The Schiehallion Fund Limited

Climate Report for the year ending 31 December 2024

Prepared in accordance with UK rules for product-level Task Force on Climate-related Financial Disclosures (TCFD) reporting.

Introduction

The Schiehallion Fund seeks to generate capital growth for shareholders through making long-term, minority investments in later stage private growth businesses that it considers to have transformational growth potential. The Fund can continue to own these investments into public markets. Fundamentally, the Fund pursues investments in fast growing businesses that it believes to have enduring competitive advantages, strong management teams and large growth opportunities. Such opportunities are identified through a “bottom up” process based on quantitative and qualitative analysis of business fundamentals. More information about The Schiehallion Fund can be found on the relevant fund pages of the Baillie Gifford website.

This report explains the portfolio manager’s approach to addressing climate-related risks and opportunities and describes a current view of how they may impact the portfolio. It should be noted that due to the fact that the vast majority of holdings within the Fund are private businesses (74% of the total portfolio weight as at 31 December 2024), the range of available holding-level climate data is largely limited to the smaller cohort of listed holdings within the Fund (20% of the total portfolio weight as at the same date, with the remaining 6% constituting investments in cash and fixed income securities). Given this asymmetry in data availability, coupled with the nature of disclosures within private markets more generally, this report has applied a qualitative approach to summarising and contextualising climate-related risks and opportunities as they pertain to the Fund. The content, format and range of available private market data is, however, expected to evolve.

Governance and management of climate-related risks and opportunities

Details of Baillie Gifford's approach to governing and managing climate-related risks and opportunities across the firm can be found in the entity level Climate Report on the Baillie Gifford website. This includes descriptions of the roles and responsibilities of relevant Boards and Committees and integration into overall risk management.

For the Schiehallion Fund, the management of climate-related risks and opportunities is the responsibility of the investment team. In this regard the starting point is one of relative impact: in the portfolio managers view, private companies can potentially be exposed to more pronounced risks than public companies, including but not limited to execution risk, new market adoption risk, valuation risk, key person risk, dilution risk, solvency risk and regulatory risk. The team's investment process and review work aim to come to a balanced view on this wide range of risk factors, of which climate is one.

Climate change and the world's response to it are causing a significant shift across key industries, including energy, manufacturing, insurance and mobility. The investment team is alive to these changes and to where they may bring out both risks and opportunities. Specific application to individual holdings will be idiosyncratic. As the team invests in businesses driving disruptive technologies or business models, often its investments will be asset light and less exposed to climate-related risks at a direct level. However, where climate-related risks and opportunities could be particularly material to investment outcomes, either directly or indirectly, the team undertakes tailored research and engagement with those specific holdings.

The portfolio managers assesses holdings through the lens of their proprietary 10-Question research framework, which is applied to potential new investments and updated for existing investments when they are reviewed. The framework addresses elements such as the scale of the growth opportunity, the competitive edge, business fundamentals and potential returns while also incorporating sustainability-related dimensions. For example, Question Six within the framework specifically considers how environmental and social factors create opportunities and risks for the investment under consideration. In this process, the team can rely on collaboration with Baillie Gifford's central climate team to further support their analysis on aspects relating to climate specifically.

Implications of climate change for strategy

Climate change and the world's response to it pose potential 'physical' and 'transitional' risks and opportunities for holdings in the portfolio. Physical factors can come from changes to the climate and weather patterns, while transitional factors can come from things like changing policies, technologies or consumer behaviours.

Assessing the potential influence of these risks and opportunities on investment returns is part of the portfolio managers' long-term investment style. However, this is a complex task, and they expect their views to continue to change over time. To help them, they think through different versions of the future using a technique called qualitative scenario analysis. At present, they believe this is more useful than quantitative scenario analysis (which is dependent on numerical data and modelling) because it allows them to explore the complexities and knock-on effects of future pathways.

