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**BAILLIE GIFFORD GROUP**

**Capital & Risk Management Disclosures**

(“Pillar 3”)

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## Information on Capital Adequacy and Risk Management Objectives & Policies

### Scope

Under EU legislation, the Capital Requirements Directive ('CRD'), Baillie Gifford & Co is required to provide information relating to the capital resources of the business. The following information relates to Baillie Gifford & Co, and its Subsidiary and Joint Venture companies.

In order to provide its services to clients, Baillie Gifford & Co and its Subsidiary and Joint Venture companies (the "Group") are authorised and regulated by a number of regulatory authorities. These include the Financial Services Authority ('FSA'), in respect of our UK operations, and the Securities and Exchange Commission ('SEC'), in respect of our investment advisory activities for clients in the United States. Baillie Gifford International LLC is regulated only by the SEC. The FSA register numbers are as follows:-

- Partnership	- Baillie Gifford & Co	142597
- Subsidiary Companies	- Baillie Gifford Overseas Limited	121818
	- Baillie Gifford & Co Limited	119179
	- Baillie Gifford Savings Management Limited	150233
	- Baillie Gifford Life Limited	189453
- Joint Venture Companies	- Guardian Baillie Gifford Limited	147566
	- Mitsubishi UFJ Baillie Gifford Asset Management Limited	145243

If you would like to access the FSA's register please visit their website at [www.fsa.gov.uk/register](http://www.fsa.gov.uk/register).

The financial information has been taken from historical information from the 31<sup>st</sup> October 2009 Group Capital Adequacy return.

The disclosures have been reviewed and approved by the Management Committee of Baillie Gifford & Co and are published on the Baillie Gifford & Co Corporate website. They have not been subject to an audit.

As a private partnership each of the partners of Baillie Gifford & Co is jointly and severally liable for the obligations of the firm and this liability is unlimited. All partners work full time within the business.

As a Scottish partnership, Baillie Gifford & Co is not required to produce consolidated group accounts. The firms above, excluding Baillie Gifford Life Limited and Baillie Gifford International LLC, are consolidated for regulatory reporting purposes using the aggregation method under the FSA rules for investment firms. Baillie Gifford Life Limited is not included in this consolidation as it is separately regulated as an insurance company. Baillie Gifford International LLC is not included in this consolidation as it is immaterial.

### Capital Adequacy

The overall group capital resources, including the partnership share of its two Joint Venture companies, is financed by capital from Baillie Gifford & Co and, as simple paid-up capital, qualifies as a primary level of capital (Core Tier 1 Capital) under the FSA rules. Tier 1 Capital as at 31<sup>st</sup> October 2009 (after deductions of material holdings) is £45.6 million (2008 : £42.6 million).

Baillie Gifford & Co's minimum capital requirement is its Fixed Overhead Requirement as this exceeds the sum of its Credit Risk and Market Risk capital requirements, disclosures for which are considered to be immaterial by virtue of the magnitude of this excess.

Under the CRD, Baillie Gifford & Co is also required to undertake an Internal Capital Adequacy Assessment Process ('ICAAP') to assess the level of capital it considers sufficient in the context of

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the risks of its business. The ICAAP is reviewed and approved annually or, if circumstances change significantly, by the partnership's Management Committee.

The ICAAP identifies significant sources of risk to capital by looking at:

- The key risks affecting Baillie Gifford & Co's ability to meet liabilities
- The operational or financial risks that could substantially increase Baillie Gifford & Co's liabilities

These are then compared against financial resources and other mitigants, such as insurance, to assess whether further capital or action is required. Scenario analysis is also performed, projecting financial results with varying market levels, investment performance, client inflows/outflows and other significant risk events.

Baillie Gifford & Co's ICAAP process shows it has adequate capital to meet all business requirements based on current business development plans, as well as maintaining a surplus over its minimum regulatory requirement.

### **Risk Management Objectives and Policies**

The Group's sole business is investment management and it is not involved in broking, investment banking or any other trading activity and does not hold deposits. Investment management is principally an agency activity and therefore requires very low levels of working capital and the main asset required to conduct such an agency service is staff. Whilst this gives some exposure to non-financial risks, exposure to financial risk is very limited. The major risks facing the Group are therefore operational, strategic and business in nature including obligations in respect of the DB Staff Pension Scheme. As Baillie Gifford & Co is an unlimited liability partnership with full-time working partners, there is a particularly strong awareness of risk with a well-established framework of internal controls. This control framework is supplemented by high levels of general and financial lines insurance.

