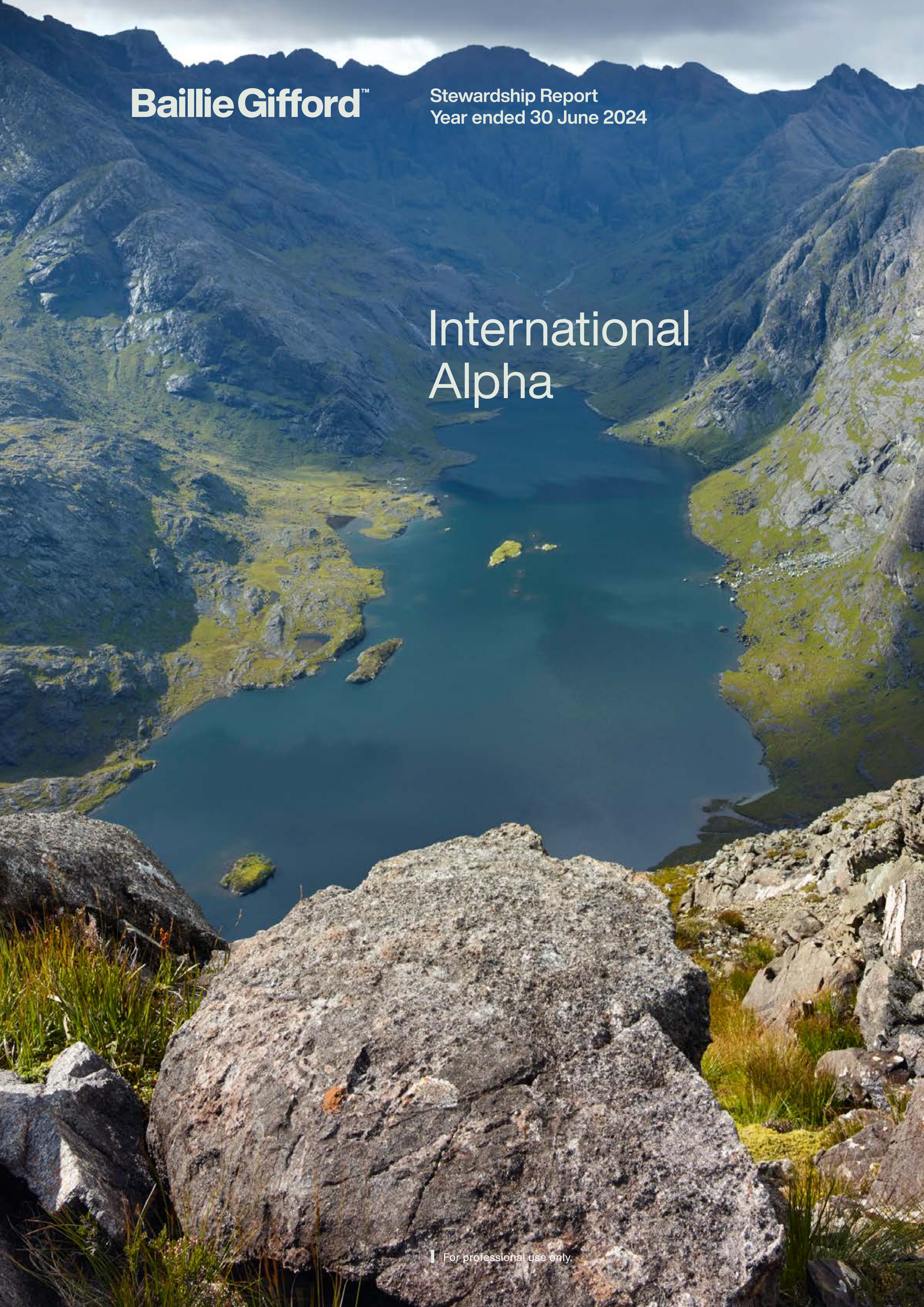

Baillie Gifford™

Stewardship Report
Year ended 30 June 2024

International Alpha

For professional use only.

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 September 2024 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

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Baillie Gifford™

CO2069808 Int Alpha Stewardship Report 0824
Ref: 115309

Contents

Introduction

At Baillie Gifford, we believe successful long-term investing requires us to adopt the mindset of being part-owners of a business on behalf of our clients, as opposed to that of a mere renter or speculator. It is only by taking the associated responsibilities of this role seriously, that we can hope to maximise the opportunities available to you, our clients. We believe that responsible shareholders understand the motivations of management and other key stakeholders, consider the broader impact of a company's activities, call out poor conduct, and provide support or advice where required. Far from acting as a burden on profitability and operational performance, we believe good stewardship helps enhance the long-term profits and sustainability of a business, which in turn should lead to superior investment returns for its shareholders.

