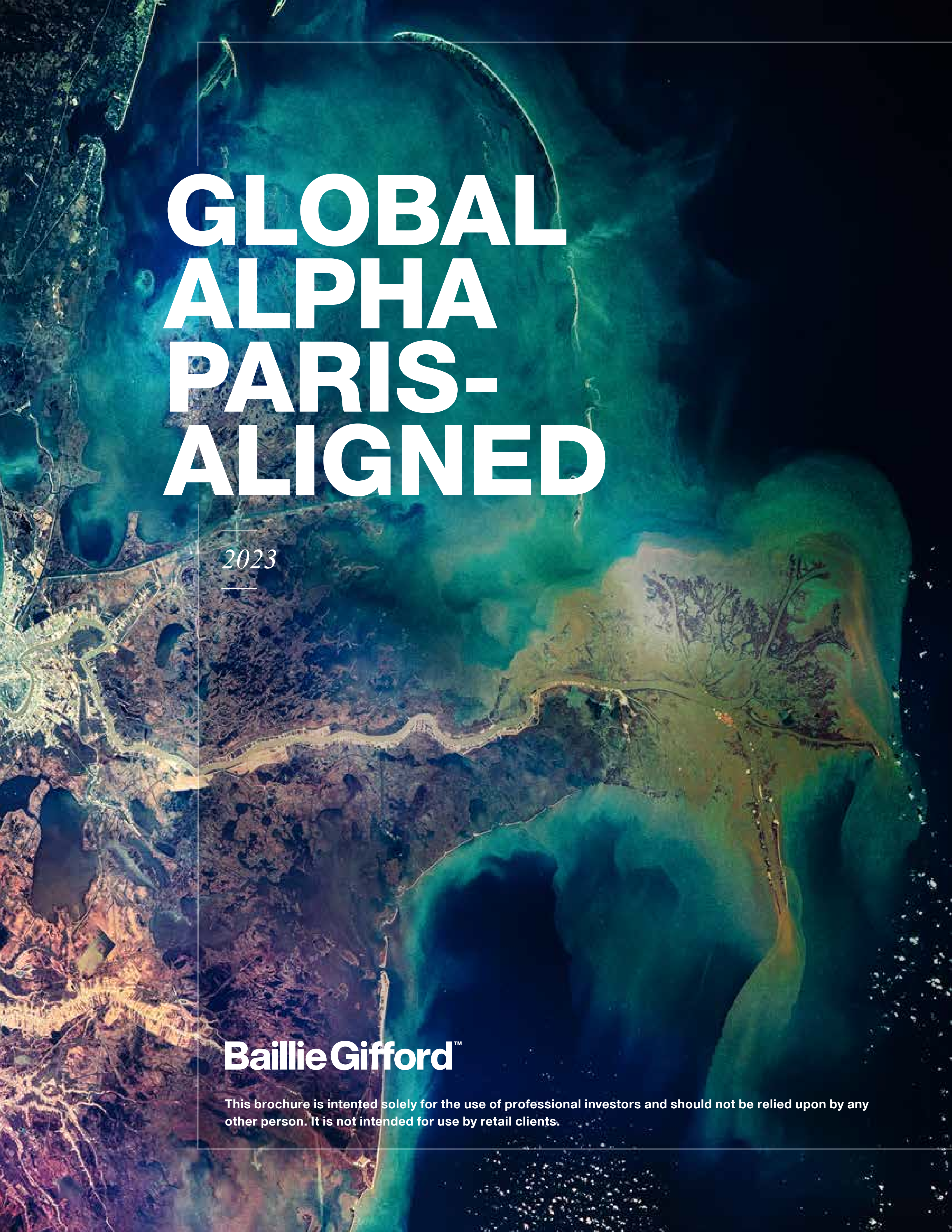

GLOBAL ALPHA PARIS-ALIGNED

2023

Baillie Gifford™

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RISK FACTORS

All investment strategies have the potential for profit and loss.

Stock Examples

Any stock examples, or images, used in this brochure are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us.

Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style.

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GLOBAL ALPHA PARIS-ALIGNED

The Global Alpha strategy will turn 18 years old this year. The product was launched in 2005 in response to a client need for an unconstrained and diversified global stock-picking portfolio, with a focus on superior long-term growth. Much has changed in the interim, but amid relentless transformation in the world and an evolution of our process, we have always been guided by our fiduciary duty to clients.

