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Edinburgh Worldwide Investment Trust plc

Mark Urquhart is interviewed by Anzelm Cydzik

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AC: I'm here today with Mark Urquhart, Manager of Edinburgh Worldwide Investment Trust. Mark, welcome

MU: Thanks

AC: Mark, could you please just outline in brief the objectives of Edinburgh Worldwide.

MU: Yes sure. It is pretty straightforward. It's long term capital growth; we run a concentrated portfolio of what we think are the best companies globally. We don't pay attention to index construction, to sector weights, or to country weights; it really does what it says on the tin. We look worldwide for about 40 or so stocks that we seek to hold for 5 years or more.

AC: So in terms of the process how do you actually go about achieving that?

MU: We use all the research that has been done at Baillie Gifford, as we have a team of about 80 investment professionals who are looking around all the different markets, and narrow it down to those companies that we think are attractive and that have good long term prospects, can defend their competitive position and most importantly have the management in place to lead those businesses over long periods of time. The last 2 or 3 years have reminded us just how important the management of businesses can be when you see the mess that some companies have got themselves into.

AC: Moving on, how have the economic concerns in Europe impacted the way you look at your portfolio?

MU: I think for a number of years we felt that the centre of global GDP and global wealth has been shifting and that's been pretty well documented with the rise of new super

powers such as China, but beyond that there is a host of new economies which are doing pretty well. If you look at where a lot of the problems have been, it has been largely in the more established areas, so in that regards the current problems are just a continuation of what we've seen, and we have the great ability or the opportunity to navigate and steer our portfolio away from those areas. So, for well over a couple of years now, we've had nothing invested domestically in the UK for instance. Similarly those countries such as Greece, Portugal which are actually quite small equity markets anyway, we have nothing directly exposed to those. So we are taking the view that these are long run changes that are occurring here and we'd much rather be exposed to the Brazilian or the Chinese consumer through their banking system than to take a punt and a quick turn around in the Greek situation. I think these are very serious problems that will take a long time to work through and that the equity implications of that will be pretty long-term.

AC: So having touched upon the economic events in Europe, in terms of events in the Gulf of Mexico or the recently announced renminbi appreciation by the Chinese Government, how is that influencing your thoughts?

MU: The Gulf of Mexico, I think, is interesting from a number of view points. It has no real impact on how we run the portfolio; we don't hold any BP and we haven't been interested in the oil majors. What it does remind you, is that risk often resides in the index itself. BP was clearly the largest constituent of the FTSE and by tracking that index you would have done a lot of damage so actually its strengthened our believe in non index investing. From a long term point of view I think the implications may be pretty profound in terms of US energy consumption and I think it definitely strengthens the President's hand in terms of the solar, the wind and some of the alternative areas. I think we might look back on this incident as Three Mile Island has been looked back at in terms of nuclear. On the other part of the question, on the Chinese Government, this is really just a return to where we were pre the crisis when we did have sort of controlled renminbi appreciation. I think they've done it now probably because the export sector has staged a pretty strong recovery so internally it's something that can be sold to that part of the Chinese economy. I think it's a big positive long term, I think the removal of that very explicit peg is positive and it's a sign of Chinese maturity if you like, that they are increasingly confident in their own domestic economy. I think the stereotype of China being an export led economy is something that really belongs in the dim and distance past. If you go to Beijing or Shanghai it feels like any thriving metropolis that one could pick around the world. And obviously, as shareholders in several renminbi based Chinese businesses, we think that's a positive, as the appreciation of the cash flows back into other currencies.

AC: You touched upon it briefly earlier, in response to one of the earlier questions, but in terms of your thoughts on the global economic outlook from here going forward, has it changed much, your thinking over the past year?

MU: In my mind I think that we had one hell of a party, lots of people got far too drunk and did a lot of things they probably regret, the drunkest people have the biggest

hangovers, and it's going to take a lot of treatment. We've obviously just seen very recently in the UK the austerity budget of Mr Osborne and that's being mirrored across a lot of European countries; we've had 5% cuts in Spain, Ireland's up into double figures, so those will have big effects. The government sector in these countries is a substantial part of GDP so it's impossible to remove that without having effects. However against that there are a lot of causes of optimism I think, it's very easy to become very narrow in your focus on the problems, but there are a lot of economies that are doing very well. Brazil has just had a GDP figure of 9% positive growth and the drip down of the natural mineral wealth there is starting to really take hold in terms of domestic consumption and that obviously has implications for many companies in that area. Likewise, there are still companies which are innovating, so one of our larger holdings has been Apple, which continues to probably astonish with the prices it's able to charge for the devices that it produces and iPhone 4 is the current example of that where they can't keep up with the pre-orders. If you have the right product that the consumers really, really want you can still sell that to them regardless of the economic backdrop.

AC: Taking that onboard, has there be much change to the portfolio as a result your thoughts?

MU: With our long-term investment horizon, not a great deal, no. We have added one or two names. We took advantage of some of the recent turmoil in Europe to take a holding in Garanti Bank and I think Turkey is another very interesting economy that is showing very promising signs of emerging from some of its historic problems and clearly Turkey is a complicated country in terms of politics and its position between Europe and Asia but it has a very healthy growing middle class that needs basic banking services and that's exactly what Garanti Bank provides but it was affected by events in Greece, its near neighbour and the stock markets sold off so one can use these opportunities. We've also acquired a holding in Intuitive Surgical, which is a US based robotic surgery company. It came out of a military background and we think it's a classic growth company in the sense that the addressable market for robotic surgery is just huge, it's as huge as the numbers of things which are treated by surgery and it's at a very young genesis of that with, we think a very strong competitive position because it had 20 years of defence spending behind it. So there are exciting pockets, even in industry such as healthcare which is we think struggle from many aspects.

AC: Mark, thank you

MU: Thanks