

# NEW PRODUCT APPROVAL PROCESS

*PRODUCTS AVAILABLE FOR RETAIL CUSTOMERS*

2023



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# INTRODUCTION

*This document provides you with information on our product approval process and outlines how we apply the UK and European product governance requirements introduced in 2018 and the Consumer Duty in 2023.*

*The framework explains our product approval process through the product lifecycle and the target market assessment for the Baillie Gifford UK OEICs, Baillie Gifford Worldwide Funds plc ('Irish UCITS') and the Investment Trusts for which we are the appointed Investment Manager and administrator.*

*Our overall purpose when creating a new investment strategy and products is to add value for clients and investors, support companies and benefit society through thoughtful long-term investment.*

*This framework equally applies when we make a significant change to an existing strategy. Where we take on a new investment mandate a similar process will be followed to manage the transition of the existing product to Baillie Gifford.*

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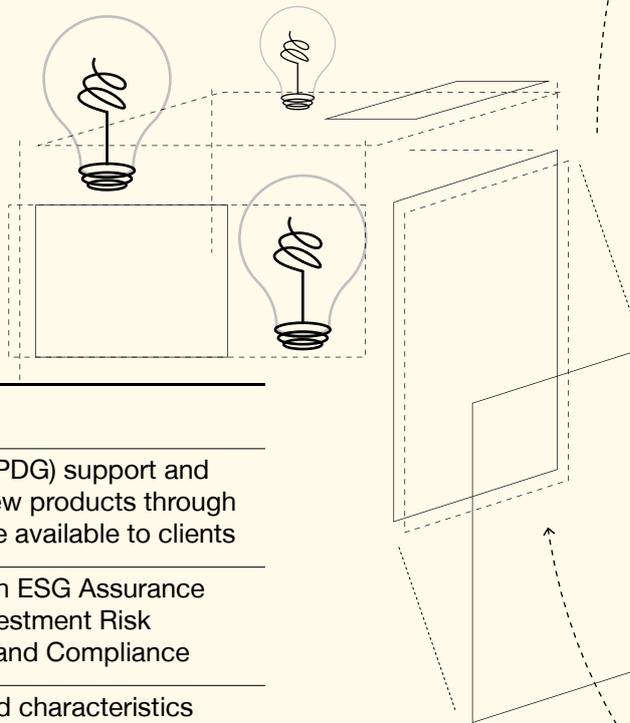
# OUR THREE PHASE PRODUCT LIFECYCLE

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Beneath each heading we illustrate the key activities and approvals involved in each phase of the product life-cycle. More detailed descriptions are provided in the pages that follow

## PHASE 1 – NEW IDEA AND PRODUCT DEVELOPMENT

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New Product Development Group (NPDG) support and co-ordinate the development of all new products through which investment strategies are made available to clients

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Sponsor/Working Group consults with ESG Assurance Group, including the Fees Group, Investment Risk Committee, Global Marketing, Legal and Compliance

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Development of objectives, policy and characteristics

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Target market assessment and narrative

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Marketing and distribution strategy is developed and approved

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Legal and regulatory documents, including Prospectus, Key Investor Information Document (KIID)

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Approval from internal Management Groups, Committees and Management Company/ACD/Investment Manager