We understand that the issue of climate change is a key focus for an increasing number of investors. There is clear scientific consensus that human activity is warming the planet and that we are facing a climate emergency. Urgent action is required to transition economies to a low-carbon future and reduce global emissions, ultimately to net zero.

The central aim of the Paris Agreement, adopted by 196 state parties in December 2015, is to limit the average temperature rise to well below 2 degrees above pre-industrial levels and to strive for 1.5 degrees by the end of this century.

For those seeking to incorporate climate change directly into their investment objectives, we offer a variant model of Global Alpha.

INTRODUCTION

Global Alpha Paris-Aligned, a variant of the core Global Alpha strategy, is consistent with the objectives of the Paris Agreement. It is managed by the same team and with the same investment philosophy and performance objective. However, there is an additional process to screen out carbon intensive companies that in our opinion do not or will not play a major role in our energy transition. This variant currently has an overlap of around 90 per cent with the core strategy and is expected to closely track the performance of the main model over time. Global Alpha Paris-Aligned measures its carbon footprint against the MSCI ACWI EU Paris Aligned Requirements Index.

This Index is consistent with the carbon reduction requirements needed to achieve the objectives of the Paris Agreement. Global Alpha Paris-Aligned commits to having a weighted average greenhouse gas intensity lower than that of the MSCI ACWI EU Paris Aligned Requirements Index.

As at December 2022, the strategy has a weighted average greenhouse gas intensity that is lower than the MSCI ACWI EU Paris Aligned Requirements Index.

OVERVIEW

OBJECTIVE

The objective of Global Alpha Paris-Aligned is to outperform the MSCI ACWI by 2–3 per cent* per annum over rolling five-year periods (gross of fees). In addition, and as stated above, we will commit to having a weighted average greenhouse gas intensity lower than that of the MSCI ACWI EU Paris Aligned Requirements Index.

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The MSCI ACWI EU Paris Aligned Requirements Index starts with a carbon intensity that is 50 per cent lower than that of the standard MSCI ACWI. Furthermore, it incorporates a year-on-year decarbonisation rate of at least 7 per cent, consistent with a trajectory for a 1.5-degree warming scenario outlined in the 2018 Intergovernmental Panel on Climate Change report.

*Before management fees. The performance target stated is in no way guaranteed, nor is it intended to be precise. We believe it to be a reasonable estimate of the amount by which we can outperform the relevant benchmark in the long term through the consistent application of our investment process, taking into account the opportunity set and the characteristics of the markets in which the strategy invests. Factors that may lead to Baillie Gifford failing to meet our investment performance objectives in future include a significant change in market characteristics such that our growth investment style is unrewarded for a period of time; or misjudgement of the prospects for long-term earnings growth for a significant number of individual stocks in which we invest.

PROCESS

Global Alpha Paris-Aligned is an exclusions-based variant of the core Global Alpha portfolio. The strategy applies a four-stage process to help navigate towards a low-carbon and Net Zero world. Firstly, we apply a screen to exclude high-emission companies that in our opinion do not or will not have an important role to play in the economic transition to a low-carbon future.

Companies that generate more than 10 per cent of revenues from the extraction and/or production of thermal coal, oil and/or gas.*

Companies that generate more than 50 per cent of revenues from services provided to thermal coal, oil and/or gas extraction and/or production.*

The second step is where we apply our proprietary qualitative 3-question analysis. We complete this analysis for our highest emitting holdings and all companies that operate in climate-material sectors. This has three dimensions.

1. Does this company provide an essential product/service?

This question captures the idea of a carbon budget. We accept that not all emissions are equal. Some high emission industries produce products and services that are essential (e.g. agriculture), while others deliver products and services that are discretionary or only benefit a small group of people (e.g. aviation). Companies in the latter category are more exposed to climate risk.

2. Can emissions be mitigated in an economically viable way?

This question addresses whether products and services can be delivered in a better manner – specifically, if there are technologies which can significantly reduce the carbon intensity of a business in an economically viable way. Examples might include the use of renewable inputs (e.g. fuel and feedstock), improved product design (e.g. extending the life of products), the use of carbon capture techniques, or the adoption of radically different technology. Companies where green alternatives are readily available, feasible and economic are most at risk.

