Baillie Gifford International Growth Fund Stewardship Report

Summary of stewardship activities and perspectives for the 12 months to 31 March 2023

BAILLIE GIFFORD | Actual Investors

Risk factors and important information

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As with all mutual funds, the value of an investment in the fund could decline, so you could lose money.

The most significant risks of an investment in the Baillie Gifford International Growth Fund are Investment Style Risk, Growth Stock Risk, Long-Term Investment Strategy Risk, and Non-U.S. Investment Risk. The Fund is managed on a bottom up basis and stock selection is likely to be the main driver of investment returns. Returns are unlikely to track the movements of the benchmark. The prices of growth stocks can be based largely on expectations of future earnings and can decline significantly in reaction to negative news. The Fund is managed on a long-term outlook, meaning that the Fund managers look for investments that they think will make returns over a number of years, rather than over shorter time periods. Non-U.S. securities are subject to additional risks, including less liquidity, increased volatility, less transparency, withholding or other taxes and increased vulnerability to adverse changes in local and global economic conditions. There can be less regulation and possible fluctuation in value due to adverse political conditions. Other Fund risks include: Asia Risk, China Risk, Conflicts of Interest Risk, Currency Risk, Emerging Markets Risks, Equity Securities Risk, Environmental, Social and Governance Risk, Focused Investment Risk, Geographic Focus Risk, Government and Regulatory Risk, Information Technology Risk, Initial Public Offering Risk, Large-Capitalization Securities Risk, Liquidity Risk, Market Disruption and Geopolitical Risk, Market Risk, Service Provider Risk, Settlement Risk, Small-and Medium-Capitalization Securities Risk and Valuation Risk.

For more information about these and other risks of an investment in the fund, see ‘Principal Investment Risks’ and ‘Additional Investment Strategies’ in the prospectus. The Baillie Gifford International Growth Fund seeks capital appreciation. There can be no assurance, however, that the fund will achieve its investment objective.

The fund is distributed by Baillie Gifford Funds Services LLC. Baillie Gifford Funds Services LLC is registered as a broker-dealer with the SEC, a member of FINRA and is an affiliate of Baillie Gifford Overseas Limited.

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

The images used in this report are for illustrative purposes only.

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Top Ten Holdings as at June 30, 2023

Holdings	Fund %
ASML	7.37
MercadoLibre	5.87
Adyen	5.58
Ferrari	5.28
Spotify	4.48
Kering	4.32
Genmab	3.72
Tencent	3.36
L’Oréal	3.35
argenx	3.20

It should not be assumed that recommendations/transactions made in the future will be profitable or will equal performance of the securities mentioned. A full list of holdings is available on request. The composition of the fund’s holdings is subject to change. Percentages are based on securities at market value.

Legal notice

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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 the uniqueness of these companies. 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.

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 today, but believe these often lead to poor long-term outcomes. We regard it as our responsibility to steer holdings away from financial engineering and towards activities that create genuine value over the long run. Our value will often lie in supporting management when others don't.

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.

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.

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 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.

Sustainable business practices

We believe an entity's long-term success relies on maintaining its social licence to operate. We look for holdings that work in the both the spirit and 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. We encourage the development of thoughtful environmental practices 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.

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Our process

Our stewardship actions are focused on creating long-term financial value for our clients. This is a highly nuanced process.

Investment manager-led research and engagement

The responsibility that comes from being stewards of our clients' capital permeates every aspect of our investment process. We do not outsource our stewardship responsibilities. Our investment managers are ultimately responsible for the outcomes of our voting and engagement, which are informed by their in-depth understanding of a company's business model, culture and growth prospects. There are many advantages to investment managers taking responsibility for stewardship, but chief among them is the relentless focus on materiality. We do not vote or engage for its own sake. We believe doing so contributes to delivering positive investment returns for our clients. This clarity of purpose helps us navigate the complexity of shareholder proposals, shifting societal expectations and regulatory landscapes, and the evolving question of what constitutes an exceptional company.

