

31 October 2024

*If there is anything in this letter which you do not understand or if you are in any doubt as to what action to take, you should consult with an adviser authorised under the Financial Services and Markets Act 2000 immediately. If you require assistance finding a financial adviser, please contact our **Client Relations Team** using the details set out at the end of this letter. They can direct you to an organisation that can assist you further. If you would like a copy of this letter in an alternative format such as large print, braille or audio transcription, please contact our **Client Relations Team**.*

Dear Shareholder

**Baillie Gifford Responsible Global Equity Income Fund (the “Fund”), a sub-fund of Baillie Gifford UK & Balanced Funds ICVC (the “ICVC”)**  
**Changes to investment policy and additional disclosures**

We are writing to inform you of changes that we are making to the Fund.

**Background**

The Financial Conduct Authority (“FCA”) has published new rules regarding Sustainability Disclosure Requirements and investment labels (“SDR” or the “SDR Rules”), which apply to UK based funds that have sustainability characteristics. These rules come into full effect on **2 December 2024**.

The aim of the FCA in introducing the SDR Rules is to help consumers navigate the investment product landscape by providing consumers with better, more accessible information to help them understand the key sustainability features of a fund, and to enhance consumer trust. The SDR Rules include the ability for funds to apply sustainability investment labels, to help investors find products that have a specific sustainability goal and meet certain requirements.

**What is changing?**

We are adding new wording into the investment policy to explain more clearly the Fund’s sustainability characteristics. These changes involve adding additional details of the process the Fund’s investment adviser, Baillie Gifford & Co (the “**Investment Adviser**”), applies when selecting investments, being:

1. the Investment Adviser’s proprietary assessment framework, which the Investment Adviser uses to determine whether a company is managed and behaves responsibly (the “**Assessment Framework**”);
2. a norms-based evaluation to assess whether companies that the Fund invests in comply with the Baillie Gifford & Co exclusion policy on the United Nations Global Compact (“**UNGC**”); and
3. the Fund’s commitment to align its holdings to the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5C (“**net zero**”).

We have also taken the opportunity to review and update the description of the ESG exclusions applied to the Fund (the “**ESG Exclusions**”). Accordingly, we are making minor changes to the wording of the weapons exclusion and the fossil fuel exclusion, and we are replacing references in the investment policy to ‘the investment manager’ with ‘the Investment Adviser’.

As **the Fund has sustainability characteristics and uses sustainability-related terms in its marketing materials**, it falls within the scope of the ‘naming and marketing’ rules of SDR. **We refer to this as being a “Non-Labelled” fund.** Accordingly, we are required to include some additional information for investors in the Fund’s prospectus. The Fund’s sustainability characteristics are not of the nature that would qualify for a label under the SDR Rules and therefore the Fund will not use a sustainability investment label.

#### **Why are we making these changes?**

**We are making these changes to explain the Fund’s sustainability characteristics more clearly for current and prospective investors. Since the Fund has these sustainability characteristics, we are also adding the required disclosures to meet the SDR Rules relevant to a Non-Labelled fund.**

The reason for each of the changes is as follows:

1. **Assessment Framework** - we are adding reference to the Investment Adviser’s existing proprietary assessment framework, which is applied to determine whether companies in which the Fund invests, or proposes to invest, in are managed and behave responsibly, in line with the Fund’s strategy. This is being included to better communicate the Fund’s strategy and sustainability characteristics to current and prospective investors.
2. **UNGC** – while the Fund’s investment policy already makes reference to the Ten Principles of the UNGC, we are amending the wording to clarify how compliance with the UNGC is assessed. The Investment Adviser will assess whether the companies that the Fund invests in comply with Baillie Gifford & Co’s exclusion policy on UNGC (the “**UNGC Exclusion Policy**”). As detailed in the UNGC Exclusion Policy, if, in the Investment Adviser’s opinion, an investment is deemed to have breached the UNGC principles, the Fund is able to hold the investment for a period of up to three years, subject to a formal engagement and monitoring process. If an investment fails to show sufficient progress within three years of commencement of engagement, that investment would be sold.

