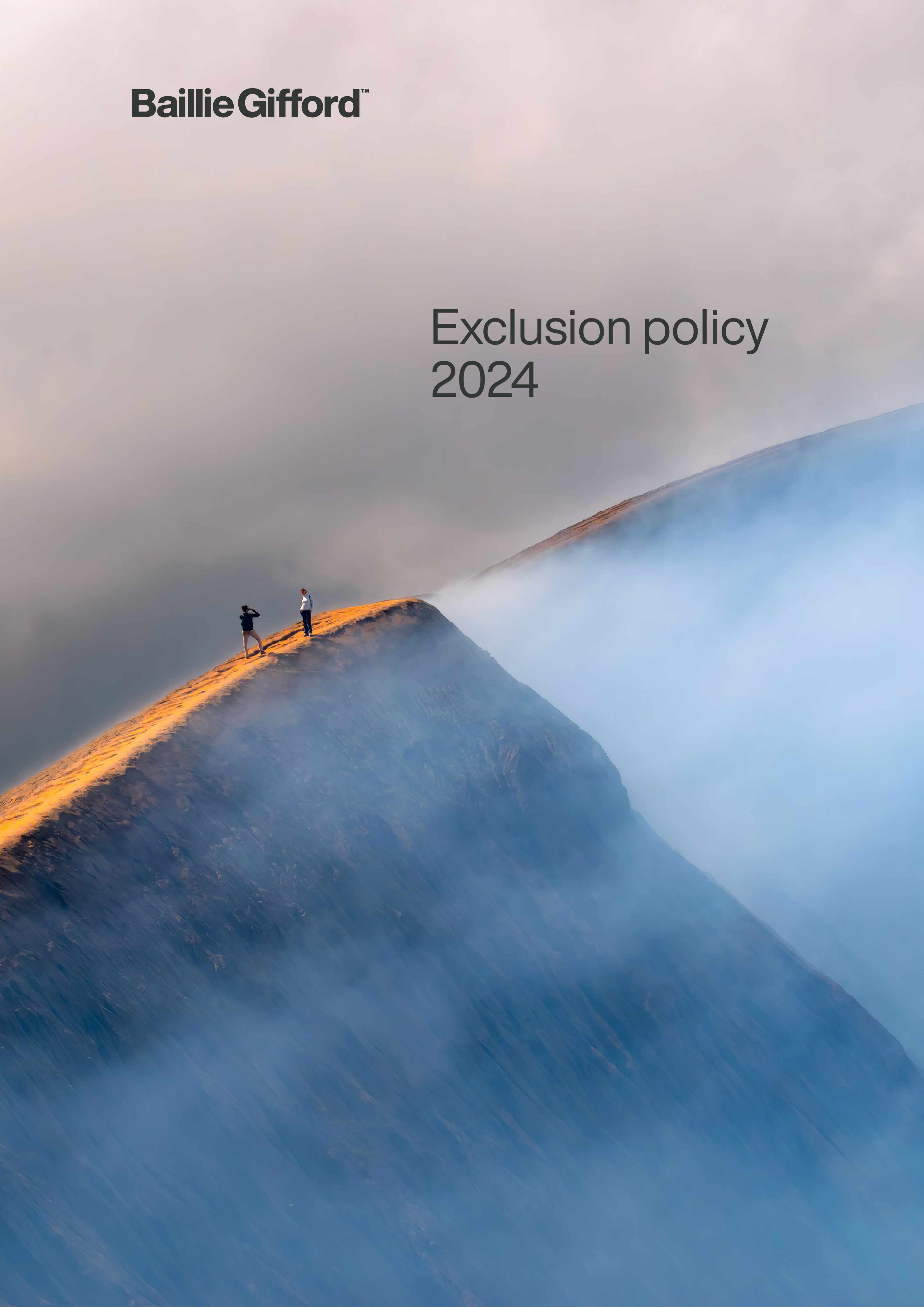
Baillie Gifford™

Exclusion policy 2024



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 December 2023 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. 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 article are for illustrative purposes only.

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Exclusion policy

This policy sets out Baillie Gifford's approach to key exclusions at a firmwide, strategy and fund level. Full details of strategy- and fund-level restrictions can be found in relevant strategy and fund-level materials on Baillie Gifford's website.

Firmwide exclusions

Controversial weapons

Certain types of military weapons are considered controversial because of their potentially disproportionate or indiscriminate effects. International treaties and conventions exist to limit their production and use, though this is an inherently complex area that continues to evolve.

Baillie Gifford seeks to avoid investment in companies with direct involvement in producing controversial weapons, or the components or services that are essential to and tailor-made for them. This policy applies specifically to the following types of weapons:

- Anti-personnel mines
- Biological and chemical weapons
- Cluster munitions
- Depleted uranium weapons
- White phosphorus incendiary weapons
- Nuclear weapons (where such weapons are likely to be in breach of the objectives of the Treaty on the Non-Proliferation of Nuclear Weapons).

We aim to apply these exclusions on a firm-wide basis to all direct investments we make in companies on behalf of our clients. We use external research providers to help us identify excluded companies and, where appropriate, supplement this with our own research to determine our position on individual companies.

