Baillie Gifford

Stewardship Report
Year ended 30 June 2023

Sustainable Multi Asset

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.

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Potential for profit and loss

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

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All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

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Baillie Gifford™

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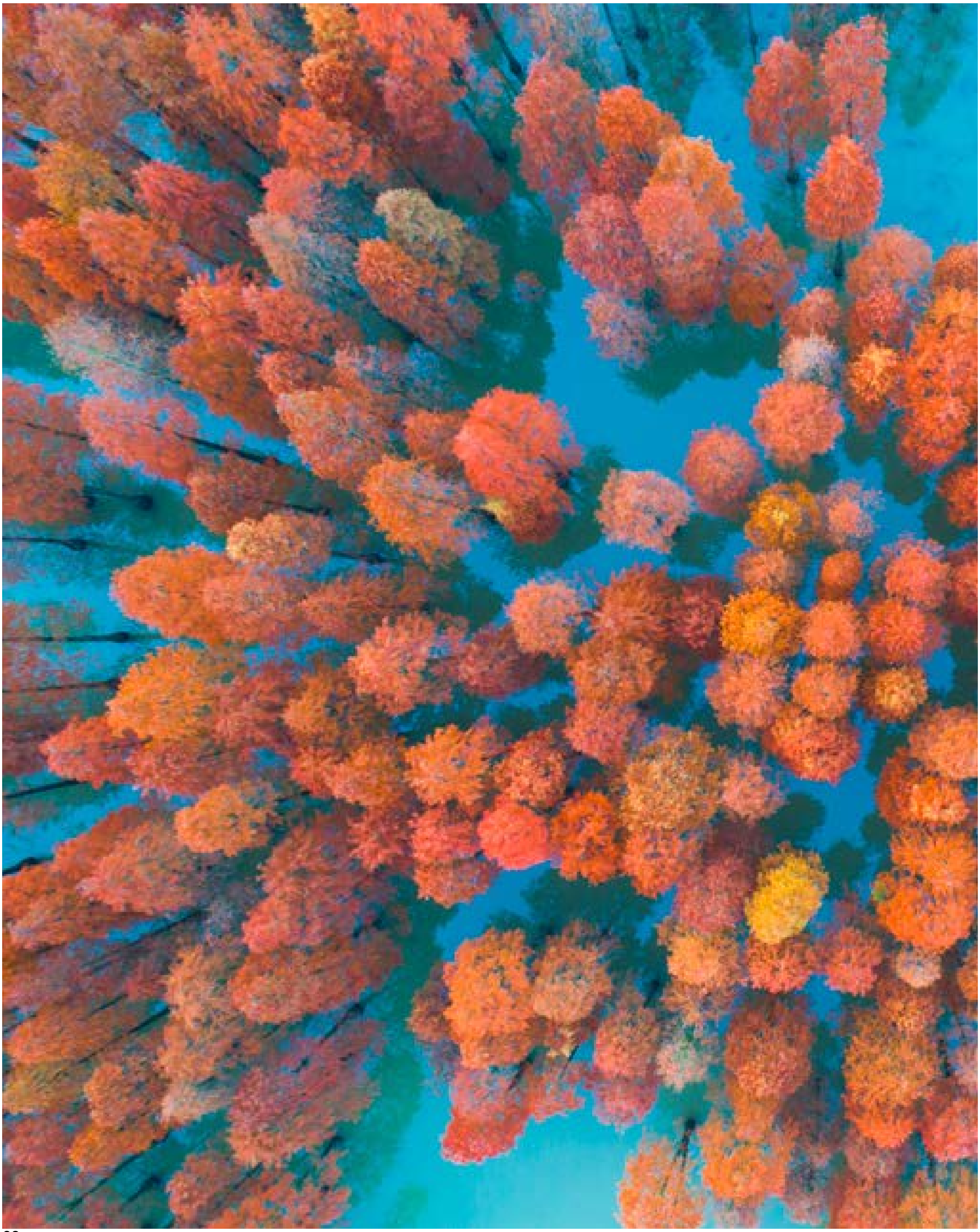

Introduction

As active investment managers, we target positive outcomes for your capital. While these are traditionally framed in return and risk terms, we believe there is also a strongly implied objective to consider sustainability factors so as to be the best possible stewards of your capital.

Baillie Gifford's multi-asset portfolios all have stated absolute return objectives, and having a stable, sustainable investment environment makes it much easier to achieve these in the long term. Sustainable Multi Asset (SUSMA) has a further carbon-related objective, again positioned in absolute terms, as opposed to being versus a market index benchmark. This means the strategy is aligned with doing more than just reducing the portfolio's carbon footprint. By being thoughtful and responsible investors on behalf of our clients, we believe we can positively influence the ecosystem we operate within.

Good stewardship starts long before capital is committed. We take time to learn as much as we can about potential holdings. That includes their role in society and their environmental, social and governance (ESG) approach, and applies whether that holding is in equities, corporate bonds, sovereign bonds or other asset classes. Each asset class throws up its own challenges and opportunities and requires a distinct approach to research and ongoing engagement. There is an example of an emerging market sovereign bond assessment on page 16, which demonstrates a very different consideration of ESG factors compared to that of a listed equity or third-party fund.

Our portfolios benefit from the stewardship activities undertaken by and alongside our specialist colleagues within Baillie Gifford. Most investment teams have embedded specialist ESG analysts, forming an internal network for research and engagement. This is supported by ESG subject-matter experts, an ESG data team and a central proxy voting team. Our internal resource is complemented in key areas by external advisory, academic and data providers as required. The ultimate responsibility remains with the portfolio managers, for whom the support has never been greater.

We have had many interesting interactions with our holdings and clients on ESG and stewardship. We hope this report sparks further conversations and look forward to continuing these over 2024 and beyond.

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Carbon objective

Our objective is to have a carbon footprint that is lower than the strategy's stated carbon budget. The carbon budget is set in absolute terms and will decrease at a steady annual rate of 7 per cent per annum[1].

SUSMA recently celebrated its first anniversary. This seems an opportune moment to reflect on what we've learned over the past year and consider how we can use that to shape our strategy in the coming years.

While the strategy consistently met its climate objective over this period, we do not consider it a given. It has been tested more and earlier than initially anticipated. This, however, is understandable: if appropriately done, decarbonising the economy is not expected to be straightforward.

