Baillie Gifford™

ESG integration approach 2024

Risk factors

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ESG integration approach

Our Stewardship Principles (long-term value creation, alignment in vision and practice, governance fit for purpose, sustainable business practices) reflect what we expect of the holdings we invest in on behalf of our clients. This document sets out our general approach to integrating these principles into the management and stewardship of client assets, including:

- **The integration of environmental, social and governance (ESG) considerations into our investment research and decision-making activities**
- **The resourcing, governance and oversight of our stewardship activities**
- **Our approach to transparency and reporting, and**
- **How we contribute to well-functioning markets and systems for the ultimate benefit of our clients and their returns.**

Some regulators may impose additional requirements for products sold in their jurisdiction. More information about how we address this can be found in the relevant sections on our website. In addition, as agents for our clients, we may follow instructions for client portfolios which differ from the approach set out in this document.

ESG integration and exercise of stewardship responsibilities

Our long-term, active approach to investment means looking beyond the narrow scope of traditional financial analysis to consider the range of factors that may affect our holdings' ability to thrive over the long term. We aim to add value for clients by broadening our perspective to understand better what the future might bring and which investments stand the best chance of succeeding.

We observe that, over the long run, financial performance and appropriate management of ESG factors are often intertwined. For example, companies that act as sustainable operators are less likely to face regulatory action, which could harm financial returns. Therefore, we integrate analysis of material ESG factors into our investment process because it strengthens our ability to deliver long-term returns.

Our investment strategies operate with a high degree of autonomy. This document sets out the characteristics that are broadly shared across strategies, but differences may exist between strategies and asset classes. In addition, some of our strategies or funds go beyond consideration and integration of ESG factors and make specific sustainability-related commitments.

For the majority of our strategies, the focus is on material ESG factors. We define these factors as those that we believe are likely to affect the financial condition or operating performance of a holding or a portfolio, with a positive or negative impact on long-term investment returns. For strategies which have made explicit sustainability-related commitments, we may adopt a broader materiality definition that goes beyond the strictly financially material. Where this is the case, this is clearly set out in relevant client and product documentation.

Research

As an active manager, we conduct deliberate and thoughtful ESG research. Our ESG research is materiality-led. Each holding is invariably different, but most of our efforts will focus on the one or two critical issues with significant relevance to the investment case. Investment cases for a given holding can differ between strategies, but our research aims to contribute to client returns over the long term. Our ESG research considers both the risks of value-destruction and how the ESG characteristics of a holding might contribute to its growth if our investment case proves to be correct. We also look to identify how a changing physical environment, shifting policy or emerging social expectations will likely impact our holdings' performance (positively and negatively) over our investment horizon. The holding-specific factors that we consider are broadly encapsulated within our **Stewardship principles**.

How do we conduct research?

Our investors undertake fundamental research. They use a variety of information sources, from company reports and meetings to third-party research and insights generated by academic partners and industry experts. Investors also have access to various third-party data tools, including ESG data sources. Many of our investment teams have an embedded ESG analyst who understands specific client mandates and supports the integration of material ESG factors into the relevant stages of the investment process. Regardless of who leads the research (an investor or an ESG analyst), we seek to identify material ESG factors which may inform our portfolio allocations, priority engagements and, where relevant, proxy voting decisions.

Our multi-asset investment processes start by taking a top-down, macroeconomic view to forecast expected asset class return profiles and inform portfolio asset allocation. This includes considering material ESG factors, complemented by bottom-up company, fund and sovereign investment research and stewardship.

The investment teams also work closely with our dedicated Climate Team. The team provides our investors with thematic and company-specific research and supports the firmwide Climate Audit process. More information about this and our approach to climate change can be found in our annual **Climate report**.

Our principles in practice – how we consider ESG opportunities and risks[1]

Our **Stewardship principles** are deliberately broad, not only to accommodate the differing processes and objectives of our investment teams but also to acknowledge the evolving nature of the opportunities and risks that face the investments we make.

The following provides an overview of the issues we may consider in our assessment of ESG factors. Should our research suggest concerns about a holding's practices or opportunities for improvement, we will engage and escalate, including using voting rights, where appropriate.

Governance arrangements

As a long-term growth investor, our interests are largely delegated to the board. The board's purpose is to ensure the company's prosperity. As a minimum, we expect the board to effectively fulfil its responsibilities, which include board composition and succession planning, capital allocation parameters, executive remuneration, and its audit and control function. It should provide support and oversight of the executive management team in implementing the business strategy, bringing different views, perspectives and challenge. At the same time, it should protect the interests and investments of the company's shareholders and ensure a business' sustainability.