Research: social licence to operate

We aim to add value for clients by being patient owners of exceptional growth companies. To do our job well, we must adhere to the long-term time horizons over which the most meaningful growth takes place. The sustainability of a business's activities should be considered within the context of that time horizon.

A useful way of considering the long-term sustainability of a business is the extent to which it enjoys a 'social licence to operate'. Viewing a company in these terms is helpful because it directs our analysis towards the real-world consequences of a company's activities, leading us to consider what is happening on the ground and why it matters. It also encourages us to focus on the particular context of a company. This context will comprise its size and the nature of its business model, the political and legal systems it operates in, and the local culture and values that inform and interact with the company's own culture and values. In many cases, companies operate in multiple contexts, introducing further complexity.

Engagement: long-termism and relationships

We engage with companies to improve our understanding of the world by building relationships with some of the brightest minds of our time. This helps us to understand how the world is changing over the long term.

In this context, distinguishing too precisely between research and engagement can be unhelpful. Our research is improved by our engagement.

Our investment style of running concentrated, active portfolios puts us in the favourable position of choosing whom we entrust with our clients' capital. It would therefore be strange if our meetings were filled with demands from us for holdings to radically alter what they do. The outlier companies we seek are by definition 'exceptional'[1]. This means that our bias is to listen and understand what is appropriate for the particular circumstances of each company and to use our experience of talking to other exceptional companies to make constructive suggestions for improvement.

Investment returns are of course based on the measured taking of risk. We are better stewards of our clients' capital to the extent that we embrace the uncertainty of investments. When you turn your attention to the long-term – as required in the pursuit of extreme returns – the level of uncertainty tends to increase. We are in a good position to share this journey with management teams. We can empathise with them because a similar dynamic is at play with our investment style. If an investment case was certain over all time periods, it would be accurately priced with little to no scope for substantial upside over time.

What we expect from management teams is that, rather than obscuring the inherent uncertainty in their business, they instead provide a clear articulation of the trade-offs that they choose, and why they choose them. The best companies can do this in a way that attracts aligned shareholders.

1. This is a term born from the fact that only a very small number of companies create the majority of returns in the stock market. Hence, exceptional to us means that an investment has the potential to be unusually good or outstanding. Please see Bessembinder H., Cheng, TF., Choi G., John Wei, K.C. Long-term shareholder returns: Evidence from 64,000 global stocks (August 2021). The first author acknowledges financial support from Baillie Gifford & Co.

Forced labour

A company's social license to operate is sometimes a complex balance of multiple social perspectives. In the case of NIO, a strong social licence in China, from its core business of selling electric vehicles, is complicated by a weaker social license abroad, where NIO has been accused of benefiting from forced labour in its supply chain. In response to these issues, NIO is instigating a robust certify-and-audit approach, which we're learning more about through our research and engagement. In the year under review, we further developed our thinking by working with external academics and conducting our own research and analysis to identify critical points to monitor in the event that the heightened geopolitical tension has a material negative effect on NIO's future success.

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Climate

One of the ways we can support the companies in which we invest is by connecting them with world-leading experts in fields relevant to their success. This year we had the opportunity to put our head of climate in conversation with the CFO and sustainability team of one of our larger holdings, MercadoLibre, to discuss its various climate initiatives. CFO Pedro Arnt is highly literate in sustainability issues, seeing it as a natural extension of his CFO position, so the conversation was very pragmatic and productive. We covered offsetting projects, sustainability labelling, and the potential for ecommerce platforms to facilitate sustainable consumption. Our clients' long-term returns will in part be determined by MercadoLibre successfully navigating an evolving social context, so conversations like this are a critical element of our stewardship activities.

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Engagement examples

A selection of International Growth company engagements that took place during the 12 months to March 2023[2].

Ocado

We engaged in several discussions regarding proposed changes to the company's remuneration policy. We subsequently decided not to support these changes, notably as we did not believe the targets were stretching enough.