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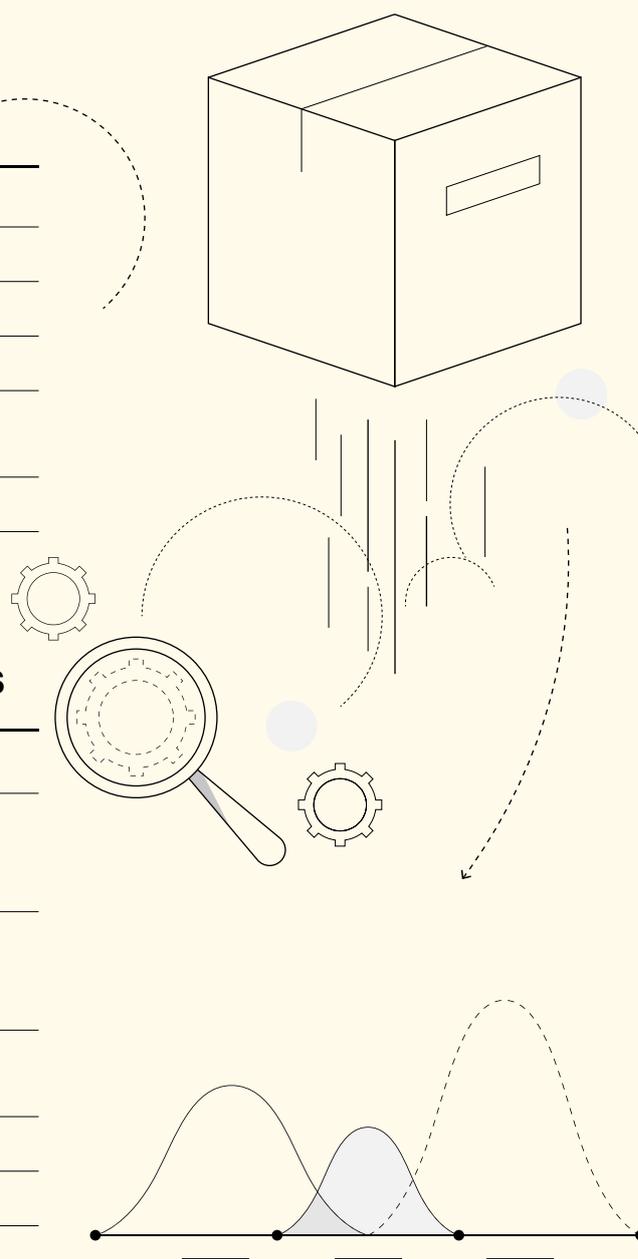
Regulatory notifications, approvals and registrations

## PHASE 2 – PRODUCT LAUNCH

- Operational set up for launch
- Funding process takes place
- Marketing communications
- First reporting cycle of regulatory and marketing documents made available
- Target market and costs and charges data
- Market timings/IPO for Investment Trusts

## PHASE 3 – ONGOING PRODUCT REVIEWS

- Distribution Leadership Group (DLG) meets quarterly to assess new product development, product termination, status of products and customer demand
- Product Governance Group (PGG) meets quarterly to assess products in line with customer needs and expectations
- Annual Fund Value Assessments to ensure funds are providing value to clients
- Annual product literature reviews
- Fees Group reviews
- Monthly Fund Risk Assessments
- Product Group meetings – performance, risk analysis, sales and distribution
- Investment Manager reporting to Investment Trust Boards
- Management Company/ACD/Investment Manager Board reporting
- Significant or material change referred to Management Company/ACD/Investment Manager Boards
- Six-monthly Prospectus reviews



Each Baillie Gifford product is operated and subject to oversight and monitoring by the relevant group company Boards. Independent boards provide ultimate approval for new products and significant changes to existing products in the case of each Investment Trust. Baillie Gifford Worldwide Funds plc provides this approval for the Irish

UCITS, for which Baillie Gifford Investment Management (Europe) Limited (BGE) is the manufacturer. UK OEICs are overseen by Baillie Gifford & Co Limited (BG&Co Ltd). More information about our legal structure can be found on page 9.

# PHASE 1 – NEW IDEA AND PRODUCT DEVELOPMENT

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## Stage 1 – New idea generation

The start of the product lifecycle is about getting the right people together to discuss a new idea. To support the innovation of new ideas through to implementation of a new product, the New Product Development Group (NPDG) works with the sponsor(s) to assess the feasibility and navigate the approval process.

### *Initiation and Approval in Principle*

At Baillie Gifford a new product often begins as an idea originating from our Investment Teams and product group specialists. The idea is usually at strategy level rather than as a specific fund vehicle unless there is a client or market demand.

Each new strategy proposal must meet our internal Strategic Leadership Group (SLG) Principles. At the core of the SLG Principles is the requirement to assess the positive impacts to existing and new clients and any negative implications.

We operate internal working groups to bring together colleagues to assist in the preparation of the proposal. A new product group may be created where an existing one does not exist.

The proposal paper and supporting material is presented to the relevant internal senior management groups to gain initial approval. Each group will challenge the idea against the SLG Principles and identify any risks to help ensure the idea will meet client expectations.