The UNGC Exclusion Policy is set out more fully in Baillie Gifford’s Stewardship Principles and Guidelines, which can be found at <https://www.bailliegifford.com/en/uk/about-us/esg>.

3. **Net zero** – while the Fund already has an existing net zero commitment, we are adding wording into the Fund’s investment policy in order to formalise this commitment.
4. **ESG Exclusions** – the exclusion wording regarding both (i) weapons and (ii) fossil fuels is being updated to provide additional clarity to current and prospective investors on what is screened by these exclusions.

In addition, as part of our approach to Consumer Duty requirements, to avoid investor confusion when referring to the party applying investment frameworks or making decisions about the investment choices, we are changing references to ‘the investment manager’ with ‘the Investment Adviser’, which is a defined term in the prospectus and is the most suitable party to refer to in these circumstances.

5. **New SDR disclosures for Non-Labelled funds** – we are adding a new section to the Fund’s prospectus to provide investors with the information which is required to be disclosed for a Non-Labelled fund. This is to ensure current and potential investors in the Fund are aware that the Fund has sustainability characteristics, but that the Fund does not use a sustainability investment label.

We will also publish a new consumer facing disclosure document (the “**CFD**”) for the Fund. The CFD aims to provide investors with better information on the key sustainability characteristics of investment products in a simple, accessible, consumer-friendly way. It will be published on the Fund’s page on the Baillie Gifford website [www.bailliegifford.com](http://www.bailliegifford.com) from 2 December 2024 and will be kept up-to-date on at least an annual basis.

Although these changes will have no effect on the Fund’s current portfolio, they will have an impact on the investment universe in the future, as the Fund may not invest in certain companies. This means that the potential universe available for investment will be more limited when compared with other funds that do not apply an assessment framework, ESG exclusions, UNGC exclusion policies or aim for net zero alignment. There will be no changes to the risk profile of the Fund as a result of the above changes.

The current and amended investment policy, together with the additional disclosures related to the SDR Rules, for the Fund is set out in the Appendix to this letter.

### **How will this affect you?**

From **2 December 2024**, the investment policy of the Fund will be amended to reflect the changes as set out above. The new SDR disclosures will be added into the Fund’s prospectus and the new CFD document for the Fund will also be made available on the Baillie Gifford website.

As no changes are being made to the Fund’s portfolio as a result of these changes, there are no trading costs associated with this change. However, expenses incurred by us by way of external legal advisers’ and other professional advisers’ fees in relation to making these changes will be charged to the Fund in accordance with section 5.7 of the Fund’s prospectus.

### **Do you need to take any action?**

No. **You do not need to take any action** as these changes will take place automatically on **2 December 2024**.

## **Further Information**

Both NatWest Trustee and Depositary Services Limited, as the depositary of the ICVC, and the FCA have been advised of the changes that we are making to the Fund.

If you have any queries about this change, or you would like a copy of this letter in an alternative format such as large print, braille or audio transcription, please do not hesitate to contact our **Client Relations Team** on **0800 917 2113** or by email to [enquiries@bailliegifford.com](mailto:enquiries@bailliegifford.com). Your call may be recorded for training or monitoring purposes.