You will be familiar with the concept of a budget, but perhaps less so in the context of measuring your portfolio's sustainability. We see our carbon budget as a clear differentiator of the strategy, which gives us a focus and framework for implementing our philosophy.

Quite deliberately, the strategy's climate objective is not to minimise the portfolio's carbon intensity but rather to budget for it, similar to how we budget for risk and costs. This allows us to participate in what we believe to be great investment opportunities, even if the associated carbon intensity, a backwards-looking measure by definition, is on the high side. But we will have to 'make space' elsewhere in the portfolio, ie climate intensity is another dimension in the portfolio construction jigsaw.

[1] For the purposes of the climate objective, we measure the portfolio's carbon footprint in tonnes of CO_2 equivalent (tCO_2e)/ USD million enterprise value including cash (EVIC), as this allows measurement of an investor's share of emissions to be proportional to their exposure to the investee's total value, which includes both debt and equity. This metric is therefore considered to be comparable between different corporate-like assets, ideal for a multi-asset portfolio.

The three ways in which the SUSMA's carbon footprint can decrease are, in order of sustainability preference:

01. The carbon footprint of the underlying investments reduces, and so the portfolio carbon footprint falls without any portfolio changes.
02. Low-carbon substitutes for target investments are found or developed, allowing us to express the desired asset allocation views with reduced carbon intensity.
03. Asset allocation changes are made to reduce high-carbon asset classes and bias towards those with lower-carbon intensity.

Over short periods of time, however, individual carbon footprints can be quite variable and easily increase and decrease for different reasons. We measure the portfolio's carbon intensity using enterprise value including cash (EVIC). Any decline in EVIC, for example in a market crash or recession, causes the carbon intensity to rise, even without the 'real-world' greenhouse gas (GHG) emissions going up. This was something we considered before launching the strategy, but which came more clearly into focus as the year unfolded, given circumstances.

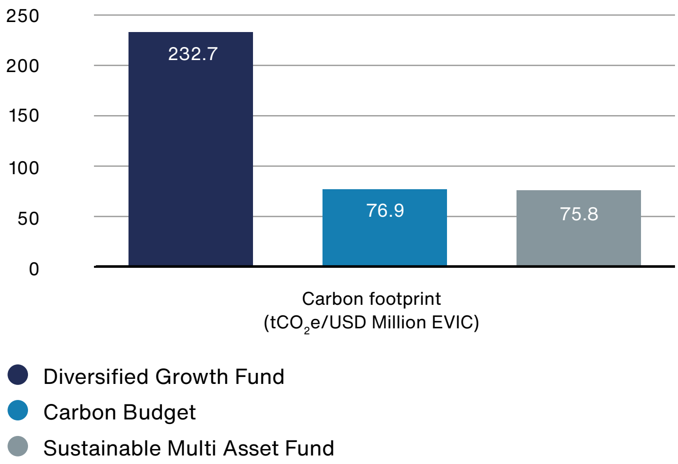
We rely on an independent data provider for the carbon metrics on the underlying holdings, and to calculate the carbon footprint for the portfolio as a whole. Data is evolving and improving, but we acknowledge the existence of data gaps, estimated data and unverified corporate disclosure. When faced with carbon data gaps, the approach is to scale up the portfolio's weighted average emissions intensity across holdings that remain in-scope.

As part of our investment process, we ask: is the investment compatible with a sustainable economy? Here, we are guided by the sustainability dimensions covered in the Environmental (scope 1 and 2 emissions*) and Business Model (scope 3 emissions) dimensions of the Sustainability Accounting Standards Board's (SASB) Materiality Map. These dimensions are of utmost importance in aligning the portfolio to net zero GHG emissions by mid-century and to be on track for doing so by 2030.

The strategy is still in its early stages, but we have great confidence in its long-term success. SUSMA is designed to be aligned with, promote and benefit from, the global move to a more sustainable future. The carbon budget objective is just one way to approximate this, albeit it is a backwards-looking measure, which does not show the direction of travel, only a snapshot in time. Keeping our eyes on the long term is hugely important. It will be our asset allocation, how we implement our objectives and how we engage with stakeholders that are key to real-world change.

*Scope 1 means emissions from sources owned or controlled by a company, whereas scope 2 means indirect emissions from purchased energy. Scope 3 means indirect emissions in a company's value chain.

Carbon footprint as at end of June 2023

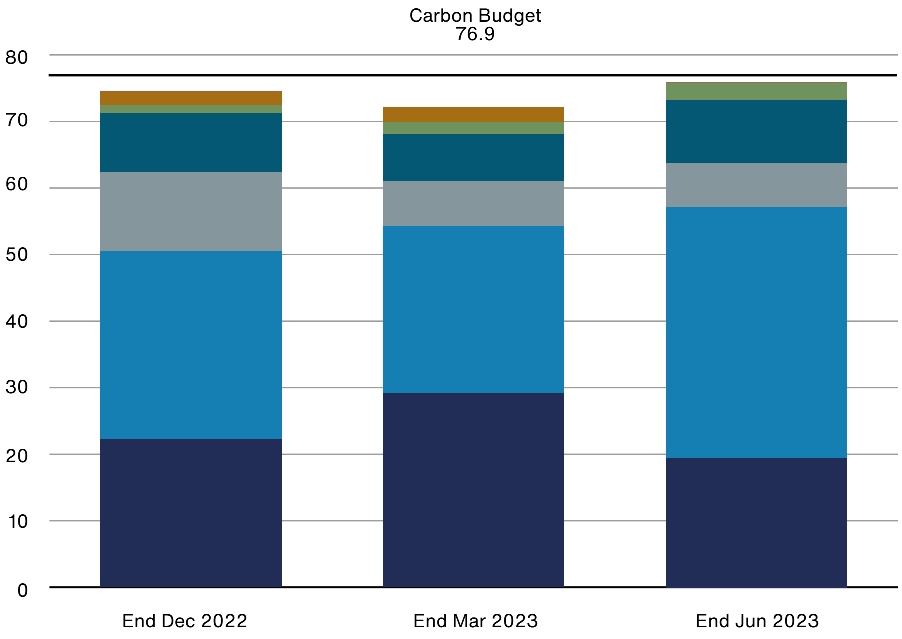


Source: Baillie Gifford & MSCI.