Baillie Gifford has developed three qualitative climate scenarios in partnership with two external organisations: The Deep Transitions project (a collaboration between the universities of Utrecht and Sussex) and Independent Economics (a macroeconomics consultancy). The scenarios are based on NGFS (Network for Greening the Financial System) 'orderly', 'disorderly' and 'hothouse' world scenarios. More detail has been added in areas of interest, including human behaviour, technology adoption and societal change. This is explained further in resources on the **Baillie Gifford website**. The qualitative scenarios describe three different versions of the future:

	Smooth, orderly transition (1.5C by 2100)	**Volatile, disorderly transition (<2C by 2100)**	**'Hothouse' world (>2.5C by 2100)**
Climate	Significant but managed change; resilience retained	Worsening impacts	Major challenge to resilience; regional collapses in food/water systems
Politics	Coordination and trade supports transition	Initially divided, then more united	Fractured; protectionism rises
Policies	Well-signalled and proactive; early action	Initially diverse, then higher-cost and sometimes disruptive	Fragmented; supporting incumbents then biased to adaptation
Society	Rapid shifts in behaviour; circular and 'just transition'	Uneven development; self-reliance; inequality	Individualistic; higher levels of inequality, migration and conflict
Energy technologies	Technology tipping points reached early, influencing many sectors	Fragmented energy system limits cost reductions; innovation comes later	Fossil fuel dependency extended, costs higher, late-stage radical solutions
Adaptation responses	Varied and successful; managed across the global economy	Unequal; significant fiscal drain in some countries	Critical: agriculture, water, healthcare, climate defences
Finance	Multi-lateral financial reform supports investment flows to transition	Contradictory investments; market shocks from abrupt policy change	Greater variability; insurance contracts; adaptation costs pull investment from elsewhere

The portfolio managers are able to use these scenarios to explore possible implications for holdings in the portfolio over the short, medium and long term, which are described below. These timeframes have been chosen because they are relevant to the portfolio's investment timeframes, though it is recognised that changes to the climate happen over much longer timeframes.

Short-term risks and opportunities (0-3 years)

Trends in technology, policy and markets are likely to have more of an impact on the portfolio over the next three years than physical impacts. However, climate change is already making weather events more severe and could be immediately significant for some companies.

Under orderly transition scenarios, there may be significant opportunities for holdings that are directly helping to drive the decarbonisation of the economy. Key enablers in the portfolio include **Solugen**, a chemical technology company focused on transforming the chemical manufacturing industry by replacing traditional fossil-fuel based processes with sustainable, bio-based methods. Another enabler is **FlixBus**, a company offering a viable alternative to air travel and emphasising environmentally friendly travel by operating modern, fuel-efficient buses and trains, aiming to reduce carbon emissions in the process. Similarly, online second-hand marketplace, **Vinted**, promotes the reuse and resale of clothing, which extends the lifecycle of garments and reduces the demand for new clothing production. Companies showing other forms of strategic leadership, such as payment processor, **Stripe**, may also benefit from expanding markets as evidenced by their Stripe Climate offering helping promising carbon removal technologies launch and scale.

Though these opportunities will still be present in the disorderly scenario, they are likely to be more volatile and unpredictable across different regions and timeframes. Under disorderly transition scenarios, benefits may accrue to companies best able to manage the volatility, whether through a strong balance sheet, geographical diversification, or portfolio flexibility. Digital consumer product company, **Bending Spoons**, and money transfer provider, **Wise**, stand out in this regard.

Both orderly and disorderly scenarios are likely to increase transition risks for companies with more highly carbon-intensive products, processes or supply chains. Although the timing will vary in different markets, such companies may face higher costs or risk customer loss as emissions regulations tighten and social perspectives shift. In 2024 the portfolio managers continued to appraise holdings such as **SpaceX** to contextualise their exposure to these risks within the overall investment case.

In a hothouse world scenario, there is risk for companies who have built their business models on pro-climate policy landscapes. In contrast, high emitters may find financial advantage in delaying plans to reduce emissions or diversify business models. However, the portfolio has limited exposure to companies in this position.

Medium-term risks and opportunities (3-10 years)

Over the medium term, the impacts of orderly and disorderly transitions may begin to diverge. Under an orderly transition, there are likely to be significant opportunities at a global scale for companies providing climate solutions. There will also be increased pressure on high-emitting industries to deliver decarbonisation. High-emission companies able to transition with speed and efficiency will see market-expansion opportunities.

Under a disorderly transition, the most significant risk to portfolio holdings is an abrupt and dislocating shift to the policy and regulatory landscape. Companies reliant on legacy practices or unpriced externalities may struggle to adapt to rapid change. The portfolio has some exposure to the semiconductor industry in the form of semiconductor design company, **Tenstorrent**. This industry at large is reliant on significant quantities of energy and water. Unprepared, these may become more costly and scarce.

