

Baillie Gifford™

Defensive Growth Fund

Philosophy and Process



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Introduction

The Defensive Growth Fund offers actively-managed exposure to different asset classes through the convenience of a single portfolio.

This is a growth fund, seeking to deliver a good level of return over the long term within clear risk limits.

For investors looking for long-term capital growth, with the comfort of lower volatility than equities and a focus on sustainability, the Defensive Growth Fund may be an ideal solution.

Attractive returns with low volatility

The Fund's objectives are designed to be consistent with the real-world targets many investors seek. It aims to deliver stable, sustainable returns across different market environments over the long term.

A single fund offering a diverse range of asset classes

The Fund invests actively and flexibly across asset classes, enabling access to different drivers of returns and risks.

Top-down macro views and bottom-up research

We take advantage of macroeconomic themes which present exciting investment opportunities and invest through many varied implementation methods.

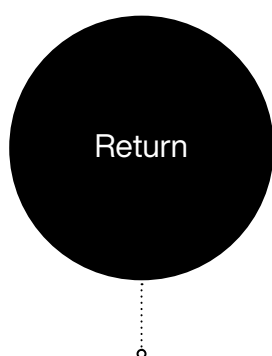
Integration of ESG factors throughout the investment process

A clear integration of ESG factors helps promote some of the most potentially transformative investment themes of the coming decades. We believe that investments aligned with good ESG practices will be well-positioned to benefit over the long term.

Objectives

Dual objectives

To achieve (after deduction of costs)



An annualised net return over rolling five-year periods that is 3.5% more than the UK Base Rate.

A positive return over rolling three-year periods.



Annualised volatility of returns over rolling five-year periods that is below 10%.

There is no guarantee that a positive return will be achieved over rolling three-year periods, or any time period, and capital may be at risk. The manager believes this is an appropriate objective given the investment policy of the Fund and the approach taken by the manager when investing. There is no guarantee that this objective will be achieved over any time period and actual investment returns may differ from this objective, particularly over shorter time periods.

Philosophy

As multi asset investors, we believe in finding opportunities across a wide range of asset classes that can deliver attractive returns with low volatility and are compatible with a sustainable economy. Our philosophy of active long-term investing underpins everything we do in the Fund.

Active asset allocation

We add value through active asset allocation by investing flexibly between the asset classes available. We also invest selectively within each asset class, aiming to take advantage of the best available opportunities.

Any investment held must have the potential to fulfil (at least) one of three portfolio roles:

- To deliver a good return
- To offer diversification from the rest of the portfolio
- To offer protection in adverse market environments

Truly diversified

By investing across a genuinely diversified set of asset classes, with wide flexibility in allocations, we can harness different growth drivers and avoid over-dependence on a single asset class or investment theme.