In this, our fourth International Alpha stewardship report, we provide an update on our activities in this area. We provide a reminder of the means by which governance and sustainability is integrated into our investment approach and an overview of the firmwide Stewardship Principles that support our interaction with companies. We highlight recent company engagements and summarise two of our recent research projects – Sustainable Aviation Fuel and Ultra-Processed Foods. We update on the progress being made by portfolio companies in addressing arguably the most pervasive sustainability challenge of the coming decades, climate change, and provide summary metrics pertinent to the Stewardship of the portfolio. Last of all, we highlight areas in which we anticipate further research and engagement for the coming year.

We hope you will find this a useful update on our activities and look forward to your feedback on how we might continue to improve our stewardship reporting.

Baillie Gifford's stewardship principles

Long-term value creation

We believe that companies that are run for the long term are more likely to be better investments over our clients' time horizons. We encourage our holdings to be ambitious, focusing on long-term value creation and capital deployment for growth. We know events will not always run according to plan. In these instances we expect management to act deliberately and to provide appropriate transparency. We think helping management to resist short-term demands from shareholders often protects returns. We regard it as our responsibility to encourage holdings away from destructive financial engineering towards activities that create genuine value over the long run. Our value will often be in supporting management when others don't.

Alignment in vision and practice

Alignment is at the heart of our stewardship approach. We seek the fair and equitable treatment of all shareholders alongside the interests of management. While assessing alignment with management often comes down to intangible factors and an understanding built over time, we look for clear evidence of alignment in everything from capital allocation decisions in moments of stress to the details of executive remuneration plans and committed share ownership. We expect companies to deepen alignment with us, rather than weaken it, where the opportunity presents itself.

Governance fit for purpose

Corporate governance is a combination of structures and behaviours; a careful balance between systems, processes and people. Good governance is the essential foundation for long-term company success. We firmly believe that there is no single governance model that delivers the best long-term outcomes. We therefore strive to push back against one-dimensional global governance principles in favour of a deep understanding of each company we invest in. We look, very simply, for structures, people and processes which we think can maximise the likelihood of long-term success. We expect to trust the boards and management teams of the companies we select, but demand accountability if that trust is broken.

Sustainable business practices

A company's ability to grow and generate value for our clients relies on a network of interdependencies between the company and the economy, society and environment in which it operates. We expect holdings to consider how their actions impact and rely on these relationships. We believe long-term success depends on maintaining a social licence to operate and look for holdings to work within the spirit and not just the letter of the laws and regulations that govern them. Material factors should be addressed at the board level as appropriate.

Engagement examples

We use our stewardship principles to frame our engagements. The map below contains examples of how we apply the principles in practice across regions and environmental, social and governance (ESG) topics.

1 Long-term value creation

2 Alignment in vision and practice

3 Governance fit for purpose

4 Sustainable business practice

Rational 3

Rational was briefly delisted from the MDAX for failing to meet regulatory requirements, prompting us to challenge the CEO on Governance controls. We also gave feedback on nominated candidates for the supervisory board, taking into account their independence, qualifications, and potential contribution to the next phase of Rational's expansion.

Edenred 1 4

We met with the CFO following allegations of fraud in Edenred Italia from the Rome Prosecutor's Office. The CFO confirmed changes had been made to tender processes across the business and offered assurances that business momentum has not been negatively affected.

Copa Holdings 1 4

We met with the CEO with particular interest in updates on the company's sustainability strategy. The CEO clarified a number of environmental targets, and outlined the broader market situation for Sustainable Aviation Fuel (SAF) in LATAM.

MercadoLibre 2 4

We met with the CFO and President of Commerce to discuss business strategy and the customer lifecycle. This included detail on the typical customer journey, which involves customer education and the promotion of responsible financial behaviours.

Discovery 1 3 4

We met senior leaders at a site visit in Johannesburg. We explored the connection between Discovery's social impact and the achievement of greater underwriting profits. Our visit helped us deepen our understanding of not only Discovery, but also AIA and Ping An (also owned) with which Discovery has established JVs.

Kone 2 3

We spoke to the Chair and controlling shareholder on CEO change, longer-term industry change, and future growth drivers for the business. We also addressed governance concerns regarding the independence of the audit committee.

Samsung 2 4

We joined an Asian Corporate Governance Association call with the Chair. Samsung is committed to improving its governance standards and has been undergoing a three year review to benchmark itself vs global leading companies, which includes board enhancements. We believe Samsung has made considerable progress aligning diverse business units towards a unified strategy.

