

Baillie Gifford™

Sustainable Multi Asset Fund

Philosophy and Process



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The Sustainable Multi Asset Fund

The Sustainable Multi Asset Fund offers actively-managed exposure to different asset classes through the convenience of a single portfolio. This is a growth fund, seeking to deliver a good level of return over the long term within clear risk and carbon limits. For investors looking for attractive long-term fundamental growth, with the comfort of lower volatility and a focus on sustainability, the Sustainable Multi Asset Fund is an ideal solution.

Attractive returns with low volatility

The Sustainable Multi Asset Fund's objectives are designed to be consistent with the real-world targets many investors seek, and aims to deliver stable, sustainable returns through different market environments.

A single fund offering a diverse range of asset classes

The Fund invests actively and flexibly across asset classes, enabling access to different return drivers and risk factors.

Top-down macro views and bottom-up research

We take advantage of macro themes which present exciting investment opportunities, and invest through many, varied implementation methods.

Active integration of sustainability throughout the investment process

A focus on sustainability promotes investments that will stand the test of time. This is the biggest investment theme of the coming decades, and investments aligned with this will be well-positioned to do well over the long term.

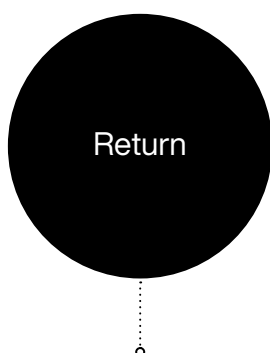
A sustainable economy

We believe a sustainable economy is one that meets the needs of current generations without compromising the ability of future generations to meet theirs. A critical element of this will be to limit the average global temperature rise to well below 2°C. Analysing the compatibility of an investment with a sustainable economy is one of 'the' fundamental investment factors we consider, alongside the return and diversification opportunities an investment may bring to the portfolio. As multi-asset investors, we believe we can invest in a wide range of asset classes that are compatible with these aims and in a portfolio that can deliver meaningful capital growth with relatively low volatility.

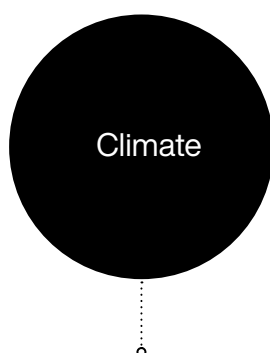


Objectives

Three equally weighted objectives:



An annualised net return over rolling five-year periods that is 3.5% more than the UK Base Rate, and a positive return over rolling three-year periods.



A portfolio with a carbon footprint maintained below a carbon budget which declines at 7% per annum.



Annualised volatility of returns over rolling five-year periods that is below 10%.

There is no guarantee that a positive return will be achieved over rolling three-year periods, or any time period, and capital may be at risk. The manager believes this is an appropriate objective given the investment policy of the Fund and the approach taken by the manager when investing. There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods.

Philosophy

As multi asset investors, we believe in finding opportunities across a wide range of asset classes that can deliver attractive returns with low volatility and are compatible with a sustainable economy. Our philosophy of long-term investing underpins everything we do in the Fund.

Long-term growth

We believe that only by investing over the long term is it truly possible to deliver good and consistent returns.

Truly diversified

By investing across the broadest possible opportunity set of asset classes, with wide flexibility in allocations, we avoid over-dependence on any single factor.