Meanwhile, the physical impacts of climate change are expected to become more widespread, especially under the hothouse world scenario. For the portfolio as a whole, the geographical and sectorial mix of holdings may help to provide some resilience. However, some companies have more concentrated geographic exposures, such as **Genki Forest** and **Bottle Planet** in China, while others are reliant on complex international supply chains, such as outsourced manufacturing provider**, Zetwerk**. In terms of opportunities, the likes of SpaceX – through its Starlink satellite communication offering, could be a beneficiary as satellites become more crucial to commercial communication as natural disasters potentially intensify and geopolitical instability rises.

Long-term risks and opportunities (10+ years)

Assessing risks and opportunities to the portfolio over the long term is challenging due to the uncertainties involved. However, under a hothouse world, and to some extent a disorderly scenario, it is anticipated that physical climate impacts become the main climate-related risk to returns. Impacts on people and economic activity are likely to affect most holdings in the portfolio. There may, however, be some opportunities for companies whose products and services assist with climate adaptation.

Under both orderly or disorderly transition scenarios, the risks and opportunities associated with new technologies and markets may become increasingly material to the portfolio as the 'winners' of the transition emerge, causing the old to fall away. Under a disorderly scenario, regions of the world that were delayed in their transition might need to catch up, offering new opportunities for transition-aligned companies. However, the rushed nature of this process may pose risks due to abrupt policy changes and technology shifts.

Certain holdings within the fund, such as **PsiQuantum** (through their quantum computing efforts) and **Kepler Computing** (through the development of hardware accelerators) are potentially in a position to benefit from long-term opportunities. In this regard these companies could have a role to play in, for example, revolutionising material science by enabling the design of novel materials that would lower the carbon and energy intensity of production processes more broadly.

Key Metrics

An important consideration with regards to any metrics pertaining to the Schiehallion Fund is the fact that the vast majority of the Fund's holdings – 74% of the portfolio weight as at 31 December 2024 – are private businesses. In this regard, the present reality of private markets is that such businesses exhibit a much lower level of data availability compared to public market peers, particularly with regards to carbon reporting, for example. This poses a challenge for presenting Fund-level metrics at the aggregate level without, at the same time, creating a partial or potentially misleading and distorted picture. In the case of the Schiehallion Fund, available metrics would only apply to the small cohort of publicly listed holdings within the fund, which constituted 20% of the portfolio weight as at 31 December 2024. The portfolio managers do not believe that such an approach would be representative of the wider portfolio, and consequently, this report does not contain the same suite of carbon-related data and metrics that might be expected for portfolios which, unlike the Schiehallion Fund, primarily invest in publicly listed businesses.

In this regard, the portfolio managers engage with private holdings through the established mechanisms that are available to private market participants. As private investors, this often entails a different kind of relationship with holdings and a different kind of influence on them compared to public investments. Within private markets, it is the building of these relationships that often marks the start of a long-term investment interaction – potentially into the public markets. Indeed, access to private investments is often predicated on the building of such long-term relationships. From an operational perspective, investments into private businesses are made through a set of bespoke legal agreements, generally creating a new class of equity with its own governance and information rights. As a small step towards ameliorating some of the reporting challenges pertaining to private holdings, Baillie Gifford has, where practicable for new and follow-on investments, embedded within these legal agreements the right to receive company-specific carbon output data where available.

FCA rules do require Baillie Gifford to determine if a portfolio has concentrated or high exposures to carbon-intensive sectors and, if so, to include quantitative scenario analysis metrics. Based on Bailie Gifford's Climate Assessment Framework, the Schiehallion Fund was assessed to be well below the relevant exposure threshold that has been set internally and as such, they do not regard this portfolio as having concentrated or high exposures to carbon-intensive sectors.

At an overall level, the portfolio manager remains attuned to the range of climate-related risks and opportunities facing Fund holdings over different timeframes. The portfolio managers continue to balance these alongside broader risks and opportunities as part of their bottom-up fundamental research process.

Legal Notices

Baillie Gifford uses a combination of internal research and analysis and third-party data sources when preparing ESG-related disclosures.

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However, Baillie Gifford cannot guarantee that such data is complete, up-to-date and/or accurate. Furthermore, information disclosed is based on data established at a specific time which may be liable to change. More generally, the coverage, standardisation, and comparability of ESG data continues to change and develop over time.

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