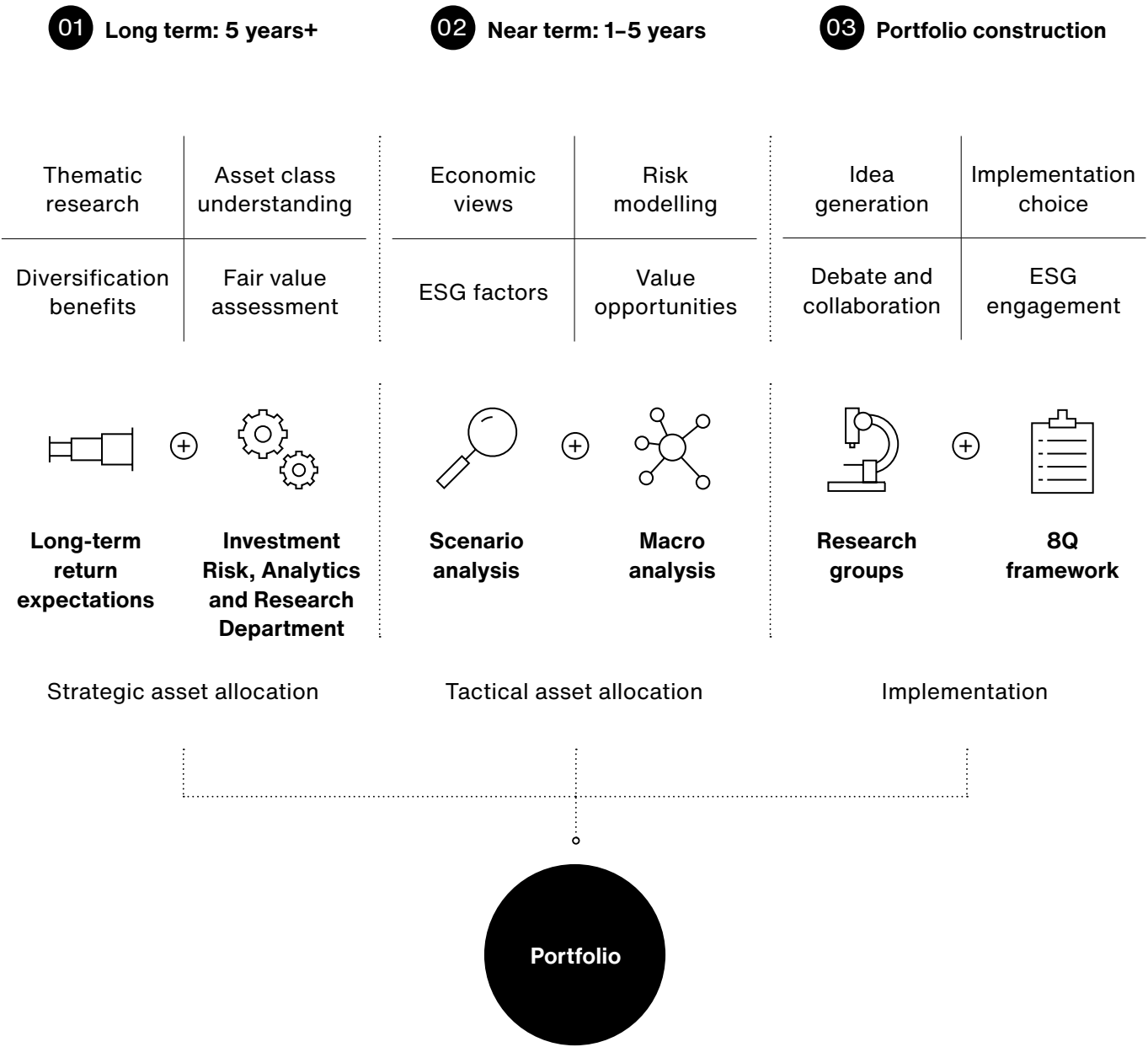
Long-term growth

We believe that good and consistent returns can be delivered only by investing over the long term.

Process

The key investment decision for the Defensive Growth Fund is our top-down asset allocation, which is then complemented by our bottom-up investment choices within each individual asset class.

The investment process is designed to identify the most interesting and attractive opportunities and combine them into a portfolio capable of delivering attractive returns but with lower volatility than equity markets.



Long term: 5 years+

Our long-term work assesses the return potential and attractiveness of the many asset classes available to us while understanding their risk profile and characteristics.

Near term: 1-5 years

Our near-term work focuses on the economic environment and those scenarios in which we wish our portfolios to maximise opportunities while remaining robust. Our global macro research groups assess conditions and determine the driving forces, assigning probabilities and asset class forecasts to the most likely scenarios.

The Multi Asset Team extends these scenarios across the full opportunity set through its regular Scenario Analysis, which the investment managers consider in their asset allocation discussions.