As an example, a new Baillie Gifford Worldwide Funds sub-fund would involve our Worldwide Funds Working Group, with representatives from across the firm including the BGE Executive Management Team. The BGE Executive Management Team, on behalf of the BGE Board, provides initial approval as investment manager and global distributor of the funds, with the BGWF Board being the ultimate decision maker.

## Stage 2 – Product Development

### *Development to reach Formal Approval*

Once approval in principle has been given, the detailed product development stage commences. Several groups and operational colleagues are engaged. The NPDG will continue to provide support and coordinate the development of the new product and address issues, risks and challenges raised during the process.

The Investment Risk Committee (IRC) is consulted to approve investment and liquidity guidelines for new strategies. Business Risk is consulted to perform liquidity analysis and stress testing on the new fund, to confirm that the liquidity profile of the fund is consistent with what will be disclosed to investors, and the overall investment risk profile and nature of the fund. Confirmation and conclusions of the analysis and stress testing shall be recorded and reported to the relevant fund Board, with any concerns initially escalated with the product sponsor/working group/management team.

Key groups consulted include the Fees Group to ensure setting the fee schedule for the fund is consistent and fair. The Global Marketing Group and business groups will help ascertain the likely demand or attractiveness of the fund across the relevant markets. This helps inform the structure to meet the needs of the target market. The ESG Assurance Group will ensure ESG considerations are met.

The Legal department works closely with the sponsor to prepare the product information for the prospectus. The sponsor will provide the product investment objective, investment policy, risks and target market assessment, including a complexity assessment where relevant.

The sponsor consults the Investment Risk Group to consider what information should be included in the Key Investment Information Document (KIID) or equivalent regulatory and marketing literature.

The updated proposal is given formal approval by the relevant internal senior management groups and presented to the relevant board(s) for their approval.

The Legal Prospectus will be sent for regulatory approval.



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## *PHASE 2 – PRODUCT LAUNCH*

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Following board and regulatory approval, operational teams across the business will commence product implementation steps. Key activities include initial system setup of static data, day-to-day tasks for managing the product are set up and external parties such as the depository, the administrator, registrar and transfer agent are engaged.

The Legal Prospectus, registrations, reporting requirements and regulatory documentation will be finalised. Marketing literature will be finalised for a product being marketed, including regulatory literature, fact sheets and costs and charges information. Business groups such as the Distribution Group will be notified.

The European MiFID Template (EMT) and European PRIIPS Template (EPT) will be populated accordingly with target market, costs and charges and price and value information for vendors and distributors to meet applicable regulatory requirements.

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## *PHASE 3 – ONGOING PRODUCT REVIEWS*

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Once a product has been launched the relevant business groups and committees will regularly review our products from various perspectives including Consumer Duty outcomes, cross-cutting rules, fees, risk management, ongoing compliance with ESG-related minimum standards including ESG-related commitments and annual value assessments.

The Product Governance Group (PGG) meets quarterly to review products available to retail customers and from a MiFID II (EU products) and UK product governance regulation and Consumer Duty perspective. The objective of the PGG is to assess products to ensure they remain aligned with the needs, characteristics and objectives of the identified target market and the distribution strategy remains appropriate.

A suite of management information including complaints and distributor feedback is used to review the respective fund ranges.

An internal framework has been developed for reviews reporting and to the respective boards and the Operational Compliance Committee.

These reviews consider any changes which have happened during the period, and will assess whether the:

- Product continues to function as intended, in line with stated policy and objectives
- Product remains compatible with the intended target market
- Chosen distribution strategy remains appropriate for the product.

Any post launch reviews for new products or previously incubated funds now available to market, and crucial events which have occurred are also discussed by the PGG.

A separate Consumer Understanding and Support Group (CUSG) looks at our product communications and the support we provide to retail customers.



# REGULATORY REGIMES AND TARGET MARKET DISCLOSURE

## Scope

Baillie Gifford has implemented a framework for compliance with the product governance requirements as set out in the respective regulatory regimes:

- UK within the FCA’s Product Governance (PROD) sourcebook and enhanced Consumer Duty products and services obligations as set out in the Principles for Businesses (PRIN).
- Europe in Directive 2014/65/EU (Markets in financial instruments), together with the Delegated Directive (EU) 2017/565 25042016 and respective implementing measures (‘MiFID II’). The European Securities and Market Authority (ESMA) published the detailed requirements in their Guidelines on MiFID II product governance requirements (‘ESMA Guidelines’).