As at 30 June 2023. All data is pulled from MSCI. It is fact checked by our ESG analysts and is considered correct at the time of publishing.

When faced with carbon data gaps, rather than excluding instruments from the emissions calculations, we make an adjustment to scale up the portfolio intensity across the remaining in-scope portfolio. This 'coverage adjusted weighted average carbon intensity' is applicable to both the fund and calculation of the starting carbon budget, for consistency.

SUSMA carbon footprint (tCO_2e/USD million EVIC) asset class contributions



		Dec 2022	Mar 2023	Jun 2023
1	High Yield Credit	22.3%	29.2%	19.4%
2	Listed Equities	28.3%	25.1%	37.7%
3	Infrastructure	11.8%	6.8%	6.6%
4	Commodities	8.9%	7.0%	9.4%
5	Property	1.2%	1.9%	2.4%
6	Investment Grade Bonds	2.0%	2.2%	0.3%
7	Insurance Linked	0.0%	0.0%	0.0%
8	Structured Finance	0.0%	0.0%	0.0%
9	Cash and Equivalents	0.0%	0.0%	0.0%

Source: Baillie Gifford & MSCI.
Data as at 30 June 2023. All data is pulled from MSCI, Sustainalytics, ISS, BoardEx and FactSet. It is fact checked by our ESG analysts and is considered correct at the time of publishing.

Embedding ESG factors into the investment process

From forming our macroeconomic views of the world to assessing long-run asset class valuations and analysing individual investments, ESG is woven into our day-to-day investment activities.

The stewardship activities of the Multi Asset Team

Debate and discussion

Firmwide shared beliefs, principles and policies

- Shared beliefs, stewardship principles, ESG Principles and Guidelines
- Dedicated/embedded Multi Asset ESG analysts

Top down: ESG – risks and opportunities

- Thematic macro research
- Climate scenario analysis

Bottom-up: a case-by-case approach

- Sustainability materiality assessment
- External relationships, industry memberships
- Identification and monitoring of ESG milestones
- Company engagement
- Restriction screening

Portfolio construction: an active approach

- Inform position sizes
- In-house proxy voting
- Stewardship research and priority engagement
- Carbon budget management

Reporting

- Engagement and proxy voting
- TCFD reporting
- Annual Stewardship Report

Sustainability assessment framework

The Multi Asset Team has developed a framework to consistently assess the sustainability features of our investments, objectively considering their relevance and materiality.

Prior to investing, we actively consider the material opportunities and vulnerabilities associated with each portfolio holding and continue to do so as part of ongoing portfolio management. Positive ESG factors may increase our enthusiasm for an investment, just as negative performance may weigh against a potential investment. The latter may cause us to hold a smaller position, demand a higher risk premium or choose not to invest. Asking ourselves 'Is this investment compatible with a sustainable economy?' is at the heart of this process and is integrated into our eight-question investment research framework.

Since 2021, the SUSMA Team has been using the SASB Materiality Map to frame and maintain consistency across our sustainability assessments of our directly-held investments. These assessments inform our views on how the environment and society may affect an investment, as well as how the investment affects society and the environment. They are also underpinned by governance considerations and combined with valuation and economic outlook to inform our portfolio decisions.

The SASB Materiality Map groups potential material indicators into five dimensions: Environment, Leadership and Governance, Human Capital, Social Capital, and Business Model and Innovation. Underlying these headline dimensions is a sub-set of 26 ESG factors. As some of our multi-asset holdings overlap sectors, we use a flexible approach when applying the framework to ensure considerations are tailored appropriately.

The Multi Asset 8 question (8Q) investment framework

01
Which long-term fundamental trends and factors support this investment?

02
How strong is the return opportunity?

03
Can this investment improve the diversity of the portfolio?

04
Have key stakeholders demonstrated alignment?

05
Is this investment compatible with a sustainable economy?

06
How does our view differ from the market?

07
Why is this a good way to implement the investment idea?

08
What risks should we be aware of?

SASB Materiality Map* ESG factors by dimension

Environment

- GHG emissions
- Air quality
- Energy management
- Water and wastewater management
- Waste and hazardous materials management
- Ecological impacts

Social capital

- Human rights and community relations
- Customer privacy
- Data security
- Access and affordability
- Product quality and safety
- Customer welfare
- Selling practices and product labelling

Human capital

- Labour practices
- Employee health and safety
- Employee engagement, diversity and inclusion

Business model and innovation

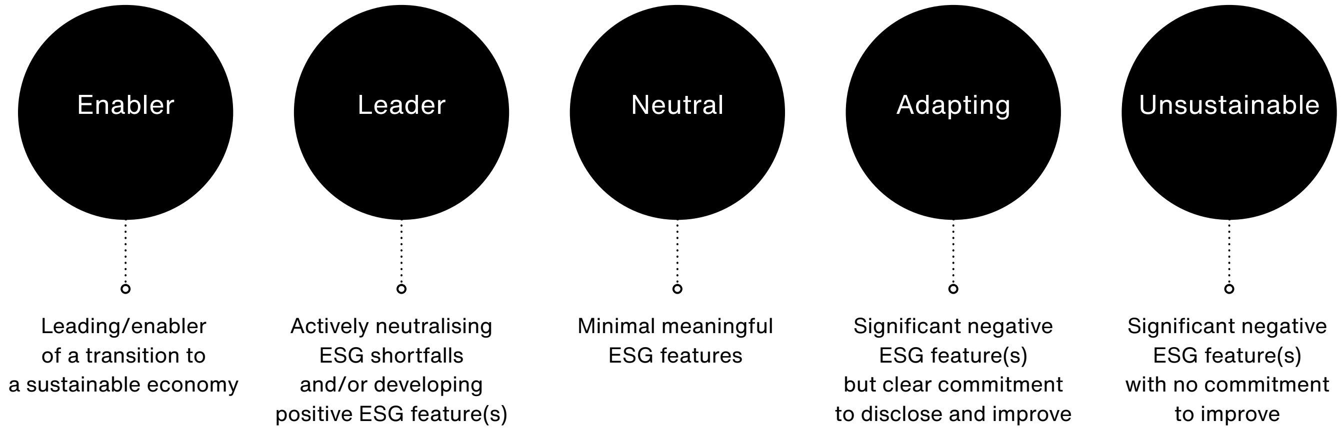
- Product design and lifecycle management
- Business model resilience
- Supply chain management
- Materials sourcing and efficiency
- Physical impacts of climate change

Leadership and governance

- Business ethics
- Competitive behaviour
- Management of the legal and regulatory environment
- Critical incident risk management
- Systemic risk management

*https://sasb.org/standards/materiality-finder/

The SASB Materiality Map feeds into an overall sustainability assessment for each portfolio holding, which are categorised as follows:



Investments classified as ‘Unsustainable’ are not eligible for inclusion in the SUSMA portfolio.