Cannabis

As cannabis products are increasingly legalised worldwide, there is a growing number of investable opportunities in the sector. UK authorised investment management firms may not receive benefits from the sale of recreational cannabis (for example, from the receipt of dividends) due to the Proceeds of Crime Act, regardless of legality in the jurisdiction where the cannabis product is being sold. As a UK-domiciled, Financial Conduct Authority-regulated investment manager, we may be restricted from investing in companies operating in the cannabis sector due to the potential illegality of benefits derived in the UK.

Strategy and/or fund-specific exclusions

Some of our investment strategies and funds apply an exclusionary approach to specific sectors or business practices. High-level details are provided in the section below, with full details available in relevant strategy and fund-level materials on Baillie Gifford's website.

United Nations Global Compact

We have several strategies and funds which have made a binding commitment not to invest in companies that are determined to be non-compliant with the United Nations Global Compact Principles (UNGC) and related standards, including the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights.

Where this commitment has been made:

- With new purchases, if a company is identified as non-compliant with the principles based on our judgement, which is informed by our internal research alongside data feeds from third-party sources, then we will not proceed with the purchase. If we determine there are prospects for improvement, the company may be purchased, but a formal engagement and monitoring process will be implemented.
- For existing holdings, a formal engagement and monitoring process will be implemented if we believe a company has breached the principles, based on our internal research alongside data feeds from third-party sources.

We expect to see material improvement within a reasonable timeframe (a maximum of three years). Should a company fail to demonstrate progress, we will divest.

UN Global Compact Principles

Human rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

Principle 10: Businesses should work against corruption in all forms, including extortion and bribery.

Controversial business activities

We have several strategies and funds which have a binding commitment not to invest in companies that generate revenues from certain business activities that may be considered controversial.

The restricted revenue type and the amount depends on the strategy or fund approach. The relevant strategy- and fund-level materials on the Baillie Gifford website contain full details of the restrictions. Upon request and agreement, segregated clients may place additional mandate restrictions.

Divestment approach – Baillie Gifford funds

Baillie Gifford's long-term investment approach means that environmental, social and governance (ESG) considerations are integrated throughout the investment process. This policy outlines our divestment approach should an existing holding breach our sector-based exclusions and norms-based evaluations.

This policy applies to those funds within the Irish UCITS, UK OEICs, US Mutual Funds, Collective Investment Trusts, Canadian Pooled Funds and Investment Trusts (together the 'Baillie Gifford Funds'), which apply specific sector-based exclusions and norms-based evaluations, at the time of purchasing an investment. This policy applies to the Baillie Gifford Funds only and does not relate to segregated mandates.

Should there be any conflict with the rules of a particular jurisdiction in which a Baillie Gifford Fund is established and this policy, the rules of that specific jurisdiction will prevail.

To ensure that we adhere to the sector-based exclusions and norms-based evaluations set for our portfolios via the various governing documents (eg prospectuses, offering memorandums, etc.) of the Baillie Gifford Funds, while remaining responsible stewards of our clients' capital, we follow several guidelines. These guidelines ensure compliance and detail the actions we will take if an existing holding is found to be in breach of our sector-based exclusions and norms-based evaluations.

Monitoring compliance through research and third-party sources

We periodically monitor third-party data sources (eg Sustainalytics, MSCI) for (i) any flags against our various sector-based exclusions, which are limits on companies that derive percentage levels of revenue from certain activities as detailed in the relevant Baillie Gifford Fund governing documents (the 'Threshold') and (ii) compliance with the UNGC Principles and related standards (the 'Principles'). Our Mandate Compliance Team does daily post-trade compliance checks to ensure that market movements or data changes do not move portfolios near to or beyond restriction guidelines. Breaches to ESG fund restrictions are monitored by the relevant groups internally.

We think it is important not to rely solely on third-party data. If a third-party data source has flagged an issue, we may conduct further analysis to ensure that we have a detailed understanding of both the company's current position and the likely future trajectory. We may also engage with said company to seek clarification.

As a result, the decision to divest from a company due to the breach of a threshold and/or the Principles will be determined based on a combination of third-party data, our internal research and potential company engagement.

Threshold breaches

If the percentage levels of revenue are approaching the threshold, we will engage with the company where appropriate to discuss the reason for the change and the likely direction of travel over time.

If, using our internal research as described above, we conclude that there is a breach of the threshold, and no clear change is anticipated, we will divest from the company:

- At the first opportunity where it is possible to do so without material financial detriment to clients and taking due account of their interests.
- At a maximum within one month from the date upon which we identified the threshold as being breached, based on our internal research.

Principles breaches

Funds that apply a norms-based evaluation process will not invest in securities (equities and/or corporate bonds) that, in the investment manager's judgment, severely breach the Principles and/or do not have a positive trajectory following identification of a historical issue (ie not showing clear time-bound intent and evidence to improve behaviour against such breach). If we determine a holding has breached the Principles (which is informed by our internal research alongside data feeds from third-party sources) we implement a formal engagement and monitoring process. We would expect to see material improvement within a reasonable timeframe (a maximum of three years), and should a company fail to demonstrate progress, then we would divest. Where we are required to sell, we will divest from the company:

- At the first opportunity where it is possible to do so without material financial detriment to clients and taking due account of their interests.
- At the maximum, within one month from the date the formal engagement process is deemed to have failed based on our internal research.

Important information

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