3. Is the company part of the problem or the solution?

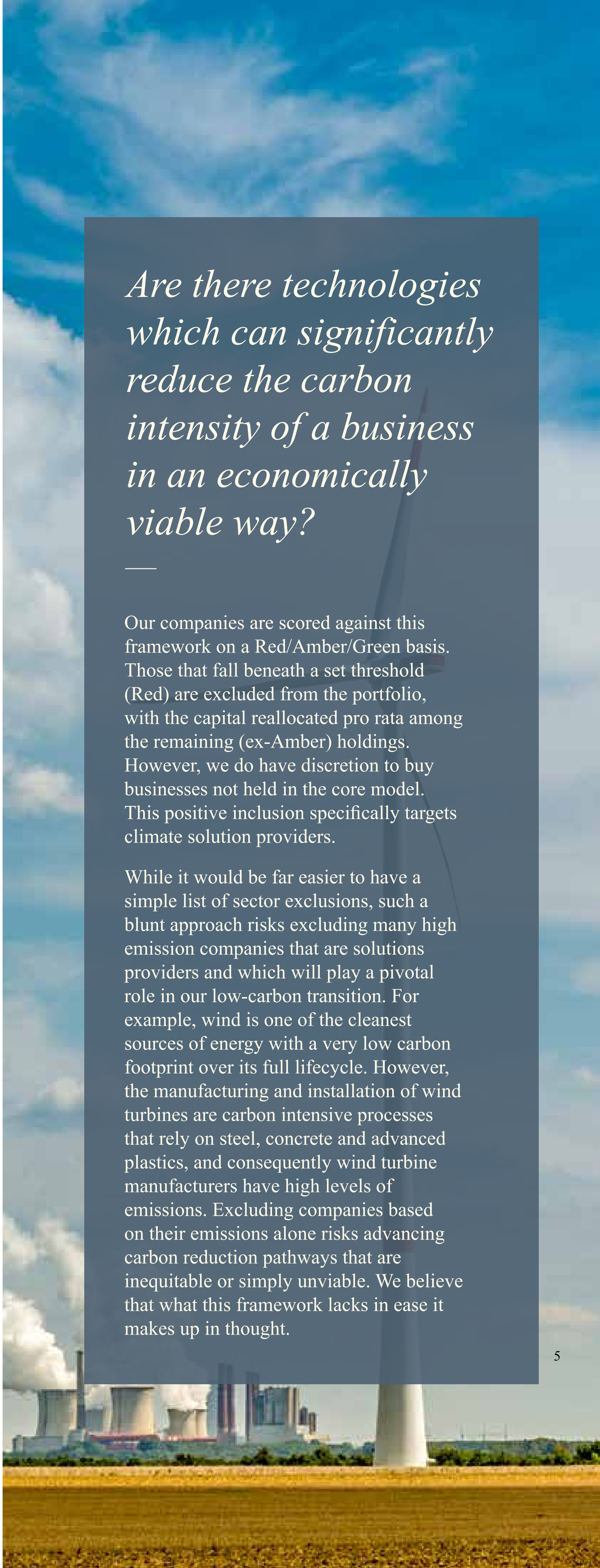
If question 2 is about a company's ability to mitigate, question 3 is about its willingness. Is there a desire and preparedness for a low-carbon transition? Here we assess company strategy, emissions reporting and future targets. We consider how the company's carbon performance now, and in the future, might compare to others in the sector, as well as to the commitments made under the Paris Agreement. We seek evidence that carbon management is a part of the corporate culture, integrated into decision making. Companies which score highly are those that take a leadership role in the low-carbon transition by demonstrating robust alignment with our Net Zero Asset Managers initiative (NZAMi) framework. These businesses can help accelerate the transition for the whole industry.

*For the purposes of exclusions, where referring to the extraction and/or production of thermal coal, this is defined as companies that generate more than 10% of revenues from thermal coal mining and sale.

The third stage is the strategy's Net Zero Commitment.

By 2030, 90% of scope 1 to 3 portfolio emissions will be attributed to businesses with climate strategies that we believe to be Net Zero aligned. We will prioritise engagement with companies responsible for the remaining 10% of portfolio emissions. New holdings entering the portfolio will be granted an additional two years to meet these expectations. Finally, we commit to 100% of the portfolio being Net Zero aligned by 2040.

The final stage is ongoing active management of the portfolio that ensures it delivers on its commitment of maintaining a weighted average greenhouse gas intensity that is lower than that of the EU Paris Aligned Benchmark.



Are there technologies which can significantly reduce the carbon intensity of a business in an economically viable way?