These categories drive our ESG engagement and monitoring process, with those investments identified as Adapting given priority. Here, we apply objective milestones to measure each investment’s progress.

Additional instruments are also held for portfolio management purposes such as reducing risk exposure, and these are generally categorised as Neutral.

The sustainability assessment of sovereign debt considers a country’s progress towards the Paris Agreement targets on climate change, and the UN Sustainable Development Goals (SDGs). Page 44 of our firmwide Stewardship Report provides an overview of Baillie Gifford’s activities for this asset class and we provide an example of a sovereign sustainability assessment later in this report.

Sustainability assessment framework examples

Highlighting the bespoke application of our sustainability assessment framework across different asset classes in our diversified portfolio.

WisdomTree Aluminium ETC (commodities)

An exchange-traded commodity which provides direct exposure to the aluminium price through a synthetic swap instead of physically buying the metal or providing capital to aluminium miners.

Dimensions of materiality	Potentially material ESG factors to consider[2]	Summarised ESG assessment	Assessment
Environment	• GHG emissions • Air quality • Energy management • Water and wastewater management • Ecological impacts	Aluminium is derived from the mining of bauxite and the extraction process is highly carbon intensive. The International Energy Agency (IEA) reports aluminium emission rates as 'not on track' at the global level against the Net Zero Emissions by 2050 Scenario (NZE) trajectory for 2030. However, it is a critical component for electric vehicle construction, renewables and power networks, which are required to facilitate the energy transition. WisdomTree is carbon neutral through carbon offsetting.	Adapting
Human capital	• Labour practices • Employee health and safety • Employee engagement, Diversity and inclusion	Policies are in place on diversity and inclusion, and WisdomTree has set up a diversity, equality and inclusion council to champion its employees' interests.	Neutral
Social capital	• Selling practices and product labelling	WisdomTree appears to have sound selling practices and offers responsibly labelled products. It also provides paid time off for employees to engage in charitable work.	Neutral
Business model and innovation	• Product design and lifecycle management	WisdomTree is a relatively simple business that largely provides exposure to indices. Innovation is more about product availability and in the commodities space its offering is extensive. It offers collateralised exposure at affordable fees.	Neutral
Leadership and governance	• Business ethics • Critical incident risk management • Systemic risk management	As an index provider, the primary motivation of WisdomTree is to grow assets. The Bloomberg Commodity Indices have strong governance frameworks to protect investors' interests. The London Metals Exchange Passport scheme is in its early stages but using it paves the way for improving the assessments of metal provenance and details, as well as what is acceptable for delivery of the contracts.	Leader
Overall assessment		**Aluminium is a critical component in the energy transition. The IEA reports rate aluminium progress as 'not on track' at the global level against the Net Zero Emissions by 2050 Scenario trajectory for 2030.**	**Adapting**

ESG Milestone: The International Energy Agency to improve the current rating of aluminium within three years.

[2] Relevant SASB industries: Security and commodity exchanges; Asset management and custody activities; Metals and mining.

Octopus Renewables Infrastructure Trust plc (infrastructure)

A closed-ended investment company building and operating a diversified portfolio of renewable energy assets.

Dimensions of materiality	Potentially material ESG factors to consider[3]	Summarised ESG assessment	Assessment
Environment	• Energy management • Water and wastewater management • Waste and hazardous materials management • Ecological impacts	It is enabling the climate transition and all its investments are considered EU taxonomy-aligned. That means it is making a substantial contribution, while also doing no significant harm and meeting minimum human rights and labour standards. Scope 1 and 2 emissions are disclosed and offset via verified carbon units. Its annual report includes an estimation of tonnes of carbon avoided. It evidences a demonstrable effort to manage biodiversity risks via active management at the construction stage, and through impact partnerships that specifically target biodiversity outcomes.	Enabler
Human capital	• Employee engagement, Diversity and inclusion • Employee health and safety	The board has an equal gender split and its investment manager has also implemented diversity and inclusion initiatives. It has a good, transparent health and safety record, with no days lost to work-related injuries, accidents, ill health or fatalities in 2022.	Leader
Social capital	• Selling practices and product labelling	One of the company's people-related impact objectives is to evaluate social considerations to mitigate risks and promote a 'just transition' to clean energy.	Enabler
Business model and innovation	• Product design and lifecycle management • Materials sourcing and efficiency	It is a diversified portfolio, with assets across the United Kingdom and Europe. It is classified as an Article 9 Fund under the EU Sustainable Finance Disclosure Regulation (SFDR) and as such Principal Adverse Impacts are reported. The Trust has been awarded the London Stock Exchange's Green Economy Mark and Octopus Group is a UN Principles for Responsible Investment (PRI) signatory.	Enabler
Leadership and governance	• Business ethics	There is an independent, well-resourced board whose members have plenty of directly relevant industry expertise. The manager is part of Octopus Energy Group, a private partnership and clear UK energy sector disruptor. The managers of the Trust benefit from the group's innovative views on the future of the energy sector and are positioning exposure accordingly.	Leader
Overall assessment		**The Trust's mission is to accelerate the net zero carbon emission transition to a sustainable economy.**	**Enabler**

[3] Relevant SASB industries: Asset management and custody activities; Solar technology and project developers; Wind technology and project developers

The Arabic Republic of Egypt (sovereign debt)

Our sovereign sustainability assessments are based on a country's current and future climate action and sustainability progress. Questions that inform our view include: Will this country be on course to achieve Paris-aligned targets on climate change in three- to five-years' time? Will the country deliver progress toward the UN Sustainable Development Goals (SDGs)? Is the country's governance improving?

