The Schiehallion Fund Limited

TCFD Climate Report for the year ending 31 December 2023

Prepared using the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Introduction

The Schiehallion Fund invests primarily in private companies globally and can continue to own these investments into public markets. The Fund invests in rapidly growing companies that we believe have enduring competitive advantages, strong management teams and diversified growth opportunities, identifying these through "bottom up" stock selection based on quantitative and qualitative analysis of business fundamentals. More information about The Schiehallion Fund can be found on the relevant fund pages of the Baillie Gifford website.

This report explains The Schiehallion Fund's approach to addressing climate-related risks and opportunities and describes a current view of how they may impact the portfolio. It also includes metrics, where available, to provide useful additional information. It is expected the content, format and data to evolve in future versions.

Governance and management of climate-related risks and opportunities

Details of Baillie Gifford's approach to governing and managing climate-related risks and opportunities across the firm can be found in the entity level TCFD Climate Report on the Baillie Gifford website. This includes descriptions of the roles and responsibilities of relevant Boards and Committees and integration into overall risk management.

For the Schiehallion Fund, the management of climate-related risks and opportunities is the responsibility of the investment team. They undertake tailored research and engagement with specific holdings where they feel that climate-related risks and opportunities could be particularly material to investment outcomes. In collaboration with Baillie Gifford's central climate team, they also aim to assess all holdings at least annually using the Baillie Gifford 'Climate Audit' process. The results of this are reported in the metrics section of this report and further detail on the process can be found in Baillie Gifford's entity level TCFD Climate Report.

Implications of climate change for strategy

Climate change and global efforts to address it pose potential 'physical' and 'transitional' risks and opportunities for holdings in the portfolio. Physical factors can come from changes to the climate and weather patterns, while transitional factors can come from things like new policies, technologies or consumer behaviours.

The Schiehallion Fund does not seek specific climate outcomes as part of its investment objectives, but assessing the potential influence of these risks and opportunities on investment returns is part of the portfolio managers' long-term investment style.

We believe climate change could materially influence the returns we generate for clients. However, assessing the significance and scale of this influence versus other factors over different timeframes is challenging. We expect our views to evolve as we gain better insight and understanding.

Below we share a current assessment of the climate-related risks and opportunities the portfolio may face over the short, medium and long term under different climate scenarios. This assessment is based on Baillie Gifford's qualitative analysis of the Network for Greening the Financial System's (NGFS) 'orderly', 'disorderly' and 'hothouse world' scenarios[1].

[1]Summaries of the NGFS scenarios are available here. 'Orderly transition' scenarios assume climate policies are introduced early and become gradually more stringent, reaching global net zero emissions around 2050 and likely limiting global warming to below 1.5-2 degrees Celsius on pre-industrial averages. 'Disorderly transition' scenarios assume climate policies are delayed or divergent, requiring sharper emissions reductions achieved at a higher cost in order to limit temperature rise to below 1.5-2 degrees Celsius on pre-industrial averages. 'Hothouse world' scenarios assume only currently implemented policies are preserved, current commitments are not met and emissions continue to rise, with high physical risks and severe social and economic disruption and failure to limit temperature rise.

Short-term risks and opportunities (0-3 years)

Over the next few years, climate-related risks for most portfolio holdings are more likely to be transitional than physical. Although climate change is already making weather events more severe, this is unlikely to significantly impact the whole portfolio within a three-year timeframe, even under a hothouse world scenario. However, physical impacts could be significant for some companies.

Trends in technology, policy and markets are likely to have more of an impact on the portfolio over this timeframe. Under both orderly and disorderly transition scenarios, there may be significant opportunities for holdings that are directly helping to drive the decarbonisation of the economy. However, in the disorderly scenario this is likely to be more volatile across different regions and sectors. Key enablers of decarbonisation in the portfolio, including Solugen and Northvolt, and companies showing other forms of strategic leadership, such as Stripe and FlixBus, should benefit. They may avoid regulatory penalties, gain access to cheaper finance and reinforce their brands.

Conversely, both orderly and disorderly scenarios may increase transitional risks for companies with more highly carbon intensive products, processes or supply chains. Although the timing will vary in different markets, such companies may face higher costs or risk customer loss as emissions regulations tighten and social perspectives shift. In 2023 the managers undertook work on holdings, such as SpaceX, to understand more about their exposure to these risks.

Under the hothouse world scenario, the risks and opportunities described above are less likely to accrue over the short term. For high emitters there may even be financial advantages to delaying plans to reduce emissions or diversify business models. However, the portfolio has limited exposure to companies in this position.

Medium-term risks and opportunities (3-10 years)

Over the medium term, the impacts of orderly and disorderly transitions may become more different from each other. Under an orderly transition, there are likely to be significant opportunities at a global scale for companies providing climate solutions and those that can reduce their emissions substantially this decade. Under a disorderly transition, these opportunities may be reduced as regional diversity in climate policy introduces additional complexities for companies to navigate.

Meanwhile, the physical impacts of climate change are expected to become more widespread, especially under the hothouse world scenario. For the portfolio as a whole, the geographical and sectorial mix of holdings may help to provide some resilience. However, the portfolio holds some companies with more significant geographic exposures such as Genki Forest and Jiangxiaobai in China and Pet Circle in Australia and others who are reliant on complex supply chains, such as Northvolt and SpaceX.

Long-term risks and opportunities (10+ years)

Assessing risks and opportunities to the portfolio over the long term is challenging due to the uncertainties involved. However, under a hothouse world scenario it is anticipated that physical climate impacts become the main climate-related risk to returns. Under this scenario, the impacts on people and economic activity are likely to affect most holdings in the portfolio. There may, however, be some opportunities for companies whose products and services assist with climate adaptation.