The table below provides a summary of how the product governance requirements apply to relevant Baillie Gifford entities and products.

Please see the glossary on page 11 for an explanation of the acronyms used.

Product	Regulatory regime(s)	Manufacturer/ Distributor	Financial Instruments
<b>Baillie Gifford &amp; Co Limited</b> Baillie Gifford & Company Limited (BG&Co Ltd) is the entity responsible for UK products. BG&Co Ltd is the OEICs’ Authorised Corporate Director and appointed as the Investment Manager for the Investment Trusts we manage.	PROD PRIN	Manufacturer and Distributor	UK OEICs, UK Investment Trusts, and Guernsey Investment Company
<b>Baillie Gifford Investment Management (Europe) Limited</b> Baillie Gifford Investment Management (Europe) Limited is the Investment Manager and global distributor for the Baillie Gifford Worldwide funds (Irish UCITS). It is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co.	MiFID II	Manufacturer and Global Distributor  Distributor in the EEA and Switzerland	BGWF (Baillie Gifford Worldwide Fund plc (‘BGWF’))  UK OEICs and UK Investment Trusts/ Company
<b>Baillie Gifford &amp; Co</b> Baillie Gifford & Co (BG&Co) is the ultimate owning entity and distributor of UK OEICs.	PROD PRIN	Distributor	UK OEICs
<b>Baillie Gifford Overseas Limited</b> Baillie Gifford Overseas Limited (BGO) is the distributor for the Baillie Gifford Worldwide funds, UK OEICs, UK Investment Trusts and the Guernsey Investment Company outside Europe Ex-UK and Switzerland.	MiFID II PROD PRIN	Distributor outside Europe (delegated to BGO from BGE for BGWF and from BG&Co Ltd for other products)	BGWF, UK OEICs, Investment Trusts/ Company
<b>Baillie Gifford Asia (Hong Kong) Ltd</b> Baillie Gifford Asia (BGA (HK)) is appointed by BGO to act as a sub-distributor of the Baillie Gifford Worldwide funds and UK OEICs to professional investors in Hong Kong.	None*	Distributor in Asia (delegated from BGO to BGA (HK))	BGWF, UK OEICs

\* MI is requested as best practice to enable BG & Co Ltd and BGE to conduct ongoing product reviews.

## Target market assessment

As a manufacturer and distributor of products, relevant Baillie Gifford entities have certain obligations to identify a target market for the products they manufacture and to provide distributors and clients with the appropriate information about each product.

In line with the ESMA Guidelines applied in Europe and in the UK as best practice in PROD, we deem all UCITS products to be automatically non-complex unless they are structured UCITS (as defined under the KIID Regulation). We do not offer any structured UCITS products. Where the product is a non-UCITS (NURS), we assess complexity using the criteria as set out in Article 57 of the Delegated Regulation.

All of our products have been assessed as non-complex and compatible for all investors including mass market retail investors except for The Schiehallion Fund Limited, a Guernsey Investment Trust.

The Baillie Gifford target market assessment follows the ESMA Guidelines and European MiFID II Template (EMT) which sets out a list of categories for firms to use as the basis for their target market assessment for products.

The target market narrative of the intended investor type for our products can be found in the following Baillie Gifford literature:

- Fund factsheet
- Fund Prospectus
- PRIIPs KID (Key Information Document) for Investment Trusts.