Yours faithfully,



**Derek S McGowan**

**Director**

**Baillie Gifford & Co Limited, as Authorised Corporate Director of Baillie Gifford UK & Balanced Funds ICVC**

## Appendix

<b>Current Investment Policy</b>	<b>New Investment Policy</b>
<p>The Sub-fund will invest at least 90% in shares of companies anywhere in the world which are managed and behave responsibly. The Sub-fund will be actively managed and will invest in companies of any size and any sector.</p> <p>Investments will initially be selected by the investment manager based on its own research. In addition, the investment manager will use its own research and third-party data to assess whether companies are managed and behave responsibly. In making this assessment, the investment manager will make reference to the ten principles of the United Nations Global Compact for business which cover areas including human rights, labour rights, environmental safeguards and combating bribery and corruption ('the Principles'). The investment manager will not invest in companies that are, in its judgement, inconsistent with the Principles.</p> <p>In addition, investments in companies operating to a significant degree in certain areas will also be completely excluded ('the Exclusions'). The Exclusions will be companies which derive a significant degree (being more than 10 per cent) of their annual revenues from (i) the production or sale of tobacco, alcohol, weapons and armaments or adult entertainment, (ii) fossil fuel extraction and production, or (iii) the provision of gambling services.</p> <p>To the extent that the Sub-fund is not fully invested in shares, the Sub-fund may also invest in other transferable securities of companies anywhere in the world, money market instruments, deposits and cash. The Sub-fund may use derivatives only for the purposes of the management of risk.</p>	<p>The Sub-fund will invest at least 90% in shares of companies anywhere in the world which are managed and behave responsibly. The Sub-fund will be actively managed and will invest in companies of any size and any sector.</p> <p>Investments will initially be selected by the Investment Adviser based on its own research taking into account in its assessment of responsible behaviour and management the way in which a company operates and the services and/or products which it provides. In addition, the Investment Adviser will use its own research and third-party data to assess whether companies are managed and behave responsibly.</p> <p>To determine if a company is managed and behaves responsibly, the Investment Adviser applies a proprietary framework, which focuses on the material ESG factor(s) that could have a significant impact on the company's long-term financial performance and risks. The Investment Adviser will first identify the relevant ESG factor(s) using its own research and third party data sources, including but not limited to considering any industry-specific ESG issues and consulting relevant guidelines, such as those provided by the Sustainability Accounting Standards Board (SASB). An assessment of the company's business model, operations, and geographical footprint determine which ESG factor(s) are the most material to the company in question. The Investment Adviser then applies a proprietary framework to determine how the company is assessing and addressing the relevant material ESG factor(s), by assessing the following categories:</p> <ul style="list-style-type: none"> <li>(i) the impact of a company's (a) products and (b) operations on the environment and society</li> </ul> <p>The matters the Investment Adviser will consider when assessing a company's products include, but are not limited to: product design and lifecycle management; packaging and product waste; nutritional quality; environmental and human health considerations; product quality and</p>

	<p>safety; customer satisfaction and retention, and access and affordability. The matters the Investment Adviser will consider when assessing a company's operations include, but are not limited to: carbon emissions, water management, waste management, supply chain sustainability and due diligence; data privacy and cybersecurity; biodiversity; physical climate risk and its management; employee engagement and retention; corporate culture; diversity, equity and inclusion; human rights and community relations; animal welfare and testing, and responsible marketing practices.</p> <p>(ii) the company's ambition to either further or address that impact This is assessed by the Investment Adviser by seeking to review, amongst other information, company disclosures and any ESG goals relating to the relevant material ESG factor(s) identified for the company; and</p> <p>(iii) the level of trust that the Investment Adviser considers investors should have in the management team and the board of the company This is assessed by the Investment Adviser reviewing, amongst other matters, the company's governance-related practices and structures, and how the company has responded to previous ESG challenges and evidence of delivery.</p> <p>Investments will be scored from 1 to 5 (with 1 representing a strong score and 5 representing a low score) on each of these categories, and the scoring will then be taken into account by the Investment Adviser as part of its bottom-up share selection process and portfolio construction. Using this framework, if any investment is assessed as not being responsible then that investment will be excluded from the portfolio. Where an investment is score a 5 in any category it will not be deemed responsible and therefore not suitable for investment.</p> <p>The Investment Adviser will also assess companies the Sub-fund directly invests in using</p>
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a Norms-based Evaluation and will comply with the Investment Adviser's policy on assessing breaches of the United Nations Global Compact as outlined in its Stewardship Principles and Guidelines document which can be accessed at <https://www.bailliegifford.com/en/uk/about-us/esg>.