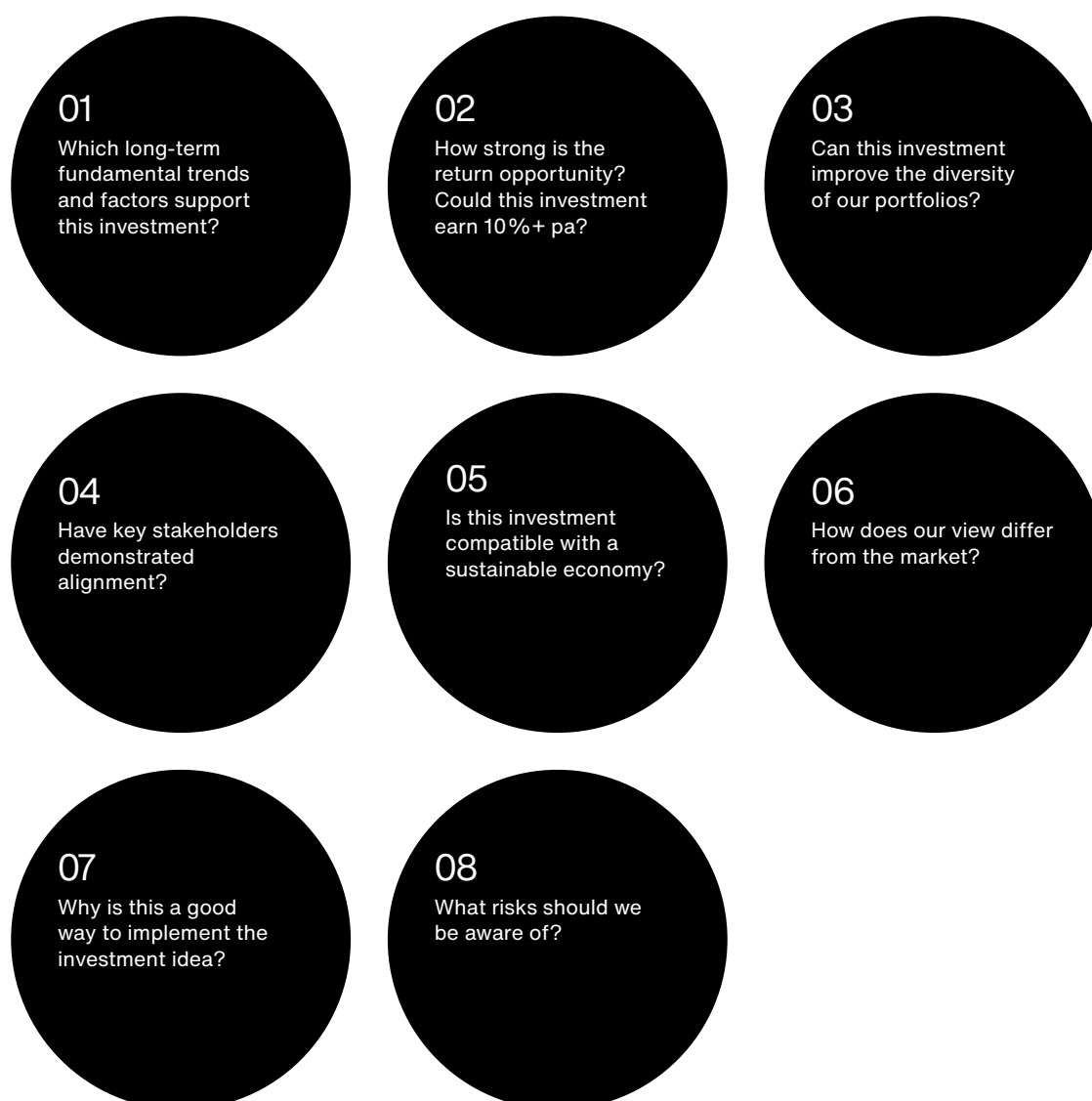
The investment managers express their views on the near-term opportunities through their Tactical Asset Allocation, a set of positions that fit around the SAA.

Portfolio construction

Our bottom-up work involves researching stocks, bonds, funds and other securities within asset classes. Asset class groups of three or four analysts research and debate these rigorously. They also select securities and propose models for what is owned within their areas, advising the investment managers on their asset class's attractiveness.