Recruit Holdings 2 4

We discussed the social element of Recruit's 'Prosper Together' ESG strategy (launched 2021). This meeting reinforced our view that the company is genuinely engaged with stakeholders on broader social impact. However, we advised the company that some of the goals could have been better formulated, and more closely tied to operational execution in the core business.

TSMC 1 4

In April 2024 we visited the company at its headquarters in Hsinchu. We discussed the company's strategy for building out capacity, particularly some of the environmental constraints in Taiwan (eg water scarcity) and proposed company solutions including desalination plants.

Reliance 1 4

We travelled to Mumbai to meet with management and learn more about medium and long term strategy. Our Emerging Markets team also conducted a site visit to one of Reliance's energy facilities to better understand the scale and operational timelines for the new energy division. This division has been established to address India's 'Energy trilemma' (affordability, sustainability, security) and we feel could be a material driver of returns over the coming decade.

Case study: Sustainable Aviation Fuel (SAF)

What is SAF?

SAF is the most common term for aviation fuel that isn't derived from fossil fuels. Naturally occurring hydrocarbon compounds – including jet fuel, gasoline, and diesel – are made of carbon and hydrogen. Synthetic hydrocarbons can be produced from biological or waste carbon, and converted into feedstocks through thermal, chemical, and biological processes. SAF has been adopted as a near-term solution for decarbonising aviation emissions because it works as a 'drop-in fuel' that doesn't require changes to existing aviation engines or fuel infrastructure. SAF adoption therefore represents the lowest capital outlay path for lowering aviation emissions, and is increasingly being mandated for use by air transport regulators across the globe. Whilst there is speculation about electric and hydrogen-powered aircraft, these are typically viewed as more distant solutions.

So what?

In response to consumer interest and regulatory demand leading airlines have committed to increase their use of SAF between now and 2030. This has included setting targets for certain 'blend rates' as a percentage of total fuel consumption. At present, demand for SAF significantly outstrips supply, encouraging a scramble to ringfence sources and creating uncertainty over whether SAF producers can scale production fast enough to meet the ambitions and targets of airlines in 2030 and beyond. Supposing the supply-demand imbalance persists, we believe that different airlines' ability to secure SAF could affect future costs of doing business linked to carbon pricing.

Figure 1: Estimated timeline for aviation technology pathways by aircraft size and flying time

	2020	2025	2030	2035	2040	2045	2050
Commuter 9-50 seats <60 minute flights <1% of industry CO_2	SAF	Electric and/ or SAF	Electric and/ or SAF	Electric and/ or SAF	Electric and/ or SAF	Electric and/ or SAF	Electric and/ or SAF
Regional 50-100 seats 30-90 minute flights ~3% of industry CO_2	SAF	SAF	Electric or H2 fuel cell and/or SAF	Electric or H2 fuel cell and/or SAF	Electric or H2 fuel cell and/or SAF	Electric or H2 fuel cell and/or SAF	Electric or H2 fuel cell and/or SAF
Short haul 100-150 seats 45-120 minute flights ~24% of industry CO_2	SAF	SAF	SAF	SAF	Electric or H2 fuel cell and/or SAF	Electric or H2 fuel cell and/or SAF	Electric or H2 fuel cell and/or SAF
Medium haul 100-250 seats 60-150 minutes flights ~43% of industry CO_2	SAF	SAF	SAF	SAF	SAF	SAF	SAF potentiall some H2
Long haul 250+ seats 150 minute+ flights ~30% of industry CO_2	SAF	SAF	SAF	SAF	SAF	SAF	SAF

Why it matters

We hold three airlines across the strategy: Ryanair, Wizz Air, and Copa Holdings. The subject of SAF matters for them all.

We believe aviation emissions matter at the market, government, and consumer level, as regulators seek to internalise the cost of carbon, which will feed through to higher operating costs for companies and higher prices for consumers. We therefore view our work in this area as part of our stewardship commitment to long-term value creation and sustainable business practices.

What we have done

We have engaged with each of the airlines we hold over the past year on the risks and opportunities from emission reductions, and the role of SAF in that strategy. We cannot say with certainty what the 'best' strategy is on SAF, but we think it has been valuable to study their different approaches, so that we can make a more informed judgement of the degree of preparedness and risk at each company.

Ryanair – has made an industry-leading commitment of a 12.5% SAF blend rate by 2030 (of which ~10% has currently been secured through multiple contracts). Executive management and the sustainability team acknowledge ongoing uncertainty over whether SAF production can sufficiently scale to meet their demands by 2030, but we believe their overall approach, which also targets emission reductions via increased engine efficiency, is well thought out. Overall, we have been impressed with Ryanair's strategy on SAF and this has strengthened our conviction in the company's long-term market share gains.