Active asset allocation

We add value through active asset allocation by investing flexibly between the asset classes available. We also invest selectively within each asset class to benefit from the best opportunities. Any investment held must fulfil (at least) one of three portfolio roles:

- To deliver a good return
- To offer diversification from the rest of the portfolio
- To offer protection in adverse market environments

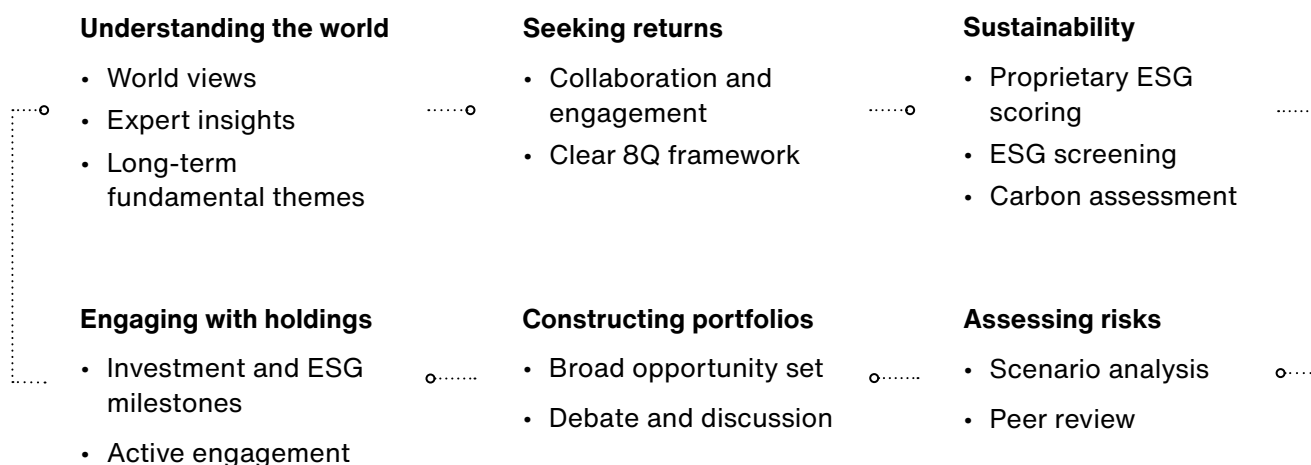
Thoughtful ESG integration

We believe that ESG factors are investment factors. Thoughtful and systematic consideration of these factors influences all the investment decisions we make.

Process

The key decision for our multi asset strategies is asset allocation. The investment process is designed to identify the most attractive asset classes and then combine them into a portfolio capable of delivering

strong returns with lower volatility than equity markets, while meeting its carbon budget and wider sustainability commitments.