United Kingdom

EXOR

We engaged with the Chair of the Compensation and Nomination Committee on the group's new executive remuneration plans. We admire the way it is structured with a relatively modest salary and a long-term incentive plan based on stretching performance targets for the CEO, and a different approach for other executives who start from a different financial position.

USA

Moderna

We had further discussions with the company concerning the fair pricing of its vaccines, a topic we consider critical to its social licence to operate. We will continue exploring this area but note that Moderna is still investing aggressively in its pipeline and advancing its mRNA science.

MercadoLibre

MercadoLibre's success is linked to its social licence to operate. An important underpinning of the core ecommerce business is adding value for customers and merchants, enabling economic prosperity in developing markets. Our recent discussions have involved considering how, as it moves into adjacent growth opportunities such as personal finance, the concentration of power within a single corporate entity will require even more attentiveness to outcomes for all stakeholders. This requires the company to be proactive in addressing both environmental and social considerations.

Argentinia

2. Not all companies are held in all client portfolios.

Stewardship principles

- Prioritisation of long-term value creation
- A constructive and purposeful board
- Long-term focused remuneration with stretching targets
- Fair treatment of stakeholders
- Sustainable business practices

Denmark

Netherlands

Italy

China

Australia

Ambu

Ambu has recently appointed its third chief executive since 2019. We have spoken with the new CEO and believe the opportunity for rapid, profitable growth still exists, but intend to further engage with the company's leadership to better understand why there has been such a high level of management change.

Meituan

We spoke with Wang Xing, Meituan's CEO. While no-one can predict what impact the changing domestic environment will have on the company, we discussed the need for Meituan to work 'with the grain of society' in its treatment of stakeholders in order to minimise the threat of regulatory pressure. We remain confident that in the long run its scale advantage, low margin structure and large employee base leave it well placed both to create value for Chinese society and to capture a fair share of that value.

Ferrari

We attended the company's Capital Markets Day and had calls with senior management to discuss the challenge and opportunities from electrification. Benedetto Vigna, the new CEO, provided a clear articulation of the group's long-term vision and of its electrification plan. The first pure EV Ferrari is expected in 2025, and they are clear in their ambition that it provides comparable 'driving thrills' to their ICE cars.

WiseTech Global

We spoke with the chair, Andrew Harrison, to hear his perspective on the board's role in supporting and challenging Founder-CEO Richard White. We learned more about the group's governance and further developed our appreciation of Mr White's importance to the company and of the thoughtful way the board and chairman approach their role.

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Proxy voting

Our scale, length of ownership and relationship means that we can engage and shape shareholder issues even before we have to vote on them. However, voting at company general meetings is one of the most important ownership rights and responsibilities we have as a shareholder. All our voting decisions are made on a case-by-case basis. Our investment style leads us to invest in only those companies we actively support and admire. It is therefore the case that the significant majority of our final voting decisions are in support of management.

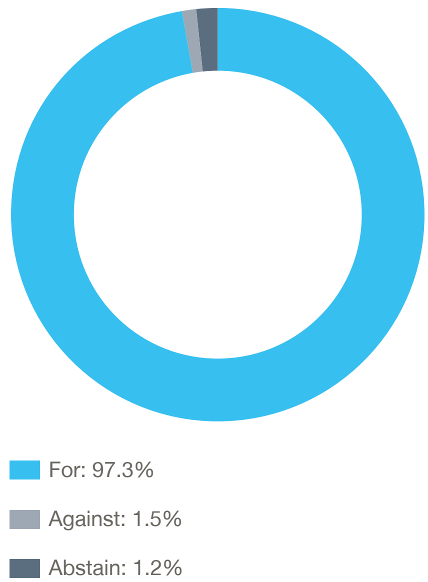
However, we will engage with companies where more information is required or if a resolution appears to conflict with our stewardship principles. If after dialogue we conclude that it is in the long-term interest of both the company and our portfolio investors to withhold or oppose a resolution, we will do so. We will always inform a company of our concern and rationale when we have reason to vote against management.