Dimensions of materiality	ESG factors to consider	Summarised ESG assessment	Sovereign assessment (current and outlook)	
Climate and environment	Will this country be on course to achieve Paris-aligned targets on climate change in three- to five-years' time?	Egypt is currently not on track to meet Paris goals. It was rated as "highly insufficient" by the Climate Action Tracker (March 2022), an independent scientific project measuring countries' progress against the Paris Agreement. Egypt has competing agendas on decarbonisation pathways and renewable adoption. While headline targets are ambitious, they conflict with the message to rapidly expand Egyptian gas infrastructure and low expectations for domestic involvement in renewables.	Current	Sustainability at risk
			Outlook	Moderate commitment
Sustainability progress	Will the country deliver progress toward the UN SDGs? Is the country's governance improving?	Despite multiple bouts of high inflation, positive progress has been made since the UN SDGs launch in 2015. Egypt ranks 87/163 on the SDG Index, which is high relative to gross domestic product per capita. SDGs which are lagging include: 2. Zero Hunger, 3. Good Health, 8. Growth, 14 & 15. Biodiversity and 16. Strong Institutions. The Bertelsmann Stiftung's Transformation (BTI) report rates countries on their democracy, market economy and good governance. It provides an excellent summary of Egypt's governance history and current situation. The analysis is not positive, evidencing the widespread practice of forced disappearance, torture and extra judicial killings. Egypt's governance makes the country unsustainable through a human rights lens.	Current	Unsustainable
			Outlook	Moderate improvement
Overall assessment		Egypt scored the lowest category on sustainability progress. This assessment necessarily prohibits investment for the SUSMA Strategy. For Egypt to return to investment status, we are looking for governance reforms resulting from a mix of positive signals including the release of political prisoners, independence of the judiciary, and socially-focused fiscal and economic policy.		Unsustainable

Case study 1: Credit Suisse Stock-Market Index-Tracking notes

A case study of how our stewardship processes led to a complete sale of a holding.

During the reporting period, Baillie Gifford's multi asset portfolios held exchange-traded notes (ETNs) issued by the investment bank Credit Suisse. The ETNs gave exposure to the domestic Chinese equity market plus a spread. This allowed access to a market we considered to be attractive from a return perspective, as well as benefitting from a market inefficiency leading to the possibility of a fixed return over and above that of the referenced index (CSI 500). The portfolios have held such exposures (issued by a range of banks) for several years, and a handful remain in place at the time of writing.

The Credit Suisse ETNs in question were not collateralised, and so the portfolios had credit exposure to the issuing bank. This risk was well understood. ETNs are not 'marked-to-market' (valued according to the current market value rather than the book value) as an equity or listed corporate bond would be. Were the bank to default on its debt generally, it might have meant a sudden loss on these notes.

We did not have to look far for bad governance-related press about Credit Suisse over recent years – board and senior management turnover, high-profile client failures and credit rating downgrades. While this had been on our minds, we had maintained that Credit Suisse was sufficiently well-capitalised to withstand the impact of all but the very worst-case outcomes. However, in late September 2022, a sudden drop in the bank's share price and a widening in credit spreads prompted a closer look.

We initiated a discussion with the Multi Asset and Fixed Income Investment Risk Committee, an internal governance group, and discussed the specific Credit Suisse position and the prospect of wider banking stress. Together with colleagues from our independent risk team, the credit team, the dealing desk, Baillie Gifford's business risk team, the equity team, and the investment managers, we updated our assessment of the situation.

At that point, the key takeaway was that there was no immediate and significant risk of default on these particular notes, but that the inherent counterparty risk had undeniably increased. Given the nature of these ETNs, however, multi asset portfolios were not being compensated for this increased risk. As a result of this internal engagement, the Credit Suisse ETNs were sold from the multi asset portfolios, and replaced by similar notes issued by another more stable investment bank.

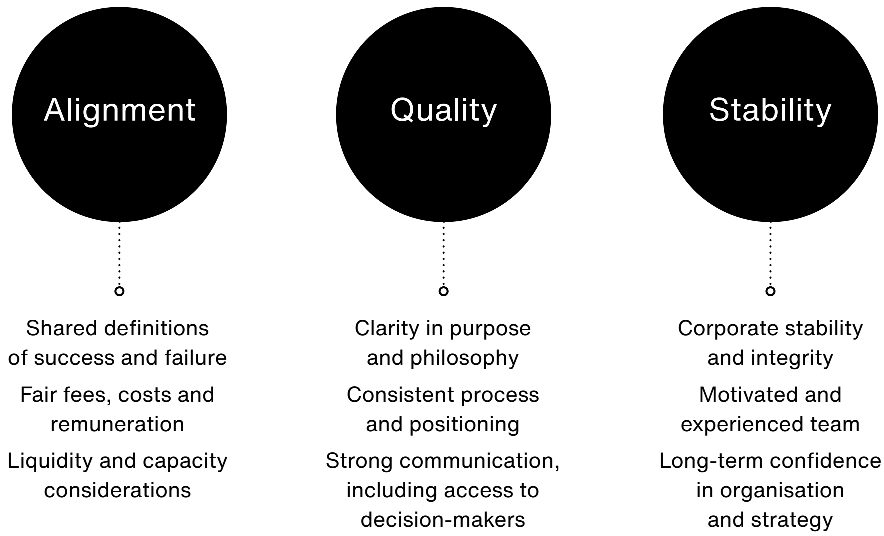
We cannot claim to have foreseen the ultimate demise of Credit Suisse in the spring of 2023, but using the governance frameworks in place within Baillie Gifford, we saved a few sleepless nights before the bank was bought out by Swiss rival UBS. In practice, these notes would not have defaulted, and proceeds would have been entirely unaffected by the eventual outcome. However, we prioritised being good stewards, which meant that heeding the early warning system and exiting the positions on governance grounds was the correct course of action.

Case study 2: Additions to structured finance

A case study of our external manager assessment and engagement process.

Structured finance[4] is different to other more traditional asset classes. Although we can invest directly into collateralised loan obligations (CLOs) ourselves, we believe the optimal way to gain access is via external managers. Not only do third-party managers have extensive experience and market knowledge, as specialist managers they also can transact at lower market prices. This better execution more than covers the fees we pay to invest in their funds.