Understanding the world

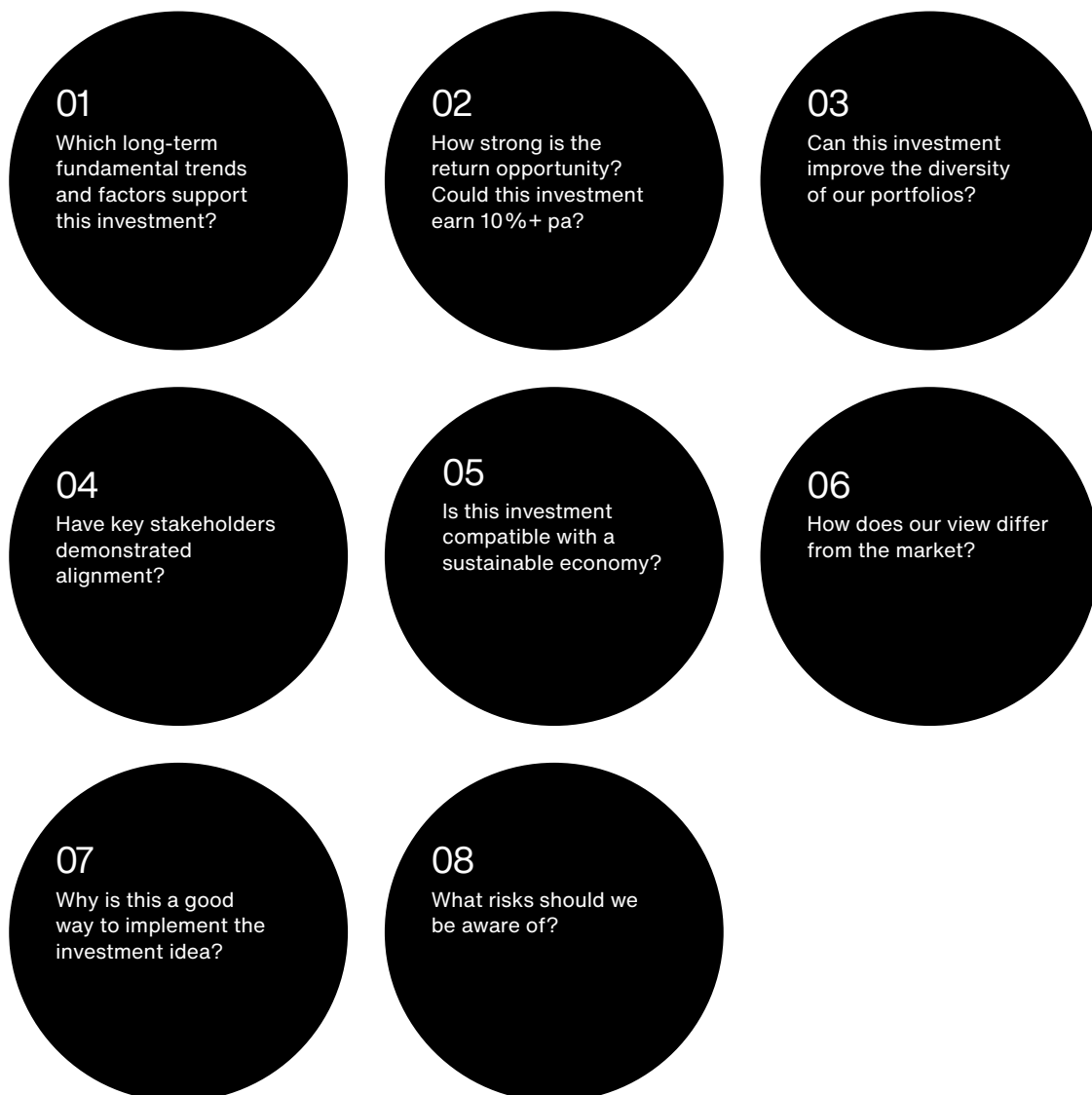
The foundation of our investment process is forming a probabilistic view of the global economy and how it relates to financial markets. Every quarter we undertake 'deep dive' research into the major economic regions of the world, alongside the development of themes with a global impact, including key commodities, global trade and geopolitics. The process has inherent flexibility, allowing us to easily include new developments and information. Demographics, sustainability and technological progress are all important aspects in forming a holistic view of the future. These views underpin our decisions on how we position the portfolio and inform what we wish to own within each asset class.

Seeking returns

A thorough analysis of the long-term returns, correlations and risk factors associated with each asset class, combined with our world views, is the starting point for our research. Over the years, we have built up an in-depth understanding of asset class fundamentals and historic returns, coupling our own internal research with input from external academic and specialist sources.

The decisions on what to own in a portfolio at any one time are influenced by our long-term return expectations, but will also reflect shorter-term considerations, such as current valuations, to identify where a particular asset class may be under-valued at a point in time. Usually, our work will then delve into the asset class to identify a specific opportunity in a geography, sector, or individual investment. Potential investment opportunities are then subject to our '8Q framework' as follows:

Eight question research framework



Question 5 links to our proprietary sustainability framework, which undertakes an assessment of each potential investment using the Sustainability Accounting Standards Board (SASB's) five dimensions of materiality as a guide (see the chart overleaf for more detail).

