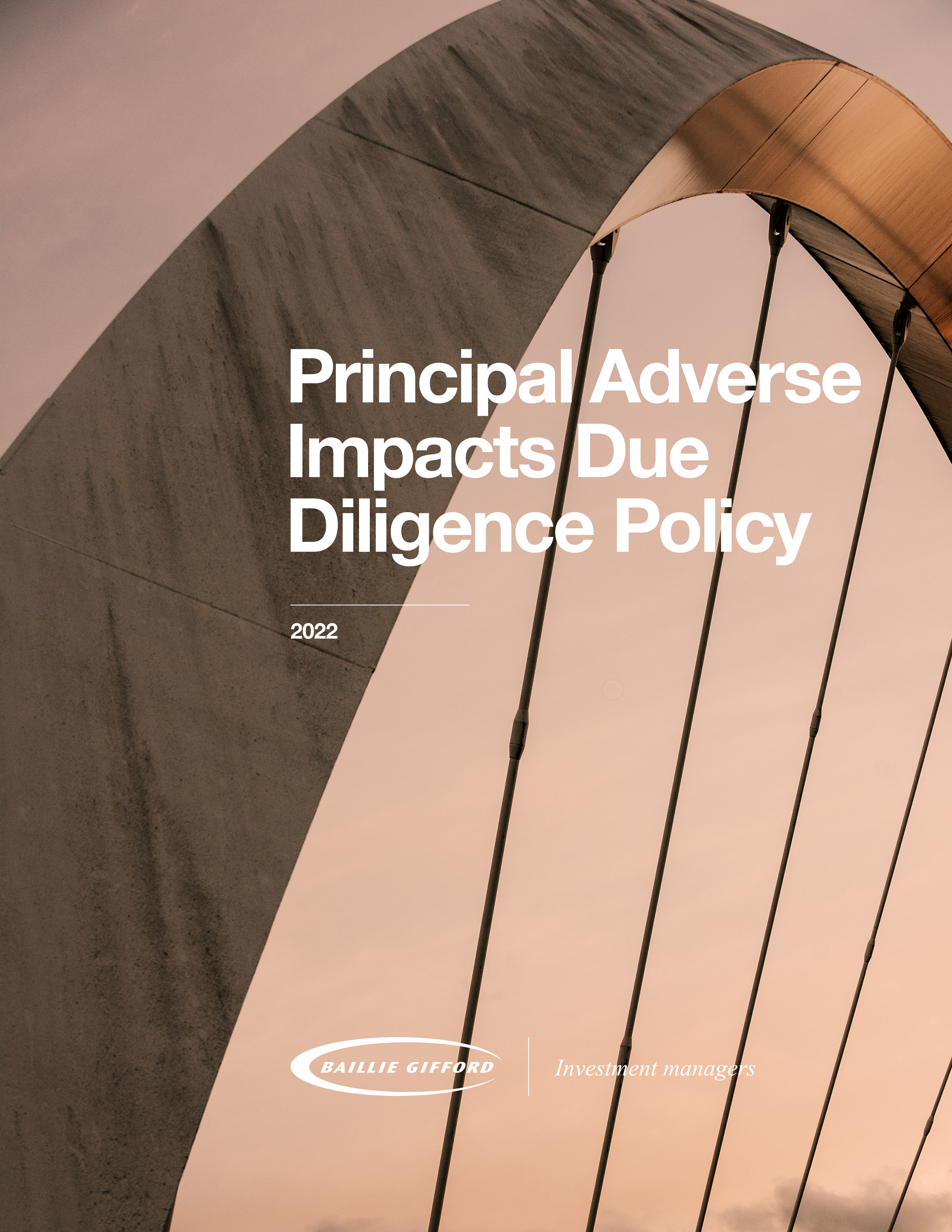

Principal Adverse Impacts Due Diligence Policy

2022

Investment managers

Contents

Scope and Application

This document sets out Baillie Gifford's approach on the consideration of material or likely to be material principal adverse impacts of investment decisions that result in negative effects on sustainability factors in accordance with the Sustainable Finance Disclosures Regulation ('SFDR').

