Baillie Gifford™

Sustainable Finance Disclosure Regulation (SFDR) approach 2024

Risk factors

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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.

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Sustainable Finance Disclosure Regulation (SFDR) approach

SFDR requires asset managers to disclose how they integrate and measure sustainability risk in the investment process for products sold in the European Union. Our **ESG integration approach** sets out how we consider and manage sustainability risks, and opportunities, as part of our investment process. That document serves as our Sustainability Risk Policy. Under SFDR, investment products can disclose under:

- Article 6 (mainstream products which may or may not integrate environmental, social and governance (ESG) criteria)
- Article 8 (products that promote environmental or social characteristics)
- Or Article 9 (products with sustainable investments as an objective).

Baillie Gifford has a range of funds disclosing pursuant to Articles 6, 8 and 9 of SFDR. Please see the fund selector on the Baillie Gifford website for more details.

Good Governance Indicator	SFDR element	Minimum standard
Accurate Financial Statement Reporting	Sound Management Structures	We will not own companies that have been found guilty of fraudulent financial statement reporting unless the company has taken appropriate steps to rectify an issue where it has occurred.
Corruption	Sound Management Structures	Compliance with Principle 10 of the UN Global Compact in line with the Baillie Gifford UN Global Compact approach outlined in the Exclusion Policy.
Employee Relations	Employee Relations	Compliance with Principle 3 of the UN Global Compact in line with the Baillie Gifford UN Global Compact approach outlined in the Exclusion Policy.
Remuneration Concerns	Remuneration	The company does not have ongoing remuneration concerns that Baillie Gifford believes undermine the investment case.
Tax Behaviour	Tax Compliance	The company has not been found guilty of tax evasion, or has taken appropriate action to rectify concerns and prevent these convictions.

Good Governance for the purposes of SFDR

SFDR requires that Article 8 or Article 9 products do not invest in companies that do not follow good governance practices. This policy describes how we determine good governance in the context of SFDR and for those funds and segregated accounts that fall under the scope of the regulation. The policy covers the areas of sound management structures, employee relations, remuneration of staff and tax compliance.

In assessing investee companies against this definition, both third-party and internal research are used. Companies are monitored periodically to ensure ongoing compliance. The table above sets out the minimum expectations of good governance as required under SFDR; however, all holdings are subject to other governance and stewardship elements set out in other Baillie Gifford policies.

Defining sustainable investments within Baillie Gifford

For SFDR purposes, this section outlines our approach to determining whether a holding can be classified as 'sustainable' under Article 2 (17) of SFDR. This definition is relevant for both our Article 9 products and those Article 8 products which commit to investing a proportion of assets in sustainable investments.

A sustainable investment is defined under SFDR as:

> An investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

To arrive at a firmwide definition, the above definition is broken down into various elements, outlined below:

- Investment in economic activity that contributes to an environmental objective or a social objective
- Do not significantly harm any of those objectives
- Investee companies follow good governance practices.

The proportion of sustainable investments, including the level of taxonomy alignment, will be disclosed in annual reports.

Investment in economic activity that contributes to an environmental objective or a social objective

We define this as one, or a combination, of the following activities which, in our opinion:

- Are aligned with the broader sustainable objectives of society as currently best defined by the UN Sustainable Development Goals, evidenced through third-party data or internal research frameworks; and/or,
- Are aligned with the EU Taxonomy[1] or other regional taxonomies as appropriate; and/or,
- Contributes to reducing absolute greenhouse gas emissions with a view to achieving the long-term global warming objectives of the Paris Agreement as evidenced through internal research frameworks.

[1]The EU Taxonomy is a classification system that helps companies and investors identify "environmentally sustainable" economic activities to make sustainable investment decisions.

Do not significantly harm any of those objectives

Of the investments that meet the environmental or social objective, these holdings do not significantly harm either objective. Demonstrated as follows:

- Alignment with responsible business codes and internationally recognised standards, including the United Nations Global Compact principles and related standards, including the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights; and
- Principal adverse impacts on sustainability factors taken into account through:

  a. Revenue-based exclusions associated with certain activities that can materially cause principal adverse impacts at the issuer level[2], which may be assessed through set thresholds against relevant third-party indicators or through proprietary research frameworks

  b. Communication with the management and other key representatives of investee companies in person, virtually or in written format addressing adverse impacts

  c. Setting up engagement in actions or shareholder dialogue with specific sustainability objectives (eg, reducing or mitigating adverse impacts)

  d. Exercising voting rights as a shareholder

  e. Controversies monitoring

  f. Documented escalation measures should those objectives not be achieved.

Investee companies follow good governance practices

Good governance practices apply to all holdings in Article 8 and Article 9 funds. How holdings align with a good governance approach is referred to under ‘Good governance for the purposes of SFDR’ above. Further details of how we consider governance factors beyond these minimum standards can be found in our principles and guidelines documents, including our **stewardship principles**, **ESG integration approach**, **proxy voting guidelines** and **our exclusion policy**.

While ‘sustainable investments’ are defined within SFDR, the definition is very broad. As such, financial market participants may interpret it differently. The definition of sustainable investments is also evolving, and the framework reflected here is based on our understanding of the SFDR definition. Clients should exercise caution when comparing the level of sustainable investments between investment products.

[2]Details of revenue-based exclusions can be found in relevant fund documentation.

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