Human rights and labour rights

Violation of labour and human rights, in addition to the harm this causes, can damage the reputation and value of our holdings. Consequently, we expect our holdings to respect internationally accepted human and labour rights in line with the United Nations Guiding Principles for Business and Human Rights. At a minimum, this should include maintaining health and safety systems, particularly in high-risk sectors; managing exposure to labour and human rights risks, especially modern slavery; and encouraging positive relationships with local communities.

Compliance with the Principles of the United Nations Global Compact

The principles and standards set out in the United Nations Global Compact (UNGC) are an appropriate framework for considering a business' long-term sustainability. Where we determine that a company's failure to meet the UNGC results in a material risk to the long-term performance of the business, we will take appropriate action.

We have several funds that make a binding commitment not to invest in companies that are non-compliant with the UNGC. Further details of how this and other norms or sector-based exclusions are applied can be found in the **Exclusion policy**.

[1]Material ESG risk is, in some jurisdictions, referred to as Sustainability Risk. As noted, ESG risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. For purposes of this document, we use the term ESG risk to also cover Sustainability Risk.

Diversity and inclusion

We believe that board diversity is an important issue for all businesses, potentially impacting the ability of a company to generate returns over the long term. We consider diversity broadly to include gender and ethnic diversity, diversity of thought, background, skillset, time horizon and risk appetite. We therefore expect our holdings to take steps to understand and, where necessary, improve board-level diversity.

We also expect businesses to manage their organisation's culture to ensure all employees are treated fairly and with respect in the workplace. Suitable policies and procedures should be in place to ensure that inappropriate behaviour and discrimination are identified and addressed accordingly.

Climate change

We believe a successful transition that keeps increases in global temperatures to well below 2C, and ideally to 1.5C, this century offers our clients a better opportunity for strong long-term investment returns than a failed transition. Entities not making enough progress in mitigating climate risks or accessing opportunities are a potential source of risk to our client returns. More information about our approach to climate change and our climate-related expectations of our holdings can be found in our **Statement of climate-related intent and ambition** and our **Climate report**, available on our website.

In response to client demand, we have several funds that limit exposure to fossil fuel holdings. Further details of how this and other norms or sector-based exclusions are applied can be found in the **Exclusion policy**.

Nature and biodiversity

Nature and biodiversity loss pose a significant risk to long-term business functioning and the well-being of economies. Sources of risk may include increased raw material or resource costs, regulation and taxation, resource availability and supply chain disruption. The protection of biodiversity should be a priority for businesses and governments, and entities should take steps to limit the destruction of the natural environment as far as possible. We aim to integrate the assessment of such issues into our fundamental research. Our ability to do so improves as we access more data sources and engage with more holdings on these topics. We are working with initiatives such as the Taskforce on Nature-related Financial Disclosures and exploring the usefulness of structured frameworks for investors and our clients.

Respect for legal and regulatory guidelines and consideration of stakeholder perspectives

We expect all our holdings to operate their businesses in a way that takes account of all relevant legal and regulatory guidelines and supports good stakeholder relations. Relevant practice areas include:

- Responsible marketing
- Data privacy and security governance
- Responsible taxation approaches
- How the company manages product and service issues, such as product quality and integrity, complaint handling, safety recalls and compensation.

Engagement

Engaging with the assets we hold on behalf of our clients is core to our role as effective stewards of our clients' capital and is an extension of our research process.

Why do we engage?

01. To learn and to monitor: As investors, our responsibility does not begin and end with the investment decision. Before allocating our clients' capital, we must decide whether a particular investment meets our criteria and will continue to do so over our investment horizons. We may meet with a leadership team many times before we decide to take a position. Once we have invested, we will continue to monitor our holdings to ensure we remain aligned and decide if we need to course-correct.

02. To support: Over our investment time horizons, our holdings will likely encounter challenges. On these occasions, it may be helpful (and even necessary) for us to communicate our support to the leadership of the investments we've made. We may encourage them to remain focused on the long term and occasionally offer the chance to learn from other investments that have faced similar challenges. Sometimes, this will include public support for a holding, eg through pre-declaring voting intentions.