Sustainability

Our assessment of sustainability is, again, focused over the long-term in a forward-looking manner. Its consideration is integrated throughout the investment process, incorporating the following stages:

ESG materiality assessment

To determine sustainability, we seek to answer the question: is the investment compatible with a sustainable economy? To help formalise our response and to ensure consistency of analysis, to answer, we consider SASB’s five dimensions of materiality: environment; human capital; leadership and governance; business model and innovation and social capital. This assessment informs our view of how the environment and society may affect an investment, as well as how the investment affects society and the environment which, together with valuation, informs our portfolio position sizing and sell discipline. Investments that do not meet the qualitative evaluation process will not be included in the portfolio.

Investments that do meet the qualitative evaluation process are categorised as: Adapting; Neutral; Leader; or Enabler.

SASB materiality map



- Environment
- Human capital
- Leadership and governance
- Business model and innovation
- Social capital

Exclusions

The Fund applies a combination of revenues- and norms-based screening. These screens provide comfort to our clients that there are certain types of investment that we will automatically exclude from the fund.

Norms-based screening:

- UN Global Compact (non-compliance)
- UN Security Council Sanctions for sovereign bonds

Revenues-based screening:

- Fossil fuel extraction and production (>10% revenues)
- Thermal coal distribution (>30% revenues)
- Controversial weapons
- Armaments (>10% revenues)
- Tobacco production (>5% revenues)

Portfolio decarbonisation

As an absolute return fund without a market-related benchmark, our portfolio commitment of contributing to the goals of the Paris Climate Agreement equates to keeping our overall portfolio emissions below a pre-defined, and declining, carbon budget. Its decreasing nature is a key consideration in our portfolio construction and directs the Fund's asset allocation.

Assessing risks

For us, the most intuitive and useful way to think about risk is to look forward. Each quarter, we conduct a scenario analysis exercise in which we consider how each asset class might perform in a variety of different environments. This exercise helps us explore what situations we consider to be most likely, and often prompts us to make portfolio changes to better navigate the world. In addition, Baillie Gifford's independent Risk Analysis Department uses a range of risk management tools to monitor the predicted volatility and compliant construction of the portfolio.

Constructing portfolios

The Multi Asset Team formally reviews our portfolios every six weeks in our Asset Allocation meetings. In constructing the portfolio, we look for the best mix of asset classes to deliver the Fund's return target while also aiming to deliver the returns with low volatility. Once we have decided on the most appropriate mix of asset classes, we consider how to access our investments, this may be through strategies managed by Baillie Gifford, by owning securities directly or by investing in funds managed or offered by other, specialist managers.

Engaging with holdings

Our proprietary scoring system drives the Fund's ESG engagement and monitoring process, prioritising those investments identified as 'Adapting'. Here, we apply objective markers, or milestones, against which to measure and monitor the progress for each investment. If these expectations are not met within the relevant timeframe, we will, unless there are clear mitigating circumstances, escalate or divest of the lagging holding. All of the Fund's investments are subject to the required due diligence before investing and ongoing review of the investment case. We regularly engage with key stakeholders to ensure alignment of interests and execution of appropriate policies.

Our broad opportunity set

The Sustainable Multi Asset Fund can invest across a broad range of asset classes. This raises the likelihood of finding individually attractive asset classes and also helps us build balanced and diversified portfolios capable of delivering meaningful capital growth with relatively low volatility.

Equities

Listed equities

- Active global equity strategies
- Sustainable index exposures
- Dividends
- Specialist thematic strategies

Private equities

Real assets

Infrastructure

- Public private partnerships
- Renewable generation
- Power and transmission

Property

- Regional and sectoral

Commodities

- Individually selected positions

Debt

High yield credit

- High yield bonds
- Floating rate loans

Investment grade bonds

Structured finance

- Senior
- Mezzanine

Emerging market bonds

- Local currency
- Hard currency

Insurance linked securities

Protective positions

Absolute return

- Uncorrelated strategies
- Defensive strategies

Active rates and currency

- Return seeking
- Hedging

Cash

Gold

Index-linked bonds

Developed market government bonds

Risk management

Risk management lies at the heart of the Sustainable Multi Asset Fund. As such, we attach the same consideration to risk issues as we do to the return opportunities and sustainability credentials of our investments.