As decisions taken for our discretionary clients and the investment advice provided to our advisory clients are drawn from the same underlying investment view on the relevant stocks this document also sets outs Baillie Gifford's approach on the consideration of principal adverse impacts of investment advice.

This document is subject to regular review to ensure it remains accurate and up to date.

This document applies to Baillie Gifford & Co and Baillie Gifford Overseas Limited through which investments are made on behalf of institutional clients, including a range of pooled investment vehicles, operated by Group entities.

Baillie Gifford Investment Management (Europe) has delegated portfolio management to Baillie Gifford Overseas Limited and has adopted this as its policy to meet its obligations under SFDR.

Baillie Gifford & Co Limited has delegated portfolio management to Baillie Gifford & Co and has adopted this as its policy to meet its obligations under SFDR.

Baillie Gifford & Co, Baillie Gifford Overseas Limited, Baillie Gifford Investment Management (Europe) Limited and Mitsubishi UFJ Baillie Gifford Asset Management Limited all have regulatory permissions to provide investment advice and as such have adopted this as their policy in relation to advice provided to advisory clients.

References to 'Baillie Gifford', 'we', 'us' or 'our' are to these entities.

Interaction between sustainability risk and principal adverse impact

Sustainability risk has been defined under SFDR as an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. Principal adverse impact ('PAI') is not explicitly defined under SFDR. However, one of the recitals provides context on how this should be understood by stating that PAIs are those impacts of investment decisions and advice that result in negative effects on sustainability factors. It is expected that financial market participants, like Baillie Gifford, will consider PAIs alongside the relevant financial risks and relevant sustainability risks as part of the due diligence processes. As such, there could be similarities between disclosures made in this policy and disclosures made in the integration of sustainability risks as outlined in Baillie Gifford's ESG Principles and Guidelines document. As an evidence of the close relationship between sustainability risk and PAI, many of the PAI indicators that financial market participants are required to disclose are also indicators that can be used to quantify sustainability risks.

Identification and Prioritisation

of principal adverse sustainability impacts and indicators

We believe that a company cannot be financially sustainable in the long run if its approach to business is fundamentally out of kilter with changing society expectations. We consider a number of potential adverse impacts in the context of our overall focus on long-term investment performance and company impact. As a minimum, we expect all holdings to operate in accordance with the principles and standards set out in the United Nations Global Compact. When a company's performance on any material issues is significantly below what is expected, potentially impacting the long-term performance of their business, the environment and/or society, we will engage with management. We expect that all our holdings operate their businesses in a way that takes account of all relevant legal and regulatory guidelines and which is supportive of good stakeholder relations. We believe it is important that companies are seen to be operating with integrity and in a way that respects the interests of wider environment and/or society. Relevant areas of practice include responsible marketing, governance of data privacy and security, responsible taxation approaches and how the company manages product and service issues, such as product quality and integrity, complaint handling, safety recalls and compensation.

Our bottom-up research process focuses on understanding each company, the sector it operates in and their approach to material issues. The most material issues will change from company to company and will change as the business develops. We regularly engage with companies on a wide range of issues including their impact on the environment and/or wider society.

Each investment strategy may take a different approach to reach the same goal of properly assessing and weighing up Environmental, Social and Governance (ESG) matters within its investment process. Financially material ESG issues, including the potential adverse impact of a holding, are routinely considered throughout the investment process. However, for most of our funds, there are no limitations to the sectors in which we can invest. Unless otherwise stated in fund documentation or instructed by the client as part of their Investment Management Agreement with us, Baillie Gifford can invest in any companies we believe could create beneficial long-term returns for our clients which may include investments in companies which may ultimately have a negative outcome for the environment and/or society.