Wizz Air – has not yet made a 2030 commitment on SAF. However, it has signed multiple Memorandums of Understanding with SAF providers and has also made an equity investment in a biofuel company which targets production of SAF from 2028. We view Wizz's strategy on SAF as less ambitious than some peers, but we acknowledge the company may still be evaluating feasibility before setting specific targets on SAF.

Copa – is at an earlier stage on SAF adoption vs its European peers. This reflects lower levels of government and regulatory promotion in LATAM compared to Europe, as well as lower SAF refining capacity in the region. As a result, the company is still developing its strategy on SAF integration and procurement. However, our conversations with Copa have reinforced our view of the company as more strategically prescient compared to its peers in LATAM. We view SAF as a subject for ongoing discussion.

What next?

We anticipate discussing and engaging with our airlines on SAF in the years ahead. The scaling of SAF production is uncertain and we acknowledge that company targets may change. However, we think it important that companies anticipate regulatory change. Failure to adapt could increase costs of doing business and lower returns, but the rewards for adaption could be a strengthening of competitive advantage and gains in market share.

Case study: Ultra-Processed Food (UPF)

What is UPF?

The term UPF derives from a team of researchers working at the University of Sao Paolo, Brazil in 2009. They proposed the NOVA classification system of food, based on the degree of processing which occurs during food production.

The defining feature of UPF is the presence of additive substances that you wouldn't find in an average kitchen. These include modified starches, hydrolysed protein isolates, seed oils, emulsifiers, sweeteners, stabilising gums, humectants, dyes, carbonating agents, firming agents, bulking and anti-bulking agents, foaming and anti-foaming agents etc. Most 'junk food' would be classified as UPF, but a lot of other food traditionally perceived as healthy also falls under this classification.

Figure 2: The NOVA system of food classification

01. Unprocessed or minimally processed	02. Processed culinary ingredients	03. Processed foods	04. Ultra-processed foods
Foods either raw or exposed to minimal processing techniques, such as fractioning, grinding, pasteurisation and others	These are obtained from minimally process foods and used to season, cook and create culinary dishes	These are unprocessed or minimally processed foods or culinary dishes featuring added processed culinary ingredients	These are food products featuring industrially-produced food additives
↓	↓	↓	↓
meat, fruit, vegetables, flour, milk	lard, butter, sugar, salt vinegar, honey and traditional oils	Canned beans, salted nuts, smoked meat, canned fish, freshly made bread	designed to produce readily consumable and hyper-palatable products

So what?

Familiarity with the concept of UPF has become increasingly widespread over the past two years. UPF has been increasingly discussed in the popular media and there is a growing body of medical and scientific literature focused on the subject. Large Food and Beverage companies outline health strategies and bear responsibility for food safety. As yet, however, there is little or no messaging from these companies on the potential health impacts of UPF.

Why it matters

In the UK, USA, and Canada, UPF accounts for more than half of the average consumer's diet. If consumption of UPF in these countries decreased to levels comparable with Italy (where UPF is estimated to constitute less than 20 per cent of diets) the revenue impact would be considerable. We therefore believe that consumer focus on UPF has the potential to materially influence company revenues. A growing body of evidence has linked UPF consumption with adverse health outcomes and research indicates that UPF consumption is particularly high amongst the young, the poor, and those from disadvantaged areas. In such groups, researchers have estimated that a diet comprising as much as 80 per cent UPF may be typical. We therefore view UPF as a material concern for companies, both financially and socially.

What we have done

We hold three Food & Beverage companies across the strategy: Nestle, Danone, and Unilever. Each of these companies promotes approaches to healthy diets, as a pillar of their social license to operate, but commentary on UPF is largely absent from these companies' definitions of 'health'. We have therefore engaged with each company to better understand their broader approaches to Health and Nutrition and how they are addressing the risks and opportunities of rising consumer attention on UPF. The results of this engagement are helping us calibrate the health credentials of each company's brand portfolio, as well as available levers to reduce ultra-processing, without negatively impacting profitability.

Danone – has one of the healthiest profiles amongst global Food and Beverage companies, and its portfolio of brands appears less sensitive to UPF concerns compared with its peers. There is a strong and credible health narrative to >85% of their products and we believe the company could prove a relative beneficiary of rising UPF consumer consciousness. As such, perhaps it is not surprising that Danone was the most open to discussing potential risks from UPF and available levers to reduce the level of ultra-processing in product development.

Unilever – the proposed spin-off of its ice cream division (announced in March 2024) will reduce the most concerning UPF exposure of the portfolio. In fact, the direction that Unilever appears to be moving in – increasing its weighting in Health and Personal Consumer goods – should help de-risk Unilever's brand portfolio. We view this as positive considering the company has not yet demonstrated a clear strategy in relation to the potential threats of increasing consumer concerns over UPF. We aim to continue our discussion with Unilever on their approach to UPF and their health strategy more generally.

