

# Schroder UK Growth Fund plc

## Change of investment manager

**13 April 2018**

The Board of Schroder UK Growth Fund plc (the "Company") announces that it has resolved to terminate the appointment of Schroder Unit Trusts Limited as the Company's AIFM and has entered into heads of terms to appoint Baillie Gifford & Co Limited ("Baillie Gifford AIFM") as the Company's new AIFM, company secretary and administrator. Baillie Gifford AIFM intends to delegate certain portfolio and risk management to Baillie Gifford & Co (together with Baillie Gifford AIFM, "Baillie Gifford"). The appointment of Baillie Gifford on the terms set out in the heads of terms is conditional on the execution of a new investment management agreement and obtaining the necessary regulatory clearances for Baillie Gifford AIFM to be appointed as the Company's AIFM.

The Board believes in the benefit of active management delivered with a long-term horizon and accordingly believes investment management performance should be measured over the long term. It is disappointing to note that the Company's long-term investment performance is considerably below the Board's expectation and has lagged the benchmark since inception. Further, despite its ongoing share buyback policy, the Company has struggled with a persistent and wide discount to NAV. Accordingly, the Board has concluded that, in order to provide the best investment outcome for existing investors and to position the Company to attract new investors, it should make the change to implement a new, 'best ideas' investment approach managed by Baillie Gifford, an established manager of investment trusts with a long-term track record in achieving capital growth from UK equities.

Although the Company's investment objective and policy will not change, Baillie Gifford will realign the portfolio to invest in a bespoke, 'best ideas' portfolio, with approximately 40 stocks, which will offer shareholders a UK-focussed high-growth investment proposition.

The portfolio will be co-managed by Iain McCombie and Milena Mileva and will be populated with their highest conviction ideas, providing investors with exposure to some of the most exciting UK growth companies. The managers will seek to select high quality companies with strong competitive positions which it believes have the prospect of delivering strong earnings growth over a number of years. Baillie Gifford believes that the investment portfolio, constructed on a stock-picking, growth orientated, long-term basis will be highly differentiated relative to the benchmark and to the peer group of all-cap UK equity investment trusts.

The Board believes that the change in manager and investment approach will provide the following benefits to investors:

- Access to Baillie Gifford's UK equity team. The team is experienced and well resourced, with an average investment experience of 13 years, almost all of which has been accumulated at Baillie Gifford. The team manages UK specialist assets of £5.8bn as at 31 December 2017.
- Strong track record. Although the proposed mandate for the Company is a customised investment proposition that is different from the UK open-ended funds managed by Baillie Gifford, both co-managers have strong track records of outperformance in UK equities and there will be a degree of crossover with their existing portfolios.
- A bespoke and unique investment portfolio. The 'best ideas' portfolio will consist of companies that the managers believe will outperform materially over the long term. Baillie Gifford expects active share for the portfolio to be over 80%.
- Long-term view. Baillie Gifford adopts a long-term view with an investment horizon of five years plus and turnover within UK portfolios is typically 10%-20% per annum.
- Baillie Gifford is one of the largest investment trust managers in the UK and currently manages eight investment trusts.

It is the Board's view, after consultation with its advisers, that these changes provide the scope for improved future long-term performance and should enhance the appeal of the Company. With the

support of Baillie Gifford, the aim will be to attract new investors and, over time, seek to achieve a narrowing of the Company's discount.

Past performance cannot be relied on as a guide to future performance.

### **Expected Timing**

As set out above, Baillie Gifford's appointment will only become effective upon the satisfaction of certain conditions. This will be completed no later than the expiry of the notice of termination served on Schroder Unit Trusts Limited.

Schroder Unit Trusts Limited has been served notice of the Board's intention to terminate the existing investment management agreement.

### **Change of name, ticker and registered office**

Upon Baillie Gifford's appointment becoming effective, applications shall be made to change the Company's name and ticker to "Baillie Gifford UK Growth Fund plc" and "BGUK", respectively, and its registered office address so as to take effect as soon as reasonably practicable.

### **Baillie Gifford**

Baillie Gifford had assets under management and advice of £179 billion as at 31 December 2017. Baillie Gifford was founded in 1908 and is one of the leading privately owned investment management firms in the UK, with 43 partners and a staff of around 1,000.

Baillie Gifford will appoint Iain McCombie and Milena Mileva as co-managers of the Company's portfolio.

### **Iain McCombie**

Iain graduated MA in Accountancy from Aberdeen University and qualified as a Chartered Accountant. He joined Baillie Gifford in 1994 and joined the UK Equity Team in 1999. Iain became a partner of the firm in 2005 and Chief of Investment Staff in 2013. He is also co-manager of the Baillie Gifford Managed Fund.

### **Milena Mileva**

Milena completed her MPhil in Politics at Oxford University in 2009, having graduated with a BA in Social & Political Science from the University of Cambridge in 2007. She joined Baillie Gifford in 2009 and has been an Investment Manager in the UK Equity Team since 2012.

### **Fees**

As set out in the heads of terms signed by the Company and Baillie Gifford, Baillie Gifford will be paid an annual management fee of 0.5 per cent on the value of the Company's net asset value. In order to offset any payment to the existing AIFM in respect of the termination of its appointment and to contribute towards the other costs of implementing the proposals set out in the heads of terms (including portfolio transition costs and stamp duty), Baillie Gifford has agreed to waive its management fee to the extent of £732,000 (which is approximately equal to 6 months' management fee payable to Baillie Gifford based on the current net asset value of the Company). The Company shall bear all the remaining costs associated with the proposals. The investment management agreement shall be terminable by either party serving 6 months' notice.

### **Carolán Dobson, Chairman, commented:**

"The Board is delighted to announce its intention to appoint Baillie Gifford as the Company's AIFM. The Board is committed to providing investors with exposure to a high-quality portfolio of UK stocks that have the potential to deliver significant outperformance over the long term and we believe that Baillie Gifford is the right manager to take the Company forwards. With its long-term, bottom-up approach, Baillie Gifford has a proven track record in managing UK equities. We believe that a bespoke UK 'best ideas' portfolio co-managed by Iain McCombie and Milena Mileva will provide a unique investment

opportunity that should, over time, deliver strong returns to existing investors and serve to attract new investors to the Company.”

The person responsible for arranging for the release of this announcement on behalf of the Company is Louise Richard, Schroder Investment Management Limited, Company Secretary.

**Contacts**

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**This announcement contains Inside Information as defined under the Market Abuse Regulation (EU) No. 596/2014.**