A number of our investment funds commit to investing in sustainable investments. Such investments are subject to do no significant harm (DNSH) tests which means ensuring that the investments do no significant harm to any environmental or social objective. This includes assessing principle adverse impacts of investments either as part of the investment research process, through periodic portfolio reviews or through business activity restrictions. In reviewing principle adverse impacts, consideration will be given to how the impact affects the sustainability of an investment and if any further action needs to be taken to mitigate the impact such as engagement or voting action.

Description and Action

Our long-term, active approach to investment is based on identifying and holding high quality growth businesses that enjoy sustainable competitive advantages in their marketplace. To do this we look beyond current financial performance, undertaking proprietary research to build an in-depth knowledge of an individual company that allows us to form a comprehensive view on their long-term prospects and impact. We always focus on the most material concerns for each company.

A summary of Principle Adverse Impact Indicators considered by Baillie Gifford is presented in table 1:

Table 1: Summary of Principle Adverse Impact Indicators considered by Baillie Gifford

Applicable to:	Theme	PAI Indicator	Metric
Corporates	Climate and Other Environmental Related Indicators	GHG Emissions	Scope 1 GHG emissions Scope 2 GHG emissions Scope 3 GHG emissions Total GHG emissions
		Carbon Footprint	Carbon footprint
		GHG Intensity of investee companies	GHG intensity of investee companies
		Share of investments in companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector
		Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage
		Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector
		Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas
		Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
		Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average
		Investing in companies without carbon emissions reduction initiatives aimed at aligning with the Paris Agreement	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement
	Social and employee, respect for human rights, anti-corruption, and anti-bribery matters	Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
		Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises

Applicable to:	Theme	PAI Indicator	Metric
		Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
		Board gender diversity	Average ratio of female to male board members in investee companies
		Exposure to controversial weapons	Share of investments in investee companies involved in the manufacture or selling of controversial weapons
		Number of identified cases of severe human rights issues and incidents	Number of cases of severe human rights issues and incidents connected to investee companies on a weighted average basis
Sovereigns and Supranationals	Environmental	GHG Intensity of investee countries	GHG intensity of investee countries
	Social	Number of investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law

In addition to the mandatory principle adverse impact indicators, we have chosen the following additional indicators. These additional indicators were chosen as they are aligned with issues that are considered material to the long-term growth potential of investments.

— Investing in companies without carbon emissions reduction initiatives aimed at aligning with the Paris Agreement

— Number of identified cases of severe human rights issues and incidents

The ESG data landscape is evolving and therefore this may provide challenge in identifying and reporting on adverse impacts. We have invested in our ESG data capabilities in recent years and continue to develop and review our ESG data architecture. Further details are discussed in our Investment Stewardship Activities report.

All Baillie Gifford investment funds are subject to the exclusion of controversial weapons in line with the exclusion policy detailed in the ESG Principles and Guidelines document. A subset of our investment funds further identify and mitigate principle adverse impacts qualitatively through the application of specific exclusions linked to specific business revenue streams which may include but are not limited to Thermal Coal; Other Fossil Fuels such as Oil and Gas; Armaments, Tobacco and Alcohol. Other commitments may include compliance with Baillie Gifford's policy on assessing breaches of the United Nations Global Compact Principles for Business as outlined in Baillie Gifford's ESG Principles and Guidelines document or commitments linked to the funds' climate intensity (e.g. carbon intensity to be lower than an index). Such commitments can lead to the identification and mitigation of a principle adverse impact. Details of specific fund exclusions can be found in the relevant fund documentation available on the Baillie Gifford website.

As a long-term, active asset manager, principle adverse impacts that are not mitigated through qualitative exclusions or carbon intensity commitments, are identified and if needed addressed through our controversies monitoring and stewardship activities which include research, engagement, and proxy voting. More details in relation to consideration of key principle adverse impact areas are detailed overleaf.

