

Baillie Gifford™

Sustainable Finance Disclosure Regulation (SFDR) Approach



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 2024 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.

[bailliegifford.com](https://www.bailliegifford.com)

Sustainable Finance Disclosure Regulation (SFDR) Approach

SFDR requires asset managers to disclose how they integrate sustainability risks 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 sustainability risks).
- Article 8 (products that promote environmental or social characteristics).
- Article 9 (products with sustainable investments as an objective).

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

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. It covers the areas of sound management structures, employee relations, staff remuneration 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 below sets out the minimum expectations of good governance as required under SFDR; however, all holdings may be subject to other governance and stewardship elements set out in other Baillie Gifford policies.

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 principles-based approach outlined in the Exclusion Policy.
Employee Relations	Employee Relations	Compliance with Principle 3 of the UN Global Compact in line with the principles-based approach outlined in the Exclusion Policy.
Remuneration Concerns	Remuneration	There are no ongoing remuneration concerns at the company 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.

Defining sustainable investments within Baillie Gifford

For SFDR purposes, this section outlines our approach to determining whether a holding can be classified as a ‘sustainable investment’ under Article 2 (17) of SFDR. This definition is relevant for our Article 9 products and those Article 8 products that 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 SFDR definition is broken down into three elements:

01. An investment in economic activity that contributes to an environmental or social objective.
02. That does not significantly harm any of those objectives.
03. Follows 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 or social objective

We define this as one, or a combination, of 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 (based on a pre-determined revenue threshold) or internal research frameworks; and/or,
- Are aligned with the EU Taxonomy* or other regional taxonomies as appropriate; and/or,
- Contribute 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.

*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

To be considered a sustainable investment, the investments that have been assessed to contribute to an environmental or social objective must demonstrate that they do not significantly harm either objective through:

- 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
- Threshold-based exclusion* of business activities associated with certain indicators for adverse impacts on sustainability factors.

Other indicators of adverse impacts on sustainability factors not mitigated through threshold-based exclusions are considered through controversies monitoring and/or stewardship activities.

Follows good governance practices

As detailed in the section on “Good Governance for the purposes of SFDR” above.

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 current understanding of the SFDR definition. Clients should exercise caution when comparing the level of sustainable investments between investment products.

*Details of threshold-based exclusions can be found in relevant fund documentation.

Important information

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

Financial intermediaries

This communication is suitable for use of financial intermediaries.

Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

Europe

Baillie Gifford Investment Management (Europe) Ltd (BGE) is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. BGE also has regulatory permissions to perform Individual Portfolio Management activities. BGE provides investment management and advisory services to European (excluding UK) segregated clients. BGE has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. BGE is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

China

Baillie Gifford Investment Management (Shanghai) Limited 柏基投资管理(上海)有限公司('BGIMS') is wholly owned by Baillie Gifford Overseas Limited and may provide investment research to the Baillie Gifford Group pursuant to applicable laws. BGIMS is incorporated in Shanghai in the People's Republic of China ('PRC') as a wholly foreign-owned limited liability company with a unified social credit code of 91310000MA1FL6KQ30. BGIMS is a registered Private Fund Manager with the Asset Management Association of China ('AMAC') and manages private security investment fund in the PRC, with a registration code of P1071226.

Baillie Gifford Overseas Investment Fund Management (Shanghai) Limited 柏基海外投资基金管理(上海)有限公司('BGQS') is a wholly owned subsidiary of BGIMS incorporated in Shanghai as a limited liability company with its unified social credit code of 91310000MA1FL7JFXQ. BGQS is a registered Private Fund Manager with AMAC with a registration code of P1071708. BGQS has been approved by Shanghai Municipal Financial Regulatory Bureau for the Qualified Domestic Limited Partners (QDLP) Pilot Program, under which it may raise funds from PRC investors for making overseas investments.

Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 license from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Telephone +852 3756 5700.

South Korea

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

Japan

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

Australia

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a 'wholesale client' within the meaning of section 761G of the Corporations Act 2001 (Cth) ('Corporations Act'). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this document be made available to a 'retail client' within the meaning of section 761G of the Corporations Act. This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

North America

BGI was formed in Delaware in 2005. It is the legal entity through which BGO provides client service and marketing functions in North America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. BGO is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. BGI is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. BGE relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

South Africa

BGO is licensed with the Financial Sector Conduct Authority in South Africa as a Financial Services Provider (FSP No 44870) in terms of section 8 of the Financial Advisory and Intermediary Services Act, 2002. This licence authorises BGO to carry on financial intermediary services business on behalf of South African clients.

Israel

BGO is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the 'Advice Law') and does not carry insurance pursuant to the Advice Law. This presentation is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

Singapore

BGAS is regulated by the Monetary Authority of Singapore as a holder of a capital markets services licence to conduct fund management activities for institutional investors and accredited investors in Singapore. BGO as a foreign related corporation of BGAS, has entered into a cross-border business arrangement with BGAS, and shall be relying upon the exemption under regulation 4 of the Securities and Futures (Exemption for Cross-Border Arrangements) (Foreign Related Corporations) Regulations 2021 which enables both BGO and BGAS to market the full range of segregated mandate services to institutional investors and accredited investors in Singapore. The information contained in this presentation is meant purely for informational purposes and should not be relied upon as financial advice.