Research generally takes the form of an eight-question investment note, a standardised set of questions applied to potential investments, regardless of the asset class.

Eight question research framework



Q5 - Compatability with a sustainable economy.
We define a sustainable economy as one that achieves a balance between economic, environmental and social needs.

Range of asset classes

The Defensive Growth Fund can invest across a broad range of asset classes. This raises the likelihood of finding individually attractive asset classes and helps us build balanced and diversified portfolios capable of delivering meaningful capital growth with relatively low volatility.

Equities

Listed equities

- Active global equity strategies
- Sustainable index exposures
- Dividends
- Specialist thematic strategies

Private equities

Real assets

Infrastructure

- Public private partnerships
- Renewable generation
- Power and transmission

Property

- Regional and sectoral

Commodities

- Individually selected positions

Debt

High yield credit

- High yield bonds
- Floating rate loans

Investment grade bonds

Structured finance

- Senior
- Mezzanine

Emerging market bonds

- Local currency
- Hard currency

Insurance linked securities

Protective positions

Absolute return

- Uncorrelated strategies
- Defensive strategies

Active rates and currency

- Return seeking
- Hedging

Cash

Gold

Index-linked bonds

Developed market government bonds

ESG

At Baillie Gifford, we know our clients want us to achieve strong investment returns and care about the impact their capital can have on society and the environment. We take very seriously our role as stewards of our clients' capital and, therefore, want our actions to reflect our shared values and concerns, as well as the broader responsibilities that come with managing significant sums of money.

We believe there is strong alignment between good ESG practices and achieving the best investment returns over the long run. Therefore, we consider these issues in our research and decision-making and in our active engagement with our underlying investments.

Our research and analysis, engagement with underlying holdings, active voting, and reporting are key areas in which ESG activities are incorporated alongside our investment activities.

ESG factors are part of our rigorous research process, alongside traditional financial factors, influencing our views and ultimately our investment decisions. In our reporting, we aim to be open and transparent on ESG issues, as we are with other factors concerning our portfolios.

01

Firmwide Stewardship Principles and Guidelines

02

Top down: ESG risks and opportunities

- Thematic research
- Climate scenario analysis

03

Bottom up: A case-by-case approach

- Research and engagement

04

Portfolio construction: An active approach

05

Reporting

- Engagement and proxy voting activity
- Stewardship reports
- TCFD reports

Sustainability

We define a sustainable economy as one that balances economic, environmental and social needs.

The Fund's sustainable investment framework seeks to ensure that investments are made in a way compatible with a sustainable economy. It involves the application of the:



Revenue-based exclusions

Firstly, quantitative revenue-based screens are applied to exclude directly held companies which derive a significant proportion of their annual revenues from:

- (i) the production of military weapon systems, components, and the provision of support systems and services for the production of military weapon systems and components (10% revenue limit)
- (ii) fossil fuel extraction and production (10% revenue limit)
- (iii) tobacco production (5% revenue limit)
- (iv) thermal coal distribution (30% revenue limit)

Fossil fuel extraction and production are defined as either:

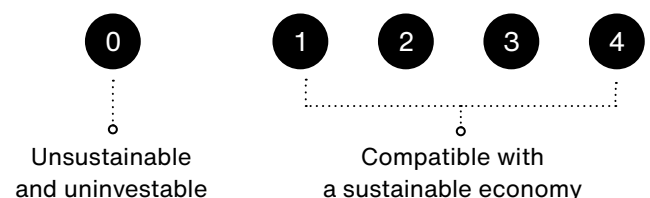
- (i) oil and/or gas extraction and/or production or
- (ii) thermal coal mining and/or sale

United Nations Global Compact Policy

Secondly, directly held corporate shares and bonds are assessed using a Norms-based Evaluation. This complies with Baillie Gifford's policy on determining breaches of the United Nations Global Compact as outlined in its Stewardship Principles and Guidelines document, which, alongside broader firmwide restrictions, can be accessed at <https://www.bailliegifford.com/en/uk/individual-investors/about-us/responsible-investment/>.