Social and Employee, Respect for Human Rights, Anti-corruption, and Anti-bribery Matters

Diversity

We believe that employee diversity is an important issue for all businesses, and we expect our holdings to take steps to understand and, where necessary, improve employee diversity. Companies should disclose their policy on diversity and inclusion with details of initiatives to improve the diversity of the workforce where required. The diversity of employees throughout an organisation is important to ensure a diverse pipeline of talent for future senior roles which we believe in turn will support the investment case.

Reporting on the diversity of the workforce should also be provided and include details on gender, ethnicity, culture and nationality. In markets where it is required, gender pay gap reporting should be clear and unambiguous with clear actions to solve any pay gap that exists.

We also expect boards to take the diversity of directors seriously. They should comply with relevant industry recommendations on both gender and ethnic diversity, such as the Hampton-Alexander Review and Parker Review in the UK or have at least set out a clear roadmap of to how they intend to achieve this.

If a company's approach to diversity is very different from these expectations, we aim to engage with the company in the first instance. We may also consider taking additional voting action against appropriate directors, such as the chair of the Nomination Committee, if we do not believe sufficient progress has been made.

Combating Bribery and Corruption

We expect all our holdings to work against corruption in all its forms, including extortion and bribery. For companies in the extractive industries, we support active participation in the Extractive Industries Transparency Initiative. We expect to see apt conduct and compliance programmes reinforced by leadership, policies and training, and appropriate reporting procedures, such as confidential 'whistle-blower' lines. We would also not ordinarily expect our holdings to make political donations or contributions to 'politically exposed' charitable organisations.

Human Rights and Labour Rights

We expect all our holdings to respect internationally accepted human rights and labour rights throughout their business operations and value chain in line with the United Nations Guiding Principles for Business and Human Rights. As a minimum, this should include the maintenance of health, safety, and wellbeing management systems, particularly in high-risk sectors; the management of exposure to labour and human rights risks throughout their value chain, especially human slavery; and encouraging positive relationships with local communities.

Climate and Other Environmental Related Indicators

Key considerations include the climate impact of a company's core products and services and its relationships with its own stakeholders, including customers, regulators, and NGOs. We also track the absolute and relative carbon intensity of our companies and portfolios relative to enterprise value and revenue. We would emphasise strongly that such data is only a flag and not something we use as a sole determinant of investment decisions. To ensure analysis is carried out consistently across the firm, we have introduced a more structured and formalised climate review that encompasses our largest holdings and our largest emitters. This is shared with and supports the work of our individual portfolio teams.

Beyond climate, the protection of biodiversity should be a priority for all businesses and companies should take steps to limit the destruction of the natural environment as far as possible. Many business activities (particularly those associated with resource extraction and cultivation) contribute to drivers of biodiversity loss, while others are highly dependent on biodiversity. Learning from industry initiatives like FAIRR, which we joined in 2020, is aiding this process. The FAIRR Initiative is a collaborative investor network that raises awareness of the ESG risks and opportunities brought about by intensive animal agriculture. We are also part of the stakeholder forum of the Task Force on Nature-related Financial Disclosures (TNFD) and look forward to continued engagement as the TNFD is developed.

Monitoring

The monitoring of these issues is completed on an ongoing basis and is a fundamental part of the investment process. This involves identifying and monitoring material principal adverse impacts across our holdings. In addition to our company specific, in-depth research, we instruct an external provider to perform a regular review of companies we invest in against the ten principles outlined by the UN Global Compact and related standards including the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. We use this process to highlight that a holding may not be operating in a responsible manner and where relevant, will research these concerns and consider the potential impacts and appropriate next steps. Where further engagement is required, we identify steps to be taken to understand the company's approach to these issues and wider implications of their practices. We engage regularly with investment entities on material challenges and to address our concerns. Our preference is always to engage with companies and leverage our positive relationships to encourage constructive change. However, where we have concerns that a company is persistently failing to tackle these issues and acknowledge the wider impact of their actions, we will consider divesting.