Forward-looking manager assessment is largely a qualitative exercise. Our focus on Alignment, Stability and Quality is a shorthand to capture the range of characteristics we believe to be conducive to successful investment management. The below diagram outlines our framework.



[4] Structured Finance means exposure to lending such as residential mortgages, commercial mortgages and corporate loans. The individual loans are pooled, and investors select exposure to a desired level of risk and return; for example, a lower-returning exposure would require losses to be incurred by each of the higher risk elements in the structure before it would suffer a loss.

Over the 12-month period to June 2023 the SUSMA Team has increased our structured finance allocation by adding to existing holdings.[5] Our Multi Asset portfolios have used external managers for a number of years, establishing long-term relationships which benefits engagement.

Our continuous engagement with external managers is crucial for monitoring investments and ensuring they remain optimal for our clients. We have had multiple engagements with each manager over the past year, focusing on governance related to fees, liquidity and diversity. This included a full-day visit at the offices of Prytania, HSBC in November 2022 and Accunia in February 2023.

As a result of these ongoing engagements, we have been able to negotiate fee reductions and improved liquidity terms. There have also been improvments in the diversity of the often male-dominated boards, with female board appointments made (eg Prytania) and a focus on increasing female representation over the long term (Accunia, FairOaks, HSBC Asset Management and TwentyFour).

Structured Finance remains an asset class where the availability of good quality standardised ESG data is lacking. The nature of investing in CLO tranches means that control over the final destination of invested capital is handed over to an external manager. This means that our focus is largely on ensuring we have chosen the right managers, aligned with our investment and sustainability beliefs.

The SUSMA Team continues to engage with our holdings ensuring they make sufficient efforts to be on the front foot when it comes to ESG data reporting.

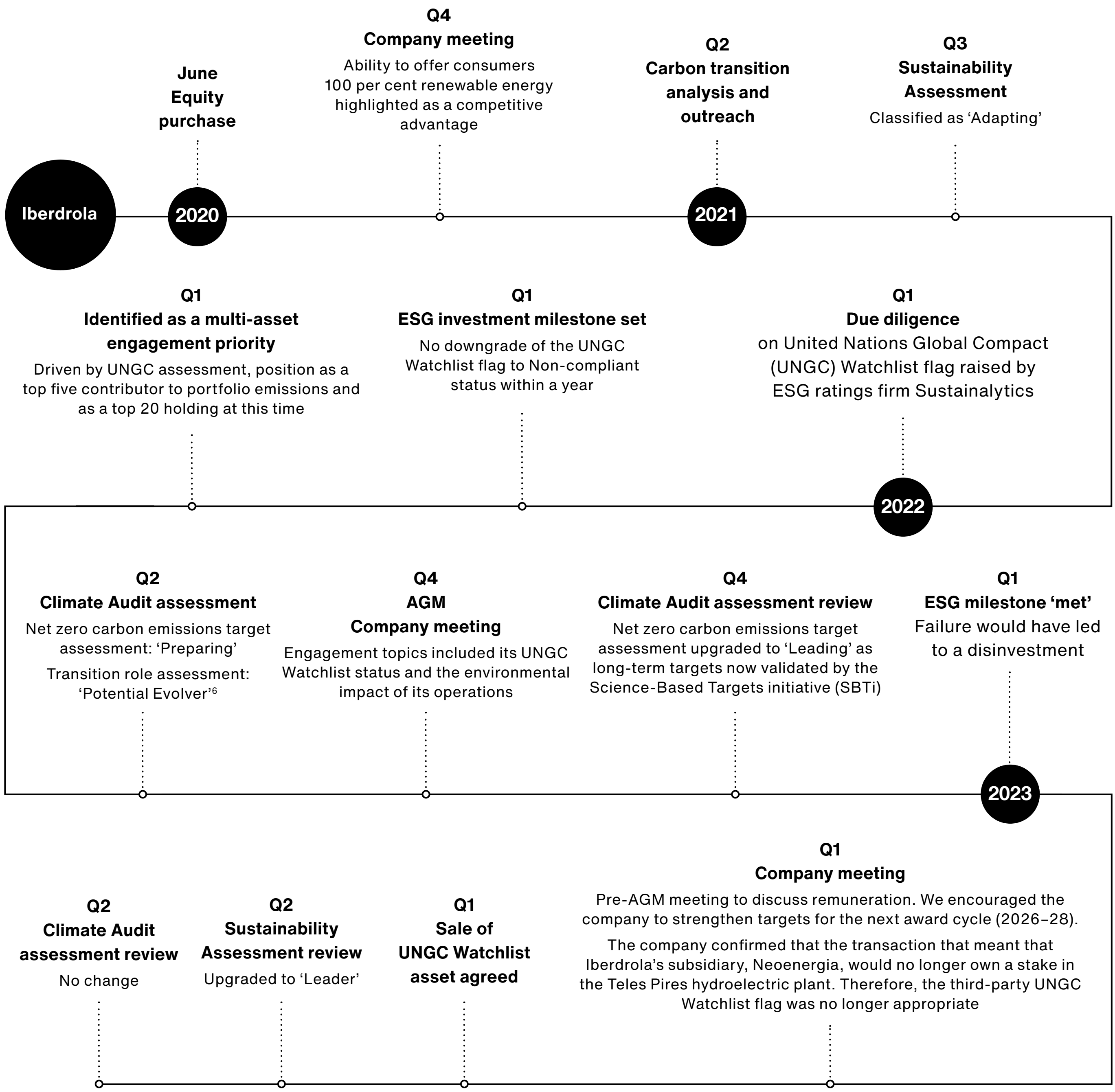
[5] These include funds managed by Prytania, Fair Oaks Capital, HSBC Asset Management and TwentyFour.

Case study 3: Iberdrola

A case study showing our stewardship activities over time.

Iberdrola, S.A. engages in the generation, transmission, distribution and supply of electricity in Spain, the United Kingdom, the United States, Mexico, Brazil, Germany, France, and Australia.

Dimension of materiality	Sustainability assessment
Environment	Leader
Human capital	Neutral
Social capital	Neutral
Business model and innovation	Neutral
Leadership and governance	Leader
Overall assessment	**Leader**



Our ongoing stewardship activities have helped us to evaluate our holding in Iberdrola and to calibrate our position size over time.