There are four main pillars to our management of portfolio risk:

- Diversification guidelines
- Scenario analysis
- Risk models
- Peer review

Diversification guidelines

We adopt a number of guidelines to ensure that the portfolio remains flexible, absolute-return focused and genuinely diversified at all times. In particular:

- There are maximum asset allocation limits for each asset class. Furthermore, no more than half of the portfolio's maximum permitted risk will come from any one asset class.
- There is no minimum allocation to any asset class. If we do not like an asset class, expect it to deliver negative returns, or see no portfolio benefit, then we will not own it.

Scenario analysis

Scenario analysis forms a major pillar of the risk framework. The investment team formally undertakes a scenario analysis exercise for the portfolio each quarter. This consists of assessing the likely performance of the asset classes in which the portfolio invests over the following twelve to eighteen months across a range of core and specific scenarios.

The core scenarios represent different states of global growth and the same for inflation. The specific scenarios look to capture pre-defined events that may have substantial effects on the portfolio were they to occur. Examples might include economic or geopolitical shocks.

Risk models

We use risk models to provide a quantitative perspective on the portfolio. This helps inform our understanding of the portfolio and the range of risks it is exposed to. The models we currently use are provided by APT and Moody's Analytics.

Peer review

The team and its investment decisions are regularly subject to constructive challenge by senior colleagues from across Baillie Gifford.

We think this is a valuable part of our process and helps the team avoid behavioural risks such as over confidence, as well as providing useful input to the generation of investment ideas. The main forums for this peer review are regular meetings with the Sustainable Multi Asset Review Group, the Investment Risk, Research and Analytics Department, and the Multi Asset and Fixed Income Investment Risk Committee.

The Sustainable Multi Asset Review Group, specifically, provides challenge to the Sustainable Multi Asset Fund's investment managers on the Fund's approach to ESG on behalf of clients. The group aims to ensure that the Fund delivers to clients on their ESG expectations and is comprised of experienced representatives from around the firm.

Portfolio liquidity

The Sustainable Multi Asset Fund offers daily dealing. This means the Fund is valued on a daily basis and is capable of accepting inflows and allowing outflows on a daily basis.

The practical effect of this is that at least 90% of the portfolio is capable of being bought and sold on a daily basis (subject of course to a satisfactory price being achievable). Up to 10% of the portfolio may be invested in externally managed open-ended funds with weekly or monthly dealing frequency (subject to a maximum 5% of portfolio in monthly-dealt funds).

People

Common enthusiasm, collective curiosity, diverse experience

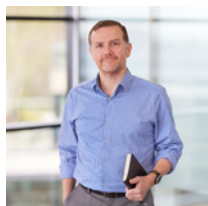
We think diverse teams make better decisions. Our team has a range of experience and interests. They all have in common an enthusiasm for seeking out exceptional investment opportunities. This is the same specialist team that manages our Diversified Growth and Multi Asset Growth Funds.

The team sits within our Multi Asset and Fixed Income (MAFI) Group, working closely with other specialist groups, such as Global Bond and Real Assets. They also draw upon the whole resource and expertise of the firm, notably the long-established stock-picking capabilities and strong track record of our equity and credit teams, and the Investment Risk, Analytics and Research Department. The MAFI Investment Risk Committee provides support, advice and constructive challenge to the investment team.



James Squires

James is head of the Multi Asset Team and chairs our Multi Asset and Income Leadership Group. He became a partner in 2018. James joined Baillie Gifford in 2006, initially working in our North American Equity and Fixed Income teams. He has been a CFA Charterholder since 2010 and graduated BA in Mathematics and Philosophy from the University of Oxford in 2005.