Engagement Policy

Engaging with and monitoring investments we make on behalf of clients is an integral element of our investment process and core to how we discharge our stewardship responsibilities. All investment managers, investment analysts and ESG analysts are involved in this process. We meet with management and other executive staff, heads of divisions and non-executive board members. When engaging as a bondholder, we understand our ability to influence differs from that of a shareholder, given the contractual nature of our relationship with issuers. However, we believe corporate issuers of debt do take on board our comments and recommendations and we will also engage with sovereign representatives as appropriate. The topics we prioritise for engagement will vary by individual issuer, by investment strategy, and will be informed by our proprietary investment research. Often, the larger a position we hold, the greater our ability to engage. However, we endeavour to engage on key issues with all relevant issuers regardless of market capitalisation or holding size.

Thoughtful voting of our clients' listed equity holdings is a critical part of our commitment to stewardship and is closely interwoven with our broader investment and engagement aims. We believe that voting should be investment led: how we vote is an important part of the long-term investment process and can, at times, have a decisive impact on the company share price. Our strong preference is, therefore, to take on this direct responsibility for our clients. The ability to vote our clients' shares strengthens our position when engaging with investee companies; we can far more effectively engage for change if we have the voting power to back up our conversations with companies. Our ESG Services team oversees our voting analysis and execution in conjunction with our investment managers. Unlike many of our peers, we do not outsource the responsibility for voting to third-party suppliers. We utilise research from proxy advisers for information only. We exercise our own judgement based on our knowledge of the investment case.

Further details of Baillie Gifford's approach to engagement and voting is outlined in our **ESG Principles and Guidelines** document available in the About Us section of our website.

Baillie Gifford supports its stewardship activities as a signatory and active member of relevant organisations, including:

FCLTGLOBAL FOCUSING CAPITAL ON THE LONG TERM

ACGA

IIGCC The Institutional Investors Group on Climate Change

PRI

CDP DISCLOSURE INSIGHT ACTION

UKSIF UK Sustainable Investment and Finance Association

ICGN International Corporate Governance Network

Adherence

to responsible business conduct codes and internationally recognised standards for due diligence and reporting and alignment with the objectives of the Paris Agreement

As mentioned previously, we utilise the UN Global Compact to identify potential concerns at our investee companies. We also consider our holdings against related standards including the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Our **Climate Report** details our plans and commitments as they relate to climate change. These plans and commitments are based on our support for the Paris Agreement's ambition to limit global warming to well below 2°C and ideally 1.5°C. The 1.5°C target was reinforced in the 2021 Glasgow Climate Pact and reflected in the UK's 2050 net zero emissions target, which we also support. As stewards of our clients' capital, our principal interaction with the risks and opportunities of the climate crisis is the investment choices we make on their behalf.

We believe that the companies capable of making a significant contribution to reducing greenhouse gases will benefit from a range of growth drivers, including increasing demand for their products and services, as well as regulatory support. In contrast, companies whose business models rely on the unsustainable exploitation of natural resources are likely to face significant competition and disruption over our investment time horizon.

Further details of our plans and commitments in this area can be found in our **Climate Report**.

Important Information

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018 and is authorised by the Central Bank of Ireland. Through its MiFID passport, it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co.

Persons resident or domiciled outwith the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

Important Information Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 百利亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 licence from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of UCITS funds to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 百利亞洲(香港)有限公司 can be contacted at 30/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong. Telephone +852 3756 5700.

Important Information South Korea

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

Important Information Japan

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

Important Information Australia

This material is provided on the basis that you are a wholesale client as defined within s761G of the Corporations Act 2001 (Cth). Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth). It is exempt from the requirement to hold an Australian Financial Services License under the Corporations Act 2001 (Cth) in respect of these financial services provided to Australian wholesale clients. Baillie Gifford Overseas Limited is authorised and regulated by the Financial Conduct Authority under UK laws which differ from those applicable in Australia.

Important Information South Africa

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

Important Information North America

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in America as well as some marketing functions in Canada. Baillie Gifford Overseas Limited is registered as an Investment Adviser with the Securities & Exchange Commission in the United States of America.

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