By taking this careful, research-led approach to voting, and by meeting and engaging throughout the year with the management and board members of the companies, we can apply our voting rights most effectively on your behalf.

The adjacent chart, which provides a summary of proxy voting in the 12 months to March 2023, illustrates our voting decisions across the resolution categories.

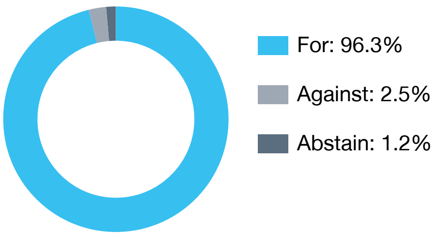
Proxy voting statistics

12 months to 31 March 2023



Examples

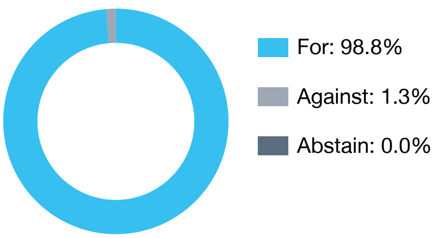
Remuneration



Remuneration example: Ocado

Ocado is a grocery delivery platform. We opposed the resolution to approve the report on remuneration due to the remuneration committee's decision to grant a new tranche under the Value Creation Plan. We did not support the VCP when it was put to shareholder vote previously because of concerns over how challenging the targets were, and the new tranche has less stretching targets than existing grants.

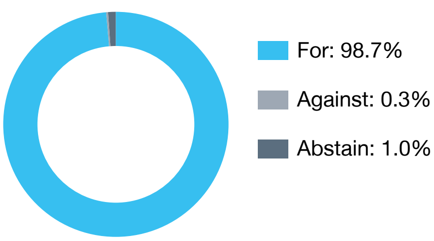
Share issuance/repurchase



Share issuance/repurchase example: Spotify

Spotify is an audio streaming platform. We opposed the resolution to authorise the company to issue equity due to concerns about the level of potential dilution. Ahead of voting we engaged with the company to ascertain its rationale for the authority. The company was unable to provide a compelling rationale, so we decided the authority was not in our clients' interests.

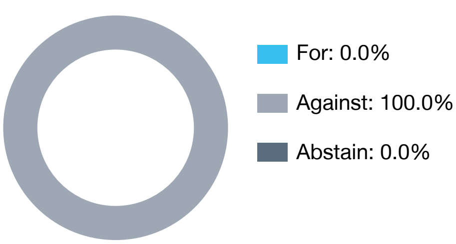
Directors



Directors example: PDD Holdings

PDD Holdings is an ecommerce platform that has consistently innovated in delivering value to customers and merchants. We have engaged with PDD on board composition previously, particularly the lack of female directors and a lead independent director. Due to a lack of progress on improving board diversity, we opposed the re-election of the chair of the nomination committee at the most recent annual general meeting. Board composition will continue to be a matter for engagement in the coming year. There is no fixed formula, but it is our expectation that boards have the resources, diversity (including of thought) and information they need to fulfil their responsibilities.

Shareholder resolutions



Shareholder resolutions

We analyse shareholder resolutions on a case-by-case basis, and in the year under review did not support any such resolutions. We opposed five shareholder resolutions at Kinnevik's AGM because we determined them to not be in our clients' interests. These resolutions included a requirement to amend the articles of incorporation to remove differentiated voting rights; to lobby the Swedish government to prohibit differentiated voting rights; to provide for additional shareholder representation on the nomination committee and board; and to consider the introduction of performance-based remuneration for independent directors.

Totals may not sum due to rounding.

Climate

The Baillie Gifford International Growth Fund aims to add value for clients by patiently owning exceptional growth companies. To do our job well we must adhere to a long-term time horizon, and the sustainability of a business's activities is a direct function of that time horizon. Therefore, climate change is a material factor in the context of investment returns, both positive and negative, across our portfolio.