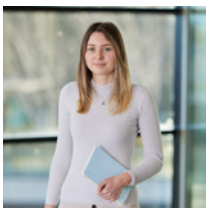
Scott Lothian

Scott joined Baillie Gifford in 2015 and is an investment manager in the Multi Asset Team. Prior to joining the firm, he worked for Schroders in London, BEA Union in Hong Kong and Towers Watson. Scott graduated BSc in Actuarial Mathematics and Statistics from Heriot-Watt University in 1999. He is a fellow of the Institute and Faculty of Actuaries.



Laura Thomson

Laura joined Baillie Gifford in May 2018 as an Analyst in the central ESG Team and is now a fully embedded ESG Analyst within the Multi Asset strategy. Prior to joining Baillie Gifford she worked as an Environment and Sustainability Advisor for Laing O'Rourke, an international construction and engineering company. Laura also worked for over two years as an Analyst and Account Manager for CDP's Cities and Supply Chain Programmes. Laura graduated BA (Hons) in French Studies from the University of Sheffield in 2010 and with MSc from the University of Edinburgh in 2011.



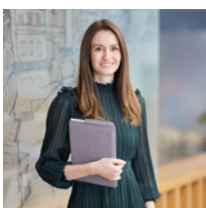
Siân Lombard

Siân joined Baillie Gifford in 2021, she works as an Assistant in the Multi Asset Team, focussing on ESG Research and Engagement. Prior to joining Baillie Gifford, Siân worked at Deloitte in London after graduating BSc in Environmental Geoscience from Durham University in 2017.



Felix Amoako

Felix joined Baillie Gifford in 2011 and is an Investment Manager in the Multi Asset Team. He is a CFA Charterholder. Felix graduated BComm in Accounting from University of Cape Coast, Ghana in 2008 and MSc in Investment Analysis from the University of Stirling in 2010.



Nicoleta Dumitru

Nicoleta is an investment manager in the Multi Asset Team and part of the Sustainable Income Portfolio Construction Group. She joined Baillie Gifford in 2013 after graduating BSc (Hons) in Management and Marketing from the University of Manchester that same year.

Why invest with Baillie Gifford

Established in 1908, we have a long history of independent, long-term and client-focused investment.

People

Our people are fundamental to our success, and our partnership structure brings sustainable advantages in the recruitment and retention of staff.

Baillie Gifford's partnership structure has provided the foundation for an enviable record of corporate stability and firmly aligns us with the long-term interests of our clients. We have no outside shareholders who might have different priorities to those of our clients. Our structure is also a significant factor in our ability to attract and retain the very best investment talent. Our selection policy is based on intelligence, leading to the recruitment of individuals from a wide range of academic disciplines with usefully different perspectives and approaches to analysis. Most of our analysts and investment managers are trained in-house, our aim being to combine a common culture with an atmosphere that encourages vigorous debate. The firm's values and beliefs are clearly communicated and, coupled with low staff turnover and long service, the firm has been able to capture a strong team spirit while growing steadily in recent years.

Investment

Our competitive advantage lies in differentiating between what matters and what is simply market noise. Then it is our ability to wait patiently to take advantage of periodic market mispricing – both at asset class and security level.

Baillie Gifford's investment decisions are based on thorough research, though we have the capability to act quickly if necessary. The investment managers and analysts of our Multi Asset and Fixed Income teams focus on asset allocation, macroeconomic policy, and credit research, while the global and regional equity teams primarily conduct stock research.

Clients come first

Our primary aim is to add value for clients. We always put our existing clients first. We have frequently closed our most successful investment strategies to new business to protect their integrity. We think that asset growth purely follows from doing a good job for clients and we look to cultivate relationships with potential new clients who will share our long-term investment horizon.

Actual ESG

At Baillie Gifford we have not inserted climate change or social equity as separate factors in our investment processes across the firm; they have always been there as considerations within our long-term investment horizon. We don't generally expect environmentally damaging or socially irresponsible companies to escape unscathed by regulators or customers, so we don't see them as attractive long-term investments. Consideration of ESG factors is embedded into our investment activities.



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