Our companies are scored against this framework on a Red/Amber/Green basis. Those that fall beneath a set threshold (Red) are excluded from the portfolio, with the capital reallocated pro rata among the remaining (ex-Amber) holdings. However, we do have discretion to buy businesses not held in the core model. This positive inclusion specifically targets climate solution providers.

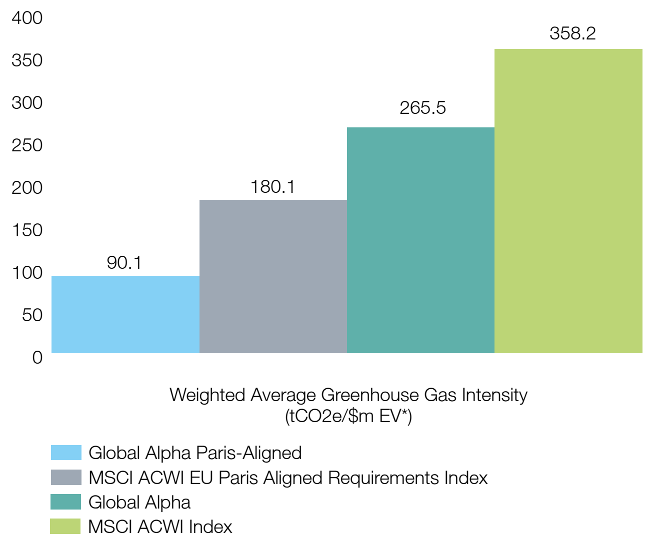
While it would be far easier to have a simple list of sector exclusions, such a blunt approach risks excluding many high emission companies that are solutions providers and which will play a pivotal role in our low-carbon transition. For example, wind is one of the cleanest sources of energy with a very low carbon footprint over its full lifecycle. However, the manufacturing and installation of wind turbines are carbon intensive processes that rely on steel, concrete and advanced plastics, and consequently wind turbine manufacturers have high levels of emissions. Excluding companies based on their emissions alone risks advancing carbon reduction pathways that are inequitable or simply unviable. We believe that what this framework lacks in ease it makes up in thought.

COMPARISON BETWEEN GLOBAL ALPHA VARIANTS

We have examined the portfolio characteristics and carbon analysis of Global Alpha Paris-Aligned and compared it with the core Global Alpha model, and MSCI ACWI EU Paris Aligned Requirements Index – see table below. The overlap between the Paris-Aligned variant and the core model is currently around 90 per cent, and the portfolio characteristics are closely matched in terms of growth tilt and predicted risk. The main difference lies in the carbon analysis, where the Paris-Aligned variant scores better.

Given the high degree of overlap between Global Alpha Paris-Aligned and the core model, we do not expect significant divergence in performance over longer time horizons.

Weighted Average Greenhouse Gas Intensity



Source: MSCI. As at 31 December 2022. *Includes cash.
Based on representative portfolios.

	GA Paris-Aligned	Global Alpha	MSCI ACWI	MSCI ACWI EU Paris Aligned Requirements Index
Risk				
Number of securities	87	93	2,884	1,966
Predicted Absolute Volatility (%)	19.7	19.5	16.8	16.4
Predicted Tracking Error (vs. MSCI ACWI) (%)	7.0	6.1	–	–
Predicted Beta (vs. MSCI ACWI)	1.1	1.1	–	–
Active Share (%)	87.5	87.1	–	–
Growth Tilt				
Leading PE	20.0	19.0	14.3	14.3
Yield (%)	1.1	1.2	2.5	2.4
Price/Book	3.7	3.4	2.4	2.3
EV/EBIT	17.5	15.1	13.5	14.6
Historic Earnings Growth (%)	15.8	15.3	11.6	10.1
1yr Forecast Return on Equity (%)	16.7	16.6	16.8	15.9
Debt/Equity Ratio	0.1	0.1	0.5	0.5
Average Market Cap ($billion)	177.3	161.7	270.6	260.3

Source: FactSet, MSCI. As at 31 December 2022. Based on representative portfolios.

CONCLUSION

We recognise that clients have different preferences, objectives, and time horizons. While our transition to a low-carbon future is well underway, it will take decades to fully wean our economy off fossil fuels. Our duty is to manage your money in a manner that is consistent with your preferences.
If you are interested in learning more about Global Alpha Paris-Aligned, please contact us for more information. Details are available on the website here.

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