In practice, this has led us to pursue a small number of primary streams of research and engagement efforts:

— Decarbonisation is a structural trend that will create the conditions for certain businesses to thrive on our investment time horizon. Our standard investment process has led us to take holdings in companies that stand to benefit from this theme, such as Vestas and SolarEdge.

— For existing holdings where we think climate may be material to investment returns, we are conducting climate assessments to develop our understanding and consider implications for the relevant investment cases.

— For the portfolio as a whole, we are conducting qualitative scenario analysis to develop our understanding of the long-term systemic consequences of climate change, and how the interdependencies might affect optimal portfolio construction.

Climate change presents unique challenges for our research process. The field is vast and complex. Our ability to identify fruitful research and engagement opportunities is necessarily less developed than for other topics such as competitive advantage or customer loyalty. We're developing our toolkit as we work.

Climate data

One part of our toolkit is the external data we receive, and how we use it to arrive at metrics that we believe are useful and representative of our investment process. In isolation, these metrics tell us very little but taken together with our understanding of the business models within the portfolio, we are developing a picture of how climate might be material for our holdings.

For example, our assessment of companies' net zero targets, summarised below, shows that over half of those in our portfolio have either announced or are preparing targets for decarbonisation aligned with limiting temperature increase to 1.5 degrees by 2050. This data serves as a useful input to our overall assessment of their growth prospects and investment returns. Companies in this cohort include a number of the top 10 holdings, including ASML, L'Oréal, and Kering. Of the companies we've classified as lagging, 15 per cent have committed to setting science-based targets, so we would expect this cohort, which includes Delivery Hero and Nidec, to provide more data as time passes. We continue to conduct research on the remainder.

We believe it is particularly illustrative to consider the 'transition role' assessment alongside the 'emissions metrics'. On a backwards-looking carbon footprint and weighted average carbon intensity (WACI) basis, International Growth significantly outperforms the index. In the past, we would have pointed out that this is less an output of an emissions-conscious method of investing and more a reflection of the type of businesses that meet the growth profile we look for. However, we have recently taken positions in companies that are more emissions-intensive, but the investment case is predicated on their function in the global decarbonisation transition, for example, Vestas, SolarEdge, and Prysmian. As these companies succeed, we would expect to see their gross emissions increase in the short to medium term, and to the extent that operational success translates to share price gains which increases their weight in the portfolio, the portfolio emissions may also increase. However, the per cent of 'solutions innovators' in the portfolio should also increase. So these metrics are limited on their own, but over time whether they move together or diverge will be helpful for communicating our understanding of the portfolio's overall alignment with a decarbonised future.

Key metrics (as at 31 March 2023)

The following metrics are used as part of our assessment of climate-related risks and opportunities across the portfolio and we believe they are useful to our clients. The data is incomplete and more explanation of the metrics used in this section can be found in the footnotes.

Total carbon emissions[3] from assets held by the portfolio	Portfolio	Benchmark
Total scope 1 and 2 emissions (tCO_2e)	14,871	N/A
Total scope 1,2 and material[4] scope 3 emissions (tCO_2e)	154,934	N/A
Total scope 3 emissions (tCO_2e)	382,301	N/A
Total scope 1,2 and 3 emissions (tCO_2e)	397,172	N/A

Source: Baillie Gifford, MSCI, FactSet.

Carbon footprint[5] of the portfolio	Portfolio	Benchmark
Scope 1 and 2 emissions (tCO_2e) per $M invested	5	84
Scope 1,2 and material scope 3 emissions (tCO_2e) per $M invested	53	325
Scope 1,2 and 3 emissions (tCO_2e) per $M invested	135	605

Source: Baillie Gifford, MSCI, FactSet.

Weighted average carbon intensity (WACI)[6] of the portfolio	Portfolio	Benchmark
Scope 1 and 2 emissions (tCO2e) per $M revenue	19	164
Scope 1,2 and material scope 3 emissions (tCO2e) per $M revenue	41	538
Scope 1,2 and 3 emissions (tCO2e) per $M revenue	396	1,114

Source: Baillie Gifford, MSCI, FactSet.

