

Baillie Gifford British 350 vs Investec UK Blue Chip

Two funds which invest in the UK's largest corporations go under the beady eye of our panel this week. But just because each portfolio is crammed full with blue chip names does not mean either will receive an automatic thumbs up. Andrew Michael reports.



Baillie Gifford British 350

“ What *New Model Adviser*® says:

The fund is run by Baillie Gifford and aims to achieve a return in excess of the total return on the FTSE Actuaries 350 index. It pursues this goal by investing in large and medium-sized UK companies and, in particular, by putting at least 90% of its assets in securities of companies listed in the index.


“ What Baillie Gifford says:

We are bottom-up, growth-orientated investors and back our judgement, running a concentrated portfolio (usually between 50 and 60 stocks), with low turnover,' says the fund's manager Charles Plowden. 'The top 10 holdings account for over half of the portfolio and the fund currently has 54 holdings in total. By comparison the benchmark index, the FTSE 350, has 350 stocks and the top 10 account for around 40% by value. We look for companies that enjoy sustainable competitive advantages in their industries and which we believe will

grow earnings at above the market average. This is based on our belief that share prices ultimately follow earnings.

'We then strive to maximise the benefit from these opportunities by backing our judgement and taking significant positions relative to the benchmark. We currently favour banks, which we believe represent excellent value along with a number of support services companies including building distributors and outsourcers. We are also overweight in resource stocks, favouring firms with strong reserves and rising production.'

“ What the advisers say:

 **Mark Hinton**
Research analyst
Bestinvest

Investing solely within the FTSE 350, this fund follows the house style of adopting a concentrated portfolio and searching for growth at the right price. Fund manager Charles Plowden has built up a strong collegiate team-based process for this core UK fund. The focus is on interpreting company fundamentals as opposed to economic developments, which Baillie Gifford believes are hard to predict. Plowden targets companies that he considers will offer above average growth characteristics, superior quality and no valuation penalty. Performance has been good longer term, but only average over the shorter term and the last three years. This is a core UK equity fund benefiting from an established investment process and team continuity. I suggest that existing investors **hold** the fund, although they should note that the portfolio is concentrated around 50 holdings.



Nicola Downs
Director
Trentham Invest

The fund markets the fact that it has both a two-star performer and holds an AA Standard & Poor's rating. Baillie Gifford has two other funds with Forsyth ratings (American - A and High yield bond - AA) and while this fund appears to have been interviewed by Forsyth, it does not seem to feature a rating. The fund held a top quartile ranking position for performance it achieved in 2001, but by 2005 this had dropped to mid fourth quartile. The fund prides itself on tight controls and holds 58 stocks, which are seen every 18 months. This equates to about one visit per week. The fund does not feature on either of the Skandia or Fidelity FundsNetwork platforms. When I asked which, if any, platform the fund is on, the first reply was that the compliance department would not allow the support desk to tell me! But in fairness I received a call back to tell me it was on Standard Life's Sigma platform. There are plenty of funds to choose from in the UK All Companies sector but this would not make it into one of my portfolios. **Fold**.



Tom Hyslop
Financial planner
Acumen Financial Planning

The performance of this fund has been fair over the medium term. Over the past five years, cumulative performance has matched the sector average. However, a weaker short-term record has undermined this position. Volatility is similar for both of the funds under review this week, reflected by the fact that six out of the top 10 holdings in each fund are the same. The overall sector this fund sits in continues to perform well due to the rising markets. If clients are overweight in this sector, **hold** the fund but take the profit and rebalance into underweight sector *Continued, page 26*

Baillie Gifford British 350 fund:
portfolio breakdown at 12 September 2006

Source: Baillie Gifford