### **Risk Identification and Management Process**

Day to day responsibility for business risk management rests with line management who are responsible for continuously identifying, assessing and managing the key risks within their business area. Managers identify risks and allocate responsibility for them to specific staff using an in-house risk assessment system. The system generates risk "maps" which document the key risks, existing controls, and any actions necessary to reduce the residual risk (the net risk level with the controls in place), along with a timescale for doing so.

All risk maps are reviewed by departmental management as and when changes occur to the business profile, processes, risks, controls and external environment, to ensure they remain a complete and accurate record of the key risks faced by the firm. This process is supplemented by a formal review and sign-off of risks and controls by the head of each department annually. The Operational Risk Committee meets monthly and reviews the accuracy of risk maps, on the basis of changes affecting the area and any issues from recorded incidents or monitoring work.

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This bottom-up approach to business risk assessment is complemented by a top-down assessment involving the periodic overview of business risks by senior management. Key risk summaries are reviewed by the Group Risk Committee on a quarterly basis. The review considers issues with the potential to affect key risks, including reported incidents, outstanding actions, temporary or emerging risks, results of risk monitoring, external loss data and the adequacy of insurance coverage. The Management Committee also reviews key risk information every six months.

The key committees relevant to this assessment are the Operational Risk Committee and the Settlements Committee. The Operational Risk Committee is responsible for ensuring that operational risks are identified and appropriately managed in accordance with the Group's policy. It reviews the effectiveness of the operational risk framework and reports on the operational risk profile. The Settlements Committee reviews matters relating to settlement and custodian banks including the monitoring of counterparty risk.

A New Products and Instruments Group is separately responsible for the oversight of product development and reports to the Group Risk Committee. It considers products in their final stage of development or significant changes to existing products.

The Finance Department is responsible for the monitoring and mitigation of financial (market, liquidity and credit) risks for the balance sheet. This process is overseen by the Management Committee.

Management is also required to assess the key business risks that could prevent them from achieving their departmental business plan objectives. This information is fed into the periodic review of the firm's strategy. This process enhances the integration of risk assessment, business planning and overall strategy. Responsibility for monitoring Baillie Gifford's business risk lies with the Business Risk & Internal Audit Department, who independently monitor whether all key risks are being effectively identified, assessed and controlled by management.

### **Monitoring Activities and Correcting Deficiencies**

#### **Incident Management**

Baillie Gifford & Co has a company-wide policy for dealing fairly with incidents, including those that may affect clients. Incidents are recorded in an in-house incident management system and are escalated to, and dealt with by, members of staff of suitable seniority, independent of the area from which the matter arose. All loss events or near misses that indicate a serious failure in internal processes, people or systems or that arise from an external event are reported monthly to the Management Committee and quarterly to the Group Risk Committee. Breaches, significant loss events or near misses and complaints are reported to the Compliance Committee and Boards of the relevant Subsidiary and Joint Venture Companies and Investment Trusts.

#### **Assurance Functions**

The Heads of the Business Risk & Internal Audit and Regulatory Risk Departments are responsible for reporting to the Management, Compliance and Group Risk Committees, and the Boards of the Subsidiary and Joint Venture Companies and Investment Trusts. Functionally they report to the Finance and Administration Partner and maintain direct access to the Joint Senior Partners. Independent information regarding business and regulatory risks is delivered through this structure.

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### *Business Risk & Internal Audit*

The role of Business Risk & Internal Audit Department is to provide Baillie Gifford & Co with objective assurance that the firm's risk and control procedures are adequate and effective. It develops an annual risk-based work plan and audit programme on the basis of risks identified by the business, internal and external incident levels and changes or expected changes in the underlying business areas.

### *Regulatory Risk*

The Regulatory Risk Department is responsible for providing assurance to Baillie Gifford & Co on its management of regulatory risk and for providing timely and reliable advice on domestic and overseas regulatory obligations. The department adopts a risk-based approach to monitoring using a fully documented risk assessment of each business area aligned to the business risk assessment model.

#### **(a) Business Continuity Plans**

Baillie Gifford & Co has developed a comprehensive firm-wide business continuity plan, which covers the continuity of all key aspects of Baillie Gifford & Co's operations. The plan outlines the processes, procedures and people necessary to recover and continue critical business processes in the event of a service interruption or major disaster.

#### **(b) Insurance Programme**

It is considered important to ensure the scope and level of insurance coverage purchased is appropriate. The principal components of the insurance programme are the professional indemnity cover, property cover and other liability cover. An annual evaluation of the scope and level of coverage of the policies together with the security of the underwriters and their ability and approach to settling claims is undertaken in conjunction with our appointed insurance brokers.