Target market assessment category	Criteria
Type of investor	Type of investor for the product: 'retail client', 'professional client' and/or 'eligible counterparty'
Knowledge and/or experience	Specifies the level of knowledge and experience the target client, i.e. the end investor, should have to understand the product: basic, informed, advanced
Ability to bear losses	Specifies the ability to bear losses the target clients should be able and willing to afford: no loss, some loss, total loss, loss beyond contribution
Risk tolerance and risk/reward profile	Specifies the general attitude to the risks of the investment and should be categorised using clearly defined terms. The PRIIPs Regulation (SRI – Summary Risk Indicator) or UCITS Directive (SRRRI – Synthetic Risk and Reward Indicator) risk indicator should be used
Clients' objectives and needs	Specifies the investment objectives and needs of the target clients that the product is designed to meet. This may include the investment time horizon or a specific investment preference such as sustainable investment products or products promoting environmental or social characteristics: risk profile, minimum holding period, specific needs
Distribution strategy	Specifies the distribution strategy and restrictions, e.g. if the product is complex and should be restricted to informed investors execution only would have a 'no' response. – execution only, appropriateness test, with advice, discretionary service
Negative target market	The target market narrative includes the positive target market, a summary of the above criteria, together with whom the product may not be suitable for. This statement highlights the risks of investing for less than the recommended holding period as well as the short-term volatility and performance risk attached to investing in products designed for the long-term. – disclosed in the product factsheets, PRIIPs KID and prospectus

The current EMT version 4.1 and EPT version 1.1 are available on our website and will be updated as required.

### Distributor feedback e-mail

To assist us with our ongoing product reviews, distributors can provide feedback directly about Baillie Gifford products, including any complaints about our products or sales outside of target market, by getting in touch with their relevant Baillie Gifford contact or by e-mailing us at:

[distributionservices@bailliegifford.com](mailto:distributionservices@bailliegifford.com)

### Compliance monitoring

Our Compliance Monitoring team undertakes an annual review of the product governance framework outlined in this document for new products and those which have significantly changed. The findings are reported to the BG&Co Ltd and BGE Compliance Officers and to the Operational Compliance Committee.

Last updated: July 2023.

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# GLOSSARY

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ACD	Authorised Corporate Director
Consumer Duty	UK regulation set out in the Principles for Business (PRIN) which places a higher standard of care to retail customers and an obligation to assess against good customer outcomes
Crucial event	Any event which may affect the potential risk or return expectations of one of our products including: 1) the crossing of a threshold that will affect the return profile of the financial instrument; or 2) the solvency of certain issuers whose securities and guarantees may impact the performance of the financial instrument
Distribution Leadership Group	The group responsible for overseeing the global product offering and includes and assessing client demand, new product development including appropriate vehicles (pooled products), product termination, open/closed status of product and the wider offering and branding
Distributor	An investment firm that offers, recommends or sells an investment product and service to a client
ESMA	European Securities and Markets Authority
FCA	Financial Conduct Authority, UK regulator
Investment Risk Committee (IRC)	Established to oversee and monitor the investment risk framework for each investment strategy
Manufacturer	An investment firm that creates, develops, issues and design an investment product
MiFID II	Markets in Financial Instruments Directive 2014/65/EU, the Delegated Directive 2017/593 and respective implementing measures through ESMA and the FCA (UK)
PRIN	The Principles for Business sourcebook which includes the Consumer Duty Principle 12, three cross-cutting rules and four consumer outcomes. The products and services outcome in PRIN includes enhanced requirements to the existing PROD rules and therefore the higher standard is applied in Baillie Gifford
PROD	The UK product governance rules which apply to asset managers and derived from MiFID II
Product	In the context of MiFID II, a product is a financial instrument, for example a UCITS fund, a non-UCITS fund or an Investment Trust. The term product is also used to explain what Baillie Gifford sells, the range of different strategies and funds
Product Group/ Investment Team	The group of investment professional who manage a particular strategy or range of strategies. For example, the Japan Product Group have 4 strategies: Japanese All Cap, Japanese Growth, Japanese Smaller Companies, Japanese Income Growth and each strategy will have its own products (financial instruments/vehicles) such as a UK OEIC, Investment Trust, Irish UCITS
Strategic Leadership Group (SLG)	The SLG considers strategic issues relating to investment matters including discussions and advice around new teams and strategies and the closing of existing strategies
Sponsor	The individual(s) responsible for the new proposal. This is usually a Product Group
Strategy	The investment style and principles which are applied to the relevant products. A strategy may have UK, Irish and US mutual fund vehicles. We may also operate segregated mandates for institutional investors based on a strategy. Examples of strategies are Long Term Global Growth (LTGG) and Global Alpha

# **CURIOUS ABOUT THE WORLD**

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