Nestle – has the greatest weighting toward UPF products amongst the three Food and Beverage companies that we hold. Our discussions with the company suggest that product reformulation to reduce UPF, or simplification of product recipes, is unlikely. In fact, new product development announcements such as protein-fortified ready-meals for consumers using weight-loss drugs, suggest to us that the direction of Nestle's portfolio is becoming more ultra-processed, rather than less. Time will tell whether company revenues are negatively impacted by reductions in UPF product sales. But we believe the risks posed by the company's strategy justify close monitoring and further challenge.

What next?

It remains to be seen whether concerns around UPF represent a structural change, or only a passing fad. It is also difficult to calibrate what proportion of consumers may change habits as a result of concern over UPF. However, media attention on ultra-processing appears to be rising, and therefore we think this could be a subject of relevance for years ahead. Appraising the 'correct' strategy at this juncture is tricky, but we think this is an area for ongoing monitoring, analysis and challenge for these companies.

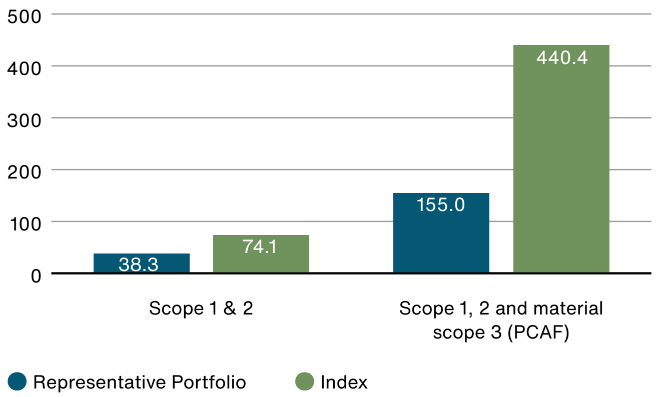
Climate and carbon

We began publishing a carbon footprint analysis of the portfolio six years ago. Since then our understanding and ability to monitor overall climate impact at a company level has steadily improved.

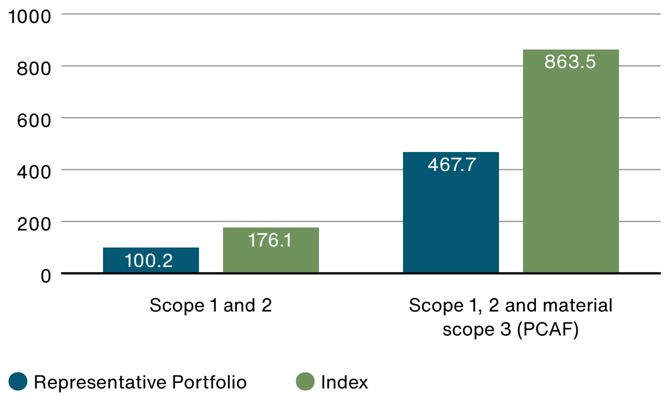
The graph's below shows two metrics for measuring carbon intensity. The first metric measures carbon emissions relative to company enterprise value, and the second to company revenues (each is weighted according to the size of holding within the portfolio). The metric relative to enterprise value also represents the indicative amount of carbon emissions per annum for each $1m invested in the portfolio (commonly referred to as a 'portfolio carbon footprint' or financed emissions per unit of capital invested).

We recognise that climate metrics analysis is imperfect. In addition to concerns about data accuracy and availability, this analysis can only tell us where a company is – not where it is going. This is why we see it as a starting point and not the end.

Carbon footprint tCO_2e/USD million

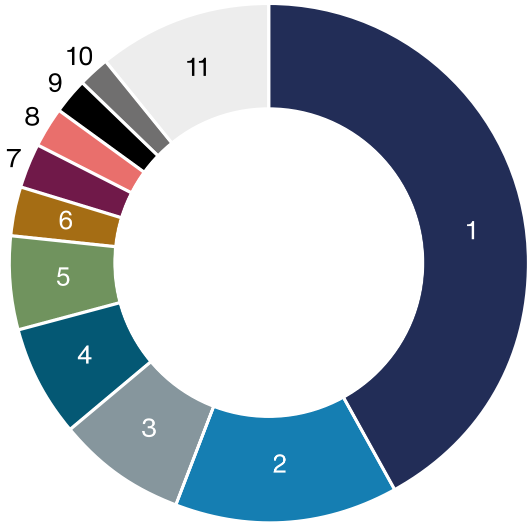


Weighted average carbon intensity tCO_2e/USD million revenue



Source: Baillie Gifford & Co and underlying index provider. Based on a representative portfolio as at 30 June 2024.