03. To influence: There will be instances when our reason for engaging is to seek change. We have high expectations of the assets we invest in. When they do not live up to these, or where we have identified a specific objective for change, our starting point is to see if the leadership team is willing and able to address the issues we believe may impact the ability to deliver long-term returns for our clients. Sometimes, the influence we seek to have is to encourage a holding to be more ambitious in seizing new opportunities. Where strategies have specific sustainability commitments, engagement may be integral to meeting that commitment.

Engaging to achieve a defined set of outcomes can be a time consuming and resource-intensive exercise. Even though we run relatively concentrated portfolios, we recognise the need to prioritise and, where appropriate, coordinate engagements across our investment teams. We are likely to do this when:

- We consider the issues to be particularly material to a holding's long-term investment performance and of a nature where more concerted engagement is required
- We are a major shareholder or lender
- We believe we can offer particular insight and guidance.

We believe that this approach maximises our chance of success.

There may be instances where engagement will be lighter touch. While our strong preference is always to engage directly, we may occasionally communicate expectations via email.

How do we engage?

Our patient approach, focused on building long-term relationships, means we often occupy a privileged position in terms of our access to leadership. We do not take this privilege lightly. We aim to ensure that our engagements are research-led and, particularly when the intention is to influence, focus on the one or two issues we think are most material to a holding's long-term success.

We generally prefer to engage one-to-one with our holdings. However, we recognise that, at times, working with like-minded investors and broader stakeholder groups has benefits. Collaborative approaches can increase the influence that we bring to bear on our clients' behalf and may, in some instances, be necessary to achieve our engagement objectives. For some asset classes (such as sovereign bonds) collaborative engagements are our primary means of influence.

Voting

Voting is an integral part of our responsibility to act as responsible stewards of our clients' capital. Our voting analysis and decisions are driven by what we consider will promote the company's long-term prospects and, therefore, support the long-term financial outcomes for our clients. In line with our investment philosophy, our voting analysis is bottom-up and led by the investment case. This means we assess every resolution on a case-by-case basis.

For more details about our voting approach, see our **Voting guidelines**.

Escalation

If we fail to see meaningful improvement in what we believe is a material issue, we will escalate through various means. We may take voting action or suggest changes ranging from minor process improvements to a change in senior leadership. Ultimately, we will divest if improvements are not made in areas of material importance.

A pathway for escalation may include some or all of the following:

- Engagement with management, Investor Relations or board members
- No progress – voting action against appropriate AGM resolution
- Escalation to the Chair or Senior Independent Director
- Collaboration with other investors or relevant industry initiatives
- No progress and no reasonable prospect of progress – divest.

There are additional escalation options, such as filing or co-sponsoring shareholder proposals, attending AGMs, or articulating views publicly via different media outlets, which we may use if circumstances require.

Resourcing, monitoring and oversight

Effective ESG integration and stewardship of client assets require appropriate resourcing and oversight. Responsibility for ESG integration sits with the investment teams (supported, in many cases, by an embedded ESG analyst). Dedicated central teams, such as our Voting Team and our Climate Team, provide technical support across the firm and assist us in meeting client and regulatory requirements, including monitoring ESG risk. The diagram following shows how our dedicated ESG resource is structured and its integration and oversight within the firm.

Monitoring of ESG Risk

ESG risk metrics are incorporated into investment risk reports periodically provided to investment managers. These metrics help investment managers identify emerging risks across the portfolio. Additionally, our ESG Assurance Group (ESGAG) monitors ESG risk metrics via exceptions-based reporting. The ESGAG, in consultation with the ESG Oversight Group as appropriate, can escalate concerns to either the Equity or Multi Asset and Fixed Income Investment Risk committees, who will then escalate issues to the Group Risk Committee. A purely quantitative approach does not fully capture the underlying complexities faced by our holdings or provide a complete picture of risks and opportunities across portfolios. Still, it can indicate a need for deeper assessment. Therefore we supplement metrics with bottom-up, qualitative information from our investment research and stewardship activities to provide a richer, more accurate picture.