Our assessment of holdings' net zero targets[7]	Portfolio
% of total AUM with targets assessed as 'leading'	37
% of total AUM with targets assessed as 'preparing'	15
% of total AUM with targets assessed as 'lagging'	46
% of total AUM with targets not assessed	1

Source: Assessed according to Baillie Gifford's internal assessment framework. Benchmark used is MSCI ACWI ex US.

3. The total emissions of the portfolio represent the absolute greenhouse gas emissions from assets held, allocated on an ownership basis. This means a portfolio holding 1 per cent of a company's enterprise value would be attributed 1 per cent of the company's emissions.
4. We define material scope 3 emissions using the original definition provided by the Partnership for Carbon Accounting Financials (PCAF), mapped to GICS sub-industries. This means that our version of material scope 3 emissions are those produced by holdings classified as oil and gas or mining companies. We acknowledge the updated timeline to also include scope 3 emissions from those classified as transportation, construction, buildings, materials and industrial companies has changed from 2024 to 2023 and are working to update systems accordingly. (p51, **The Global GHG Accounting and Reporting Standard for the Financial Industry (carbonaccountingfinancials.com)**
5. The carbon footprint of the portfolio represents the aggregated GHG emissions per million £/$ invested and allows for comparisons of the carbon intensity of different portfolios.
6. The WACI of the portfolio represents the aggregated carbon intensities of the companies in a portfolio, scaled by size of holding. The WACI metric therefore helps measure a portfolio's exposure to high carbon intensity companies.
7. More details of this assessment process can be found in the **Baillie Gifford & Co TCFD Climate Report**. In some cases, portfolios with higher proportions of unlisted or smaller companies may contain a greater proportion of holdings assessed as 'lagging'. This may be due to the relative immaturity of some of these companies' disclosure and net zero alignment strategies, when compared to more established listed and larger companies.

Our assessment of holdings' transition role[7]	Portfolio
% of total AUM assessed as 'solutions innovators'	3
% of total AUM assessed as 'potential influencers'	44
% of total AUM assessed as 'potential evolvers'	51
% of total AUM assessed as 'materially challenged'	0
% of total AUM not assessed	1

Source: Assessed according to Baillie Gifford's internal assessment framework.