Qualitative sustainability assessment

Thirdly, all portfolio assets are qualitatively assessed for compatibility with a sustainable economy. Depending on the asset type, a Corporate, Fund or Sovereign standard of sustainability is applied in this assessment. Investments will be categorised (0-4), and any investment categorised as a 0 will be excluded from the portfolio. The qualitative assessment covers all asset classes besides portfolio implementation tools, including cash and cash-like instruments, deposits, derivatives and currency forwards.



Risk management

Risk management lies at the heart of the Defensive Growth Fund. As such, we attach the same consideration to risk issues as we do to the return opportunities and ESG credentials of our investments.

There are four main pillars to our management of portfolio risk:

- Diversification guidelines
- Scenario analysis
- Risk models
- Peer review

Diversification guidelines

We adopt a number of guidelines to ensure that the portfolio remains flexible, absolute-return focused and genuinely diversified at all times. In particular:

- There are maximum asset allocation limits for each asset class. Furthermore, no more than half of the portfolio's maximum permitted risk will come from any one asset class.
- There is no minimum allocation to any asset class. If we do not like an asset class, expect it to deliver negative returns, or see no portfolio benefit, then we will not own it.

	Asset allocation max weight %
Developed market government bonds	60
Investment grade bonds	60
Equities	40
Property	40
High yield credit	40
Structured finance	40
Infrastructure	40
Emerging market government bonds (Local currency)	30
Emerging market government bonds (Hard currency)	30
Commodities	30
Absolute return	30
Insurance linked securities	20
Private equity	20

Scenario analysis

Scenario analysis forms a major pillar of the risk framework. The investment team formally undertakes a scenario analysis exercise for the portfolio each quarter. This consists of assessing the likely performance of the asset classes in which the portfolio invests over the following 12 to 18 months across a range of core and specific scenarios.

The core scenarios typically represent different states of global growth and inflation. The specific scenarios look to capture pre-defined events that may have substantial effects on the portfolio were they to occur. Examples might include economic or geopolitical shocks.

Risk models

We use risk models to provide a quantitative perspective on the portfolio. This helps inform our understanding of the portfolio and the range of risks it is exposed to. We currently use two complementary risk models, APT which is from an external provider, and PRISM, which is an in-house model.

Peer review

The team and its investment decisions are regularly subject to constructive challenge by senior colleagues from across Baillie Gifford.

We think this is a valuable part of our process and helps the team avoid behavioural risks such as over confidence, as well as providing useful input to the generation of investment ideas. The main forums for this peer review are regular meetings with the Investment Risk, Research and Analytics Department, and the Multi Asset and Fixed Income Investment Risk Committee.

Portfolio liquidity

The Defensive Growth Fund offers daily dealing. This means the Fund is valued on a daily basis and is capable of accepting inflows and allowing outflows on a daily basis.

The practical effect of this is that at least 90% of the portfolio is capable of being bought and sold on a daily basis (subject of course to a satisfactory price being achievable). Up to 10% of the portfolio may be invested in externally managed open-ended funds with weekly or monthly dealing frequency (subject to a maximum 5% of portfolio in monthly-dealt funds).

People

Common enthusiasm, collective curiosity, diverse experience

We think diverse teams make better decisions.

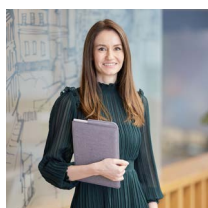
Our team has a range of experience and interests. They all have in common an enthusiasm for seeking out exceptional investment opportunities.

The team sits within our Multi Asset and Fixed Income (MAFI) Group, working closely with other specialist groups, such as the Global Bond Team. They also draw upon the whole resource and expertise of the firm, notably the long-established stock-picking capabilities and strong track record of our equity and credit teams, and the Investment Risk, Analytics and Research Department. The MAFI Investment Risk Committee provides support, advice and constructive challenge to the investment team.