In addition, investments in companies operating to a significant degree in certain areas will also be completely excluded ('the Exclusions'). The Exclusions will be companies which derive a significant degree (being more than 10 per cent) of their annual revenues from (i) the production or sale of tobacco, alcohol or adult entertainment, (ii) the production of military weapon systems and components, and provision of support services for production of military weapon systems and components, (iii) fossil fuel extraction and production, or (iv) the provision of gambling services. For the purposes of the Exclusions, 'fossil fuel extraction and production' is defined as either (i) oil and/or gas extraction and/or production or (ii) thermal coal mining and/or sale.

In the event that an investment held by the Sub-fund ceases to meet the revenue-based indicators, and this position is expected to be maintained, it will be sold as soon as practicably possible. In relation to the qualitative process and Norms-based Evaluation, the assessment of investments will be reviewed and considered on a case by case basis. The preferred approach, where possible, is to use engagement in the first instance as part of the assessment and encouragement for improvement; where an investment is then ultimately assessed as not being responsible, the Investment Adviser will sell the investment as soon as practicably possible.

The Investment Adviser will also manage the Sub-fund in order to align the Sub-fund's holdings with the goal of net zero greenhouse gas ('GHG') emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5C ("net zero"). As part of this process, all portfolio companies are actively assessed and prioritised for engagement for their alignment with net zero on an ongoing basis.

Engaging in the issues that matter and voting thoughtfully are, in the Investment Adviser's opinion, the Investment Adviser's most effective levers through which it can support management to deliver long-term, responsible investment performance. Similarly, the Investment Adviser recognises a responsibility to, where necessary, challenge companies it believes can do more and escalate its engagement should the Investment Adviser not see improvement. Further information on the Sub-fund's approach to stewardship and engagement is available in the Sub-fund's annual Stewardship Report which can be obtained at

<https://www.bailliegifford.com/en/uk/individual-investors/funds/literature/>

To the extent that the Sub-fund is not fully invested in shares, the Sub-fund may also invest in other transferable securities of companies anywhere in the world, money market instruments, deposits and cash. The Sub-fund may use derivatives only for the purposes of the management of risk.

#### **SDR Disclosures**

Sustainability investment labels help investors find products that have a specific sustainability goal. Further information on sustainability investment labels can be found on the FCA website: <https://www.fca.org.uk/firms/climate-change-and-sustainable-finance/sustainability-disclosure-and-labelling-regime>

**This product does not have a UK sustainability investment label.**

Using a label imposes significant obligations on in-scope products, including (without limitation) requiring a specific aim to achieve positive environmental and/or social outcomes.

The Sub-fund does not explicitly aim to achieve positive environmental and/or social outcomes, but it promotes environmental and/or social characteristics through the application of norms-based screening, through its use of a positive inclusion proprietary framework and its net zero assessment process.

#### Metrics

The Investment Adviser will produce metrics that investors may find useful in understanding the



	<p>Sub-fund's investment strategy. These metrics are:</p> <ul style="list-style-type: none"> <li>the number of companies in the portfolio that the Investment Adviser has assessed as breaching the United Nations Global Compact, which have been subject to formal engagement and monitoring and the number of companies where the Investment Adviser has sold its holdings in due to their failure to demonstrate improvements during the formal engagement and monitoring process, within a reasonable timeframe (a maximum of three years from the date of engagement), in accordance with its policy;</li> <li>how the Investment Adviser has assessed companies in the portfolio's alignment to net zero through its Climate Audit assessment, which is explained in more detail in the TCFD Climate Report available on the Baillie Gifford website at <a href="http://www.bailliegifford.com">www.bailliegifford.com</a>; and</li> <li>the percentage of the total assets under management of the Sub-fund which has exposure to companies with revenues generated from fossil fuel activities.</li> </ul>
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<b>Class of Shares</b>	<b>ISIN</b>
B Accumulation	GB00BFM4CT76
B Income	GB00BFM4N494
C Accumulation	GB00BFM4N502
C Income	GB00BFM4N619
J Accumulation	GB00BK6KVM21
J Income	GB00BK6KVN38
W6 Accumulation	GB00BP4CQY25
W6 Income	GB00BP4CQZ32