Top contributors to total emissions



Contributors to total emissions

1	Rio Tinto	**42.0**
2	CRH	**13.8**
3	Ryanair	**8.3**
4	Samsung Electronics	**6.9**
5	Kingspan	**5.6**
6	Wizz Air	**3.2**
7	Sony	**2.7**
8	Taiwan Semiconductor Manufacturing Co.	**2.5**
9	Novonesis	**2.4**
10	Epiroc	**1.9**
11	Rest of Portfolio	**10.6**

Source: Baillie Gifford, FactSet, MSCI ESG Research.
As at 30 June 2024.

Climate audit

We have carried out regular climate audits since 2021 and used a range of qualitative and quantitative measures to look both backwards and forwards. This includes:

- total emissions (actual or estimated)
- whether all scope 1, 2 and 3 emissions are disclosed
- whether the company reports to the Carbon Disclosure Project (CDP)[1] and their score
- whether any current and future carbon targets have been set
- the temperature alignment of the carbon targets (e.g. 1.5C)
- whether targets have been approved by the Science Based Targets initiative[2]
- whether any net zero commitments have been made by the company

This holistic analysis enables us to look beyond the easily available data to consider more broadly the challenges and opportunities of the climate transition for each of our holdings.

With this in mind, we apply the following framework to help summarise the climate ambition of holdings in the portfolio.

Figure 3: Our internal classification of companies by level of disclosure and ambition of climate targets

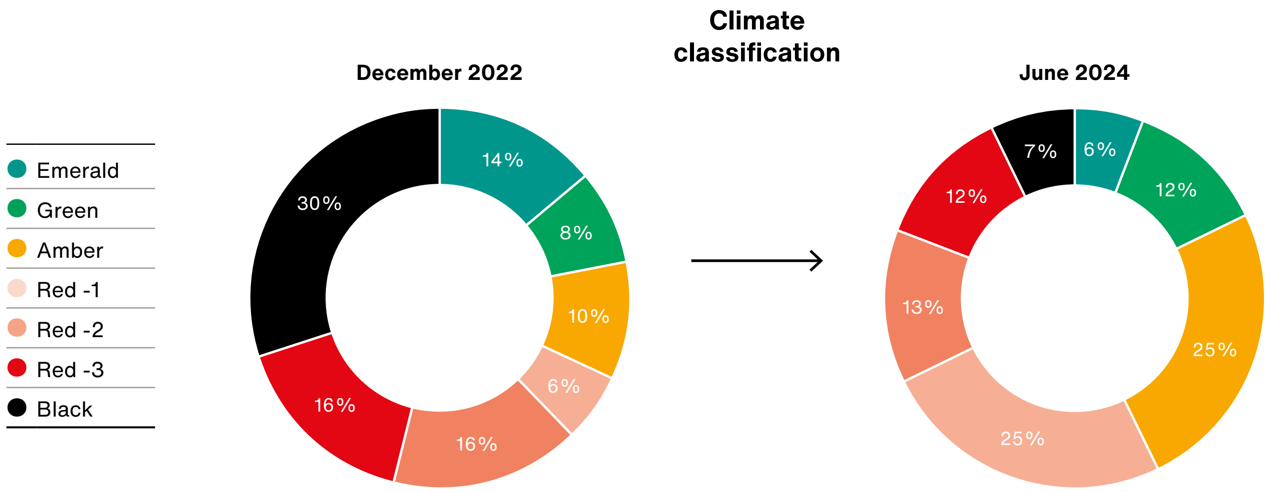
Emerald	Pre-2025 aligned for scope 1 and 2 material scope 3
Green	Pre-2025 aligned for scope 1 and 2 and at least 2050 for material scope 3
Amber	2050 aligned for scope 1, 2 and material scope 3
Red	Intimation to set targets or have set targets that are insufficiently stretching i.e., not 1.5 degree aligned
Black	No carbon data reporting

We apply the above categorisations of our holdings and combine with our qualitative view on company decarbonisation progress against their appropriate peer set. The charts below reflect the change in rating of our holdings since December 2022. Whilst there has been turnover in the portfolio, the trend notwithstanding is for our holdings to move toward improved disclosure and better validated climate strategies. As our climate audit activity has progressed, our analysis has become more rigorous and nuanced. This has typically led to company re-ratings from Emerald and Green to Green and Amber. Most encouraging to us is that the proportion of the portfolio still failing to disclose carbon data has fallen to just 7% from 30% in 2022, while 43% now has some form of validated strategy to align with Net Zero targets by 2050 versus 32% previously.

[1] CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

[2] Targets are considered 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement limiting global warming to well-below 2C above pre-industrial levels and pursuing efforts to limit warming to 1.5C.