James Squires

James is head of the Multi Asset Team and chairs our Multi Asset and Income Leadership Group. He became a partner in 2018. James joined Baillie Gifford in 2006, initially working in our North American Equity and Fixed Income teams. He has been a CFA Charterholder since 2010 and graduated BA in Mathematics and Philosophy from the University of Oxford in 2005.



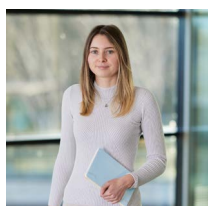
Nicoleta Dumitru

Nicoleta is an investment manager in the Multi Asset Team and part of the Monthly Income Portfolio Construction Group. She joined Baillie Gifford in 2013 after graduating BSc (Hons) in Management and Marketing from the University of Manchester that same year.



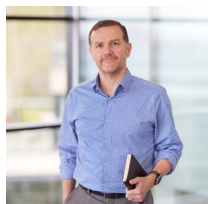
Felix Amoako

Felix joined Baillie Gifford in 2011 and is an Investment Manager in the Multi Asset Team. He is a CFA Charterholder. Felix graduated BComm in Accounting from University of Cape Coast, Ghana in 2008 and MSc in Investment Analysis from the University of Stirling in 2010.



Siân Lombard

Siân joined Baillie Gifford in 2021 and works as an ESG analyst within the Multi Asset Team. Since joining the firm, Siân has contributed to the development and launch of the Defensive Growth Fund and continues to support its management. Alongside this, she leads and coordinates ESG research, integration and engagement across the Multi Asset Funds. Siân started her career at Deloitte, becoming a Senior Consultant in their Risk Advisory practice in London. She graduated from Durham University in 2017 with a BSc in Environmental Geoscience.



Scott Lothian

Scott leads Baillie Gifford's Investment Solutions Team and is an investment manager in the Multi Asset Team. He joined the firm in 2015 and initiated the Investment Solutions business in 2024. Prior to joining the firm, he worked as a Solutions Strategist for Schroders in London, led the multi asset team for BEA Union in Hong Kong, and was a senior investment consultant at Towers Watson. Scott is a Fellow of the Institute and Faculty of Actuaries, and graduated with first class honours in Actuarial Mathematics and Statistics from Heriot-Watt University in 1999.

Baillie Gifford

Established in 1908, we have a long history of independent, long-term and client-focused investment.

Clients

We are immensely proud of our supportive client base. Without them, our business could not exist.

Our primary goal is to build long-term relationships with aligned, like minded, clients. Our longest client relationship dates back to the early 1900s.

A core principle we have always upheld is prioritising our clients' interests above the firm's. In an industry that often puts financial gain over client outcomes, this focus is crucial. We aspire to be seen as more than merely the 'hired help', and aim to be recognised as a trusted, long-term partner, who can be relied on to give honest and objective advice at all times.

We are research-driven, patient and prepared to stand apart from the crowd. And because we're an independent partnership without outside shareholders, the long-term goals of our clients are genuinely our priority.

Partnership

Stability matters.

Since its inception in 1908, Baillie Gifford has proudly remained a private partnership. We have no intention of changing this. We have never had a merger or made an acquisition, nor do we seek to in the future. This is a rare level of stability in financial services.

All of our partners work within the firm which provides a unique level of alignment between them as owners, and our clients. This is a key differentiator in comparison to a lot of our peers.

Focus

We have a clear unity of purpose: excellent long-term investment returns and unparalleled client service. Our interests and long-term objectives are completely aligned with those of our clients.

We are not short-term speculators, rather we deploy client's capital to run truly active portfolios that give exposure to exciting and lasting growth companies. We would argue that it is visionary entrepreneurs and company leaders that generate long-term profits and share price increases, not stock markets or indices.

When active management is done well it can add material value over the long term. We need to be willing to take a differentiated view. This is not easy. It requires dedication, independent thought and a long-term perspective. Our whole firm is built around this, and we will always remain resolutely investment and client outcome driven in our outlook.



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