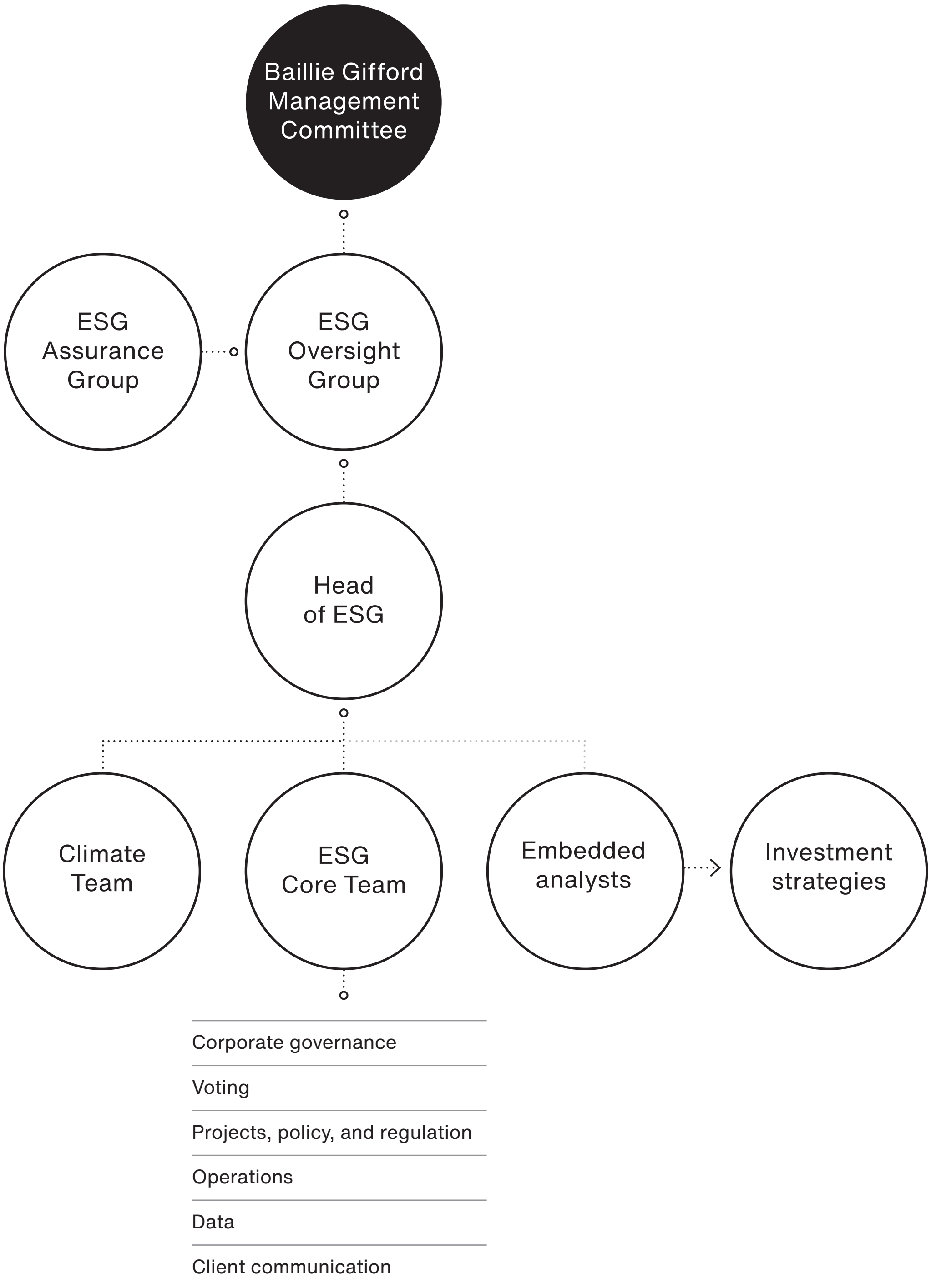
Transparency and reporting

We make detailed voting and engagement reporting available to institutional clients. We also disclose voting and engagement activity on our website and prepare an annual Investment Stewardship Activities Report (as per the UK Stewardship Code) and Climate Report (in line with the recommendations of the Task Force on Climate-Related Financial Disclosures, per Financial Conduct Authority regulation). Additional regulatory reporting is available on our website.

Contributing to well-functioning markets

We aim to uphold and promote the highest standards of service and professional behaviours and to enhance the reputation of the investment industry. This encompasses a responsibility to encourage well-functioning financial markets. To support this, in addition to responding to relevant regulatory and other consultations, we are a member of several groups and industry bodies aimed at supporting well-functioning financial markets and improvements in corporate governance and sustainability. It is important to note, however, that where membership of these groups involves commitments, as agents of our clients, our ability to meet these commitments will always be dependent on client mandates. More information about our memberships and activity can be found in our annual stewardship reporting on our website.

Baillie Gifford ESG organisational structure



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