Figure 4: Changes in International Alpha climate classification since December 2022



We believe the climate audit has supported our aim for meaningful research and stewardship by:

01. providing a more granular understanding of the portfolio's carbon emissions

02. structuring an assessment of company ambitions regarding future emissions reduction targets

03. developing a method to prioritise our engagement with companies

Governance metrics

We do not believe that a crude numerical approach to governance is the best way to assess the companies we invest in on our clients' behalf. Nonetheless, we recognise that certain metrics can provide a helpful overview when trying to assess overall progress across the portfolio on matters such as diversity and board independence. The following statistics provide a crude snapshot of the portfolio at 30 June 2024:

	2020	**2022**	**2024**
Proportion of independent directors on company boards (%)	67	72	72
Female representation on company boards (%)	23	29	32
Board tenure (years)	9	9	9
CEO tenure (years)	n/a*	10	13
Holdings with female CEO (%)	4	8	6

Source: Baillie Gifford & Co, MSCI. Based on a representative portfolio. Average across holdings.

*CEO tenure data only measured from 2021.

Proxy voting report

Exercising the voting rights attached to portfolio holdings is an integral part of our stewardship activities. Co-ordinated internally by our dedicated ESG Services Team, our investment-led voting decisions are focused on what we believe to be in clients' best interests.

We do not outsource any stewardship activities and routinely communicate votes against management to the company to maintain an ongoing dialogue. Voting supports our ability to build long-term relationships with companies and strengthens our position when engaging with them.

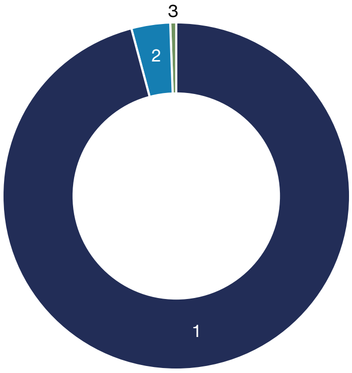
We invest in high-quality companies where we believe the governance structure supports the long-term investment opportunity. We seek to avoid investments where corrective action is required to generate value. Accordingly, we support most resolutions put forward by investee companies, voting against proposals on the few occasions where we disagree with decisions taken by management or where we have not been able to successfully influence change through engagement.

We understand the nuances of responsible stewardship and therefore use abstentions when we think voting decisions require a more nuanced response than simply 'yes' or 'no'. We review the merits of each proposal on a case-by-case basis, considering the broader context in which companies operate. This approach enables us to maintain constructive relationships with management and the board as part of a gradual, long-term engagement process.

Total votes

2,132

International Alpha proxy voting record (2023 – June 2024)



1	For	96.0%
2	Against	3.5%
3	Abstain	0.5%

Source: Baillie Gifford. Data from 1 January 2023 to 30 June 2024.
Figures may not sum due to rounding.
Based on a representative portfolio.

Management resolutions: breakdown of voting activity

Strategy

Example – Ritchie Bros

We voted against the company's share issuance as we were not supportive of the proposed merger with IAA, Inc. We believed that such a sizeable acquisition was an unnecessary risk, and that the time and energy it would take to integrate and improve IAA would be better spent on executing the strong growth strategy previously outlined by Ritchie Bros. As long-term holders who prioritise shareholder value, we believed this merger was the wrong step for Ritchie Bros. at this point in time.

Pass – breakdown not disclosed

Governance

Example – Kone

We voted against the ratification of the Board of Directors, since this included the re-election of Jussi Herlin to the Audit Committee. We objected on the basis of Jussi's current position as an executive director with family interests in the business. We communicated our preference to the company that this committee should be comprised entirely of independent directors due to its important oversight and scrutiny function.

For 99.1% Against 0.6% Abstain 0.3%

Remuneration

Example – Wizz Air

We opposed the remuneration report due to concerns with the use of discretion during the year to change the performance metrics attached to the annual bonus which we did not consider to be reflective of the company's performance.

For 69.0% Against 30.9% Abstain 0.1%

Source: Baillie Gifford. Data from 1 January 2023 to 30 June 2024.
Figures may not sum due to rounding.
Based on a representative portfolio.

Last word

Our aim in this report is to bring to life our approach to stewardship and the integration of governance and sustainability considerations into our investment process using case studies and examples from 2023 and 2024.

The consideration of governance and sustainability chimes with International Alpha's investment philosophy and long-term investment horizon. Given the intangible – and therefore often difficult to quantify – nature of such issues, in-depth research and analysis of such topics provides a deeper and more sophisticated understanding of companies, the issues they face and their materiality. Our engagements allow us to assess how governance and sustainability structures and practices support or detract from a company's long term prospects.