Note on data availability

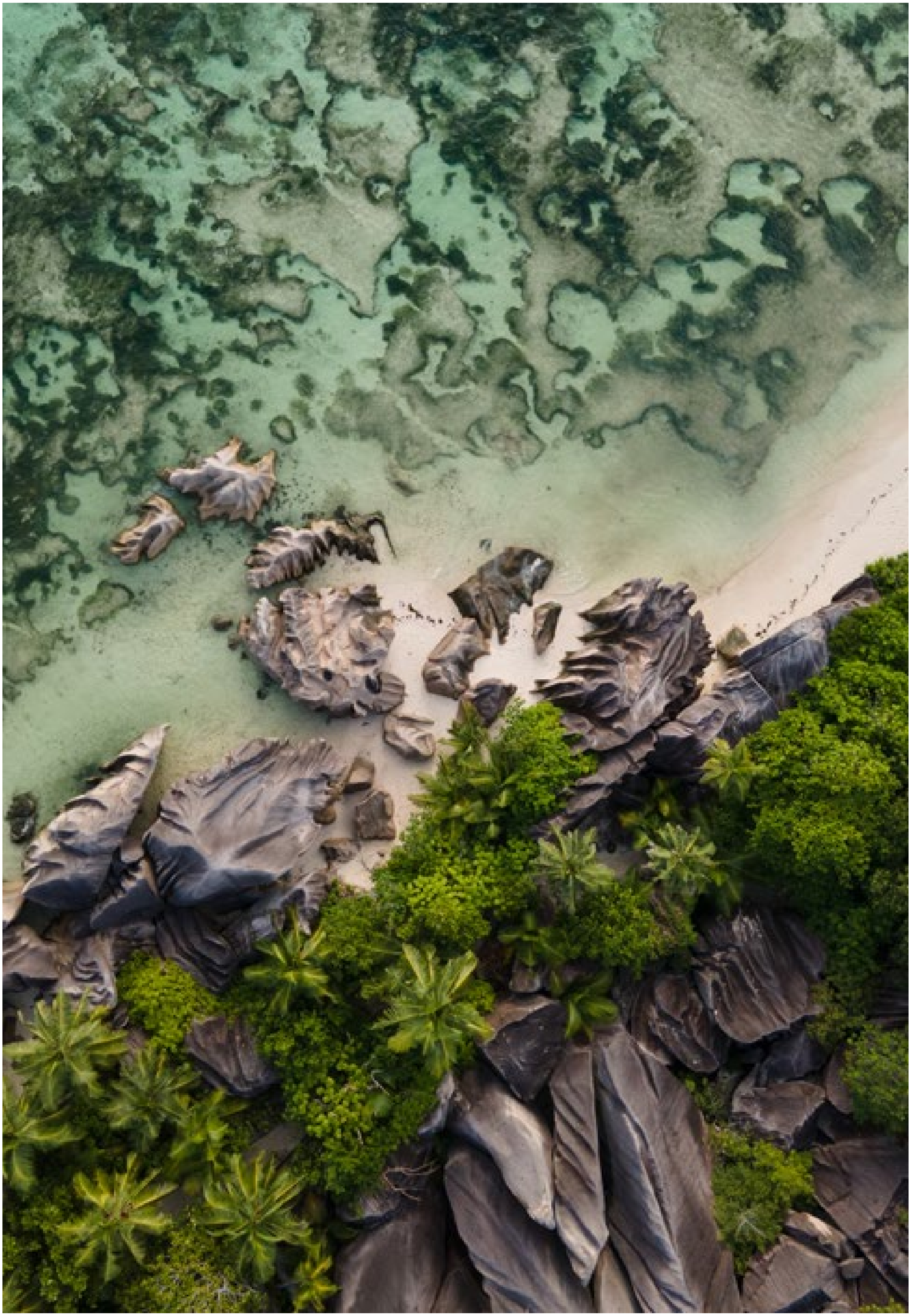
Data for some holdings is currently unavailable from our data supplier. The metrics presented in this section may therefore not relate to the entire portfolio. You can find details of the percentage of the portfolio for which data is reported, estimated or unavailable in the 'Emissions data availability and disclosure from holdings' table below.

Emissions data availability and disclosure from holdings in the portfolio	Portfolio	Benchmark
% of total AUM invested in holdings where **reported** scope 1 and 2 emissions data is available from our data provider	81	88
% of total AUM invested in holdings where **estimated** scope 1 and 2 emissions data is available from our data provider	12	12
% of total AUM invested in holdings where scope 1 and 2 emissions data is **not available** from our data provider	7	0
% of total AUM invested in holdings where **reported** scope 3 emissions data is available from our data provider[9]	50	76
% of total AUM invested in holdings where **estimated** scope 3 emissions data is available from our data provider	93	100
% of total AUM invested in holdings where scope 3 emissions data is **not available** from our data provider	7	0
% of total AUM invested in holdings disclosing to CDP annually	64	80

Source: Baillie Gifford, MSCI, CDP, FactSet. Benchmark used is MSCI ACWI ex US.

Conclusion

This report presents a snapshot of our current processes and outcomes. However, we see this as an ongoing effort to evolve and improve in order to best deliver value for our clients in the long term. The benefit of a document like this is that it gives our clients a touchstone for what to expect from us, but this shouldn't be a one-way conversation. We benefit from discussing our thinking and learnings as they arise. If a conversation on this would be helpful to you, please get in touch. We can get better at this together.



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