[6] More details of this assessment process can be found in the Baillie Gifford & Co TCFD Climate Report.

Baillie Gifford's Stewardship Principles

Baillie Gifford's overarching ethos is that we are 'Actual' investors. We have a responsibility to behave as supportive and constructively engaged long-term investors. We invest in companies at different stages of their evolution, across vastly different industries and geographies, and we celebrate their uniqueness. Consequently, we are wary of prescriptive policies and rules, believing that these often run counter to thoughtful and beneficial corporate stewardship.

Our approach favours a small number of simple principles which help shape our interactions with companies.

01. Prioritisation of long-term value creation

We encourage our holdings to be ambitious and focus their investments on long-term value creation. We understand that it is easy to be influenced by short-sighted demands for profit maximisation but believe these often lead to poor long-term outcomes. We regard it as our responsibility to steer holdings away from destructive financial engineering and towards activities that create genuine value over the long run. We are proud that our value will often lie in supporting management when others don't.

02. A constructive and purposeful board

We believe that boards play a key role in supporting corporate success and representing the interests of all capital providers. There is no fixed formula, but we expect that boards will have the resources, information, cognitive and experiential diversity they need to fulfil these responsibilities. We believe that good governance works best when diverse skillsets and perspectives are paired with an inclusive culture and strong independent representatives who are able to assist, advise and constructively challenge the thinking of management.

03. Long-term focused remuneration with stretching targets

We look for remuneration policies that are simple, transparent and reward superior strategic and operational endeavour. We believe incentive schemes can be important in driving behaviour, and we encourage policies which create genuine long-term alignment with external capital providers. We are accepting of significant pay-outs to executives if these are commensurate with outstanding long-run value creation, but plans should not reward mediocre outcomes. We think that performance hurdles should be skewed towards long-term results and that remuneration plans should be subject to shareholder approval.

04. Fair treatment of stakeholders

We believe it is in the long-term interests of all enterprises to maintain strong relationships with stakeholders – employees, customers, suppliers, regulators and the communities they exist within. We do not believe in one-size-fits-all policies and recognise that operating policies, governance and ownership structures may need to vary according to circumstance. Nonetheless, we believe the principles of fairness, transparency and respect should be prioritised at all times.

05. Sustainable business practices

We believe an entity's long-term success relies on maintaining its social licence to operate and look for holdings that work in the spirit, not just by the letter, of the laws and regulations that govern them. We expect all holdings to consider how their actions impact society, both directly and indirectly, and encourage the development of thoughtful environmental practices and net zero aligned climate strategies as a matter of priority. Climate change, environmental impact, social inclusion, tax and fair treatment of employees should be addressed at board level, with appropriately stretching policies and targets focused on the relevant material dimensions. Boards and senior management should understand, regularly review and disclose information relevant to such targets publicly, alongside plans for ongoing improvement.

Our approach in practice: asset class examples

Active engagement is a fundamental part of our stewardship role. The SUSMA Team frequently engages with company boards and management where we see the opportunity for improved practice, contractual terms or enhanced disclosure. Our firmwide Stewardship Principles play a central role in our underlying engagements. On the following pages we highlight some examples of how we apply the principles in practice across different asset classes and ESG topics.

SUSMA's proprietary sustainability assessment categories

Is this investment compatible with a sustainable economy?

Unsustainable

Significant negative ESG feature(s) with no commitment to improve*.

Adapting

Significant negative ESG feature(s) but clear commitment to disclose and improve. Milestones required.

Neutral

Minimal meaningful ESG features.

Leader

Actively neutralising ESG shortfalls and/or developing positive ESG feature(s).

Enabler

Leading/enabler of a transition to a sustainable economy.

* Investments which score as Unsustainable are uninvestable for the portfolio.

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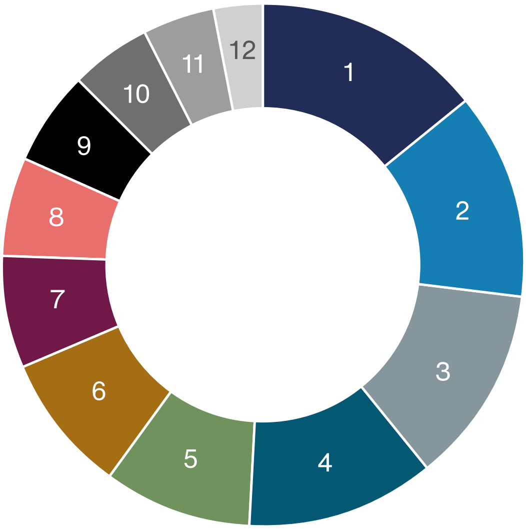
Asset class net exposures



Asset class	%
1 Government bonds	14.0
2 Listed equities	12.8
3 Emerging market bonds local currency	12.1
4 Structured finance	11.6
5 Infrastructure	9.1
6 Property	8.5
7 High yield credit	7.1
8 Insurance linked securities	5.8
9 Cash and equivalents	5.8
10 Emerging market bonds hard currency	5.2
11 Commodities	4.2
12 Absolute return	3.0

Source: Baillie Gifford & Co. Data as at 30 June 2023. Figures may not sum due to rounding.

Case studies

Emerging market bonds

Sweihan PV Power Company

Stewardship principles: 04, 05
ESG assessment score: Adapting

Ownership, operation, and maintenance of a photovoltaic power plant in Abu Dhabi

In Q4 2022, we met with Sweihan to discuss the company's approach to sustainability. The engagement was prompted by flagged issues of forced labour practices at major shareholder, Jinko Solar, linked to the Uighur minority in the Xinjiang region in China; Jinko Solar is also the key supplier of modules to the project. We wanted to flag that we consider sustainability issues beyond climate, and our questioning about supply chain management signalled how little flexibility the company has. The chief financial officer (CFO) noted it is effectively bound by Abu Dhabi government's procurement process and labour laws. We flagged to the company that we would like to see consideration of all elements of sustainability in operational reporting and recommended the SASB sustainability dimensions as a good framework to draw on.