Under orderly or disorderly transition scenarios, the impacts on the portfolio in the long term may become even more significant. Risks and opportunities associated with new technologies and markets may become even more material as the ‘winners’ of the transition emerge, causing the old to fall away. Under a disorderly scenario, regions of the world that were delayed in their transition might need to catch up, offering new opportunities for transition-aligned companies. However, the rushed nature of this process may pose risks due to abrupt policy changes and asset retirement.

Key Metrics (as at end December 2023)

This section does not contain the normal suite of carbon-related data and metrics that can be expected for portfolios with publicly listed equity holdings. Many private companies are yet to report their emissions. In addition, MSCI, which provides the manager with a range of reported and estimated climate-related data, has yet to extend full coverage to the private company universe.

The manager can, however, include metrics generated by their assessment of each holding's progress towards net zero alignment and its strategic business positioning relative to the climate transitions. These assessments form part of their proprietary 'climate audit' and reflect the outcome of fundamental research produced through collaboration between the portfolio's investment analysts and Baillie Gifford's central climate team. This bottom-up approach informs their investment perspective and engagements with the companies and enables them to communicate the overall climate positioning of the portfolio. The Schiehallion Fund contains a number of companies (such as Solugen and Northvolt), which, despite their comparative youth, are already showing leadership in climate-related disclosure and strategies for emissions reduction. It is currently not unusual for unlisted companies to be lagging in this regard, but where that is the case, we assess and prioritise our engagement and support relative to investment materiality.

Year-on-year changes

In line with the requirements of the UK FCA, the managers have included values for previous years alongside the most recent values for most metrics. **It is important to be aware that any changes in year-on-year metric values may happen for several different reasons** including changes to the portfolio composition, as well as underlying changes within the holdings themselves.

Transition alignment metrics

Assessment of holdings' net zero targets through the 'Climate Audit' process

These metrics provide insight into the managers' own assessment of holdings' emissions reduction targets, strategy and progress towards achieving them. The metric is based on their 'Climate Audit' assessment, which is explained in more detail in Baillie Gifford's entity level TCFD Climate Report.	2022 Portfolio	2023 Portfolio
% of total AUM with targets assessed as 'leading' (ie holdings with targets, strategy and progress in line with an appropriate 1.5C-aligned pathway)	14	11
% of total AUM with targets assessed as 'preparing' (ie holdings preparing targets and strategy in line with an appropriate 1.5C-aligned pathway)	0	0
% of total AUM with targets assessed as 'lagging'[2] (ie holdings with little evidence of preparing targets and strategy in line with an appropriate 1.5C-aligned pathway)	86	89
% of total AUM with targets not assessed	0	0

Source: Assessed according to Baillie Gifford's internal assessment framework.

Assessment of holdings' transition role through the 'Climate Audit' process

These metrics provide insight into the managers' own assessment of holdings' role in a successful transition to net zero. The metric is based on their 'Climate Audit' assessment, which is explained in more detail in Baillie Gifford's entity level TCFD Climate Report.	2022 Portfolio	2023 Portfolio
% of total AUM assessed as 'solutions innovators' (ie holdings whose core business involves developing solutions to climate change)	10	8
% of total AUM assessed as 'potential influencers' (ie holdings with relatively low emissions who are supporting the transition to net zero)	66	68
% of total AUM assessed as 'potential evolvers' (ie holdings with relatively high emissions who have potential to support the transition to net zero)	23	24
% of total AUM assessed as 'materially challenged' (ie holdings whose core business is likely to decline in a transition to net zero, with limited options to evolve)	0	0
% of total AUM not assessed	0	0

Source: Assessed according to Baillie Gifford's internal assessment framework.

[2] In some cases, portfolios with higher proportions of unlisted or smaller companies may contain more holdings assessed as 'lagging'. This may be due to the relative immaturity of these companies' disclosure and net zero alignment strategies, when compared to larger and more established companies.

Legal Notices

Baillie Gifford uses a combination of internal research and analysis and third-party data sources when preparing ESG-related disclosures.

Prior to using data sourced from a third-party provider, Baillie Gifford conducts appropriate due diligence on the third-party provider including validation of their methodology and assessment of their coverage and then carries out spot checks of the data periodically, escalating issues to the third-party provider where necessary.

However, Baillie Gifford cannot guarantee that such data is complete, up-to-date and/or accurate. Furthermore, information disclosed is based on data established at a specific time which may be liable to change. More generally, the coverage, standardisation, and comparability of ESG data continues to change and develop over time.

This disclosure is not intended to be used for marketing purposes and nor does it constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

The figures in this report are aggregations and calculations which draw upon data from external data providers, principally MSCI.

MSCI ESG Research	Certain information contained herein (the "Information") is sourced from/copyright of MSCI Inc., MSCI ESG Research LLC, or their affiliates ("MSCI"), or information providers (together the "MSCI Parties") and may have been used to calculate scores, signals, or other indicators. The Information is for internal use only and may not be reproduced or disseminated in whole or part without prior written permission. The Information may not be used for, nor does it constitute, an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product, trading strategy, or index, nor should it be taken as an indication or guarantee of any future performance. Some funds may be based on or linked to MSCI indexes, and MSCI may be compensated based on the fund's assets under management or other measures. MSCI has established an information barrier between index research and certain Information. None of the Information in and of itself can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided "as is" and the user assumes the entire risk of any use it may make or permit to be made of the Information. No MSCI Party warrants or guarantees the originality, accuracy and/or completeness of the Information and each expressly disclaims all express or implied warranties. No MSCI Party shall have any liability for any errors or omissions in connection with any Information herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Head Office
Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000