With this portfolio, understanding the drivers of cash flow and the dividend dependability is key. As long term owners of a business governance is important and the team work with the dedicated Governance & Sustainability team on management issues. Weekly stock discussion meetings take the output from the 9-questions research framework into a forum where ideas are debated. Portfolio construction does not impose minimum yield constraints on stock selection and individual names with a below market yield can be held if this is justified by the expected pace of cash flow and expectations of a dividend in the future. Overall the portfolio will typically yield 20-40% above the market. Initial position sizes are generally 1-3% depending on conviction and whether the name diversifies the portfolio. There is a separate portfolio construction meeting, different from the weekly stock decision meeting, to allow time for reflection. There is a clear summary of the investment case for every stock owned and there is then ongoing monitoring for each name within the fund. If a stock no longer meets criteria for ownership it will be sold – this could include an adverse change in fundamentals or loss of confidence in management. The maximum contribution to income for any individual stock is 5% to ensure income within the fund is diversified. The team also look to see whether dividend payments are correlated to any macro factors such as the oil price. By focusing on companies with resilient cash flows the businesses held in the portfolio are expected to give resilience in more difficult times.

Evaluation

The fund will perform well when growth stocks and dividend growers perform strongly. The fund may perform poorly if the market is led by highly leveraged cyclicals with muted long-term growth prospects.

The investment team take a long-term perspective on stocks and ignore short term market noise. As a result short-term performance is not a consideration.

Application

This fund is suitable as a core holding in the sector but its relative performance will be best when growth stocks rather than value cyclical perform strongly.

Our Opinion

This fund aims to deliver both a dependable income stream which will deliver growth in real terms, and capital growth. By focusing on businesses with dependable and resilient cash flow, the actual dividends paid to investors should have greater resilience than the overall income stream available in the market. The team are not interested in investing in stocks with an initial high yield which could be cut going forward, but are looking to deliver an income stream which over time will outstrip inflation. Companies delivering a growing income stream over time will also deliver capital growth to investors, whereas a strategy focusing on purely initial high yield is likely to see investors' purchasing power fall over the long run if a dividend does not grow – high yielding value traps are avoided in the portfolio. There has to be a belief that stocks held in the portfolio are growth businesses, even if this is over a cycle. There is diversification between different types of businesses with the portfolio investing in compounding machines, exceptional revenue opportunities and profitability transformation businesses. While the portfolio is bottom up, the team are macro aware and want a robust growth case for a business which takes into account industry trends including the potential for disruption.

This fund has a more growth stock orientated bias than many within the IA sector but this has not been the only factor behind its outperformance. Baillie Gifford have delivered results with strong stock selection amongst growth orientated businesses across virtually all of its equity portfolios. This fund follows a different philosophy from many in the sector, with the belief that over time a growing income stream if sustained will deliver a higher overall income to investors on an annualised basis than investing in a high yielding strategy which may be hit with low or no growth. Focusing on growth and free cash flow should ensure the dividend stream is relatively dependable. This fund is managed by a team utilising the wider knowledge pool available at Baillie Gifford and offers investors an emphasis on quality dividend growth investing and which has delivered both growth in income and capital ahead of inflation since launch. The overall strength of Baillie Gifford as an investment house and the experience of the two lead managers for the fund entitle it to be used as a core holding within its sector.



Important Notice

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