Listed equities

Nexans

Stewardship principle: 05
ESG assessment score: Leader

The company designs, manufactures and sells cable systems and services in France and internationally

Although the company has a net zero carbon emission commitment, it was flagged for engagement in Q4 2022 because of significant reported scope 3 emissions. We wanted to gain a better understanding of the risks and opportunities facing the company from a sustainability perspective. The company demonstrated ambition in setting sustainability goals and integrating sustainability into its business model, a view that was confirmed when we also met with its Head of Sustainability in Q2 2023. These are material considerations for the overall investment case, and the visit to the corporate headquarters also had the unexpected result of highlighting a strong corporate culture. Due to the company's high scope 3 emissions, we decided to divest to remain below the carbon budget.

Infrastructure

Ørsted

Stewardship principle: 05
ESG assessment score: Enabler

Development, construction and operation of multiple offshore and onshore wind farms, solar farms, energy storage facilities, renewable hydrogen and green fuels facilities, and bioenergy plants.

In Q1 2023, the SUSMA Team met with Ørsted's UK Biodiversity Specialist at an event on the Scottish Blue Economy. We discussed the company's pursuit of its target to deliver a net-positive biodiversity impact from new projects commissioned from 2030. We believe this to be important in maintaining the company's good relationship with regulators and its social license to operate. Despite the company devoting appropriate resources to achieving this target, there remain significant obstacles to overcome, for example, the standardisation of a biodiversity improvement measurement across locations. We will maintain a dialogue with the company to learn with them and offer support where we can.

Property

Rexford Industrial Realty REIT

Stewardship principles: 01, 03, 05
ESG assessment score: Adapting

The investment in, operation of, and redevelopment of industrial properties throughout Southern California

In Q4 2022, we met with Rexford's CFO to discuss environmental management as a material issue for the real estate sector. We focused on the company's progress towards GHG emissions disclosure, setting science-based reduction targets, and cooperation with its tenant base to quantify scope 3 emissions (*milestone in progress*). Given its total portfolio exposure to California, the need to further understand physical climate risk exposure and adaptation planning were the priority for us (*milestone achieved*). The discussion enhanced our knowledge and added context to Rexford's reporting. More broadly, we were also encouraged to hear spot-check audits have been conducted to help monitor compliance with its supply chain code. As management found areas for improvement following this, we are keen to continue the conversation to ensure these gaps are fully addressed (*milestone in progress*).

Commodities

MP Materials

Stewardship principles: 01, 04, 05
ESG assessment score: Adapting

An American rare-earth materials company

In Q1 2023, we met with the chief executive and chief operating officer. Our meeting included a half-day mine visit and the opportunity to speak with employees who worked at the mine when it was under previous ownership. ESG investment milestones for the company relate to two areas. First, improved transparency around health and safety in its sustainability report (*milestone achieved*). Second, the identification of appropriate environmental targets once a baseline for the company's various operations – mining, processing, magnets – has been established (*milestone in progress*). Overall, this site visit instilled further confidence in management's ability to execute its plans.

Carbon footprint

It is important that we understand the environment we invest in, together with the potential medium- and longer-term factors and trends which could impact our investments and our understanding of asset classes over time.

Scope 1 emissions measure direct GHG emissions from operations that are owned or controlled by a company. These are typically related to the combustion of fossil fuels on-site and in direct control of the company. Scope 2 emissions are indirect emissions of a company associated with the generation of purchased electricity, steam, heat and cooling. It indicates a company's energy usage and can be helpful in highlighting energy intensity and efficiency. Scope 3 emissions are indirect emissions from a company's upstream and downstream value chain. Scope 3 effectively represents the emissions from the network within which a company operates. It is, therefore, useful in understanding a company's wider emissions exposure and determining spheres of influence.

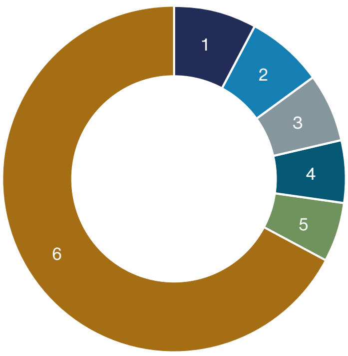
Top five Financed emissions (tCO_2e/USD million invested)

The pie chart below shows the top percentage contributors to carbon in the portfolio, for scope 1, 2 and material scope 3 GHG emissions, followed by further details of our ESG and climate assessments for these holdings. The data that follows has been provided using the available market information, which includes data gaps, estimated data and unverified corporate disclosure, so it is therefore open to challenge.

Financed emissions – tCO2e/USD million invested

The financed emissions metric displays the total GHG emissions from assets held, allocated on an ownership basis; it tells us what the carbon footprint would be if $1m were invested in the portfolio's asset class portions, as compared to $1m in the respective illustrative benchmark. **Page 6** of this report discusses the portfolio's carbon footprint in more detail.

Largest contributors to carbon footprint



1	Nemak (High Yield Credit)	8.0%
2	Umicore (Listed Equity)	7.0%
3	Lynas Rare Earths Limited (Commodities)	6.5%
4	MP Materials Corp (Commodities)	5.8%
5	Dana Incorporated (High Yield Credit)	5.7%
6	Other	67.0%

Source: Baillie Gifford & Co and MSCI.
Data as at end June 2023.

Holding name	Asset class	Multi Asset ESG assessment	Environmental milestone(s)?	Climate audit assessment: Net zero CO_2 Emissions targets[7]	Climate audit assessment: Transition role[8]	Proxy voting rights?	2023–2024 Stewardship engagement priority?
Nemak	Emerging market corporate debt	Leader	No	Lagging	Potential	No	Yes – climate ambition / progress
Umicore	Listed equity	Indirectly held equity position		Leading	Potential Evolver	Yes	No
Lynas Corporation	Commodities	Adapting	Yes	Lagging	Potential Evolver	Yes	Yes – climate ambition / progress
MP Materials	Commodities	Adapting	Yes	Lagging	Potential Evolver	Yes	Yes – climate ambition / progress
Dana Incorporated	High yield credit	Leader	No	Lagging	Potential Evolver	No	No

Source: Baillie Gifford & Co and MSCI. Data as at end June 2023.

[7] Climate audit assessment categories for Net Zero CO2 Emission targets: Lagging, Preparing, Leading.

[8] Climate audit assessment categories for a low-carbon transition role: Materially Challenged, Potential Evolver, Potential Influencer, Solutions Innovator.

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