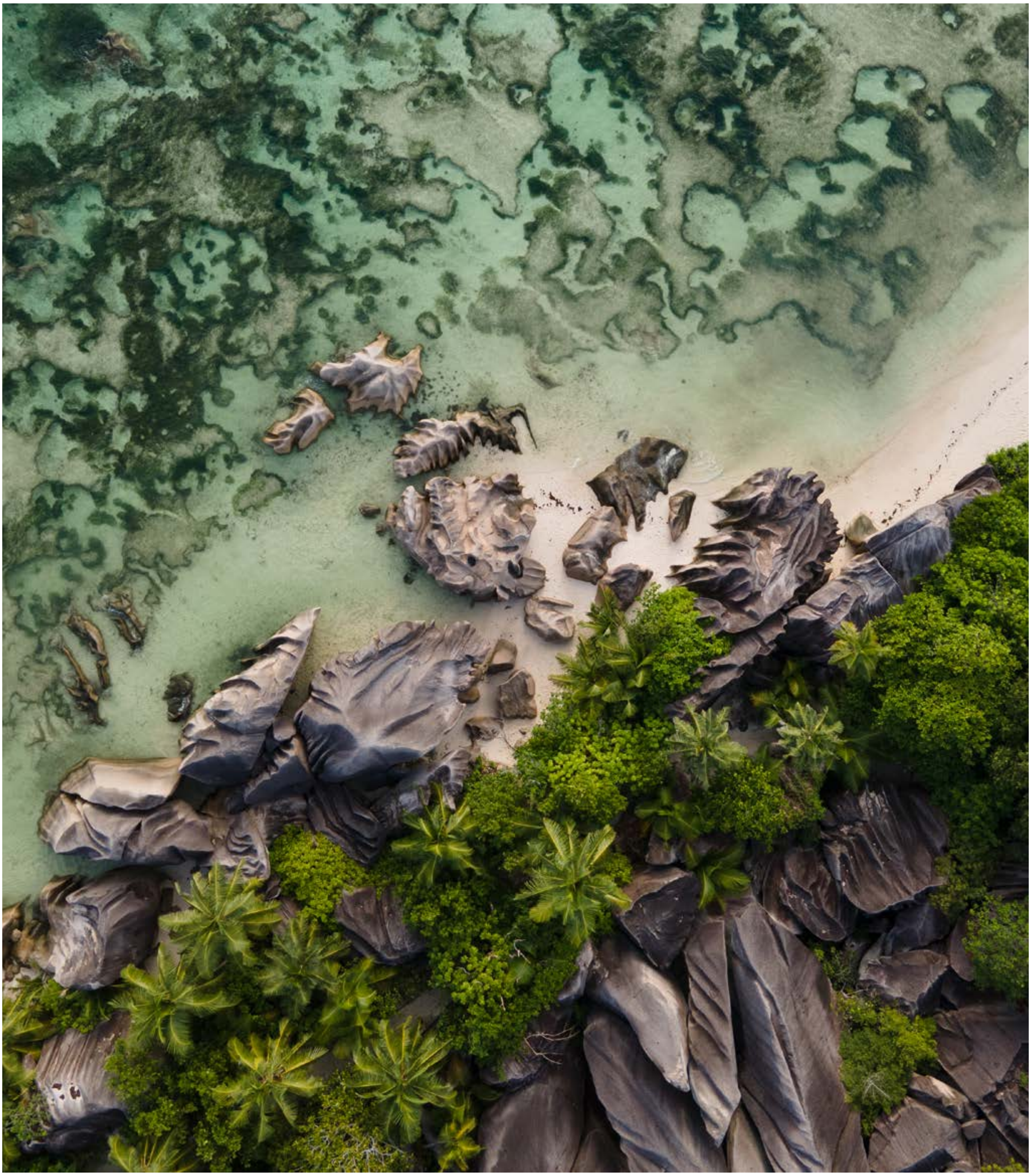
As we look forward, we will continue to deepen our understanding of governance and sustainability and how this links to value creation for our clients. Our long term investment horizons allow us to build strong relations with companies. As such, we intend for our research and engagement activities to be ongoing – not simply a one-off.

We will continue to discuss decarbonisation strategies with our airlines, challenge Food and Beverage holdings on their approaches to health and nutrition, and appraise whether management teams have fit-for-purpose governance functions and internal processes. In addition, we expect new subjects du jour, such as the risks and opportunities presented by Artificial Intelligence. At present, we have identified the three avenues below for further exploration in 2025. We aim to discuss these subjects with some of our holdings, and look forward to reporting back on the insights gained.

01. **Climate resilience**

02. **Stakeholder Relations**

03. **Lobbying**



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