



Sustainable Corporate Bond Investing

Philosophy and Process

Baillie Gifford™

This document is solely for the use of professional investors and intermediaries and should not be relied upon by any other person. It is not intended for use by retail clients.

Important Information and Risk Factors

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 Overseas Limited is authorised and regulated by the Financial Conduct Authority.

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. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions ('FinIA'). It does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. It is the intention to ask for the authorisation by the Swiss Financial Market Supervisory Authority (FINMA) to maintain this representative office of a foreign asset manager of collective assets in Switzerland pursuant to the applicable transitional provisions of FinIA. 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.

This document contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned.

Potential for profit and loss

All investment strategies have the potential for profit and loss.

Financial intermediaries

This document is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

Contents

Philosophy	Process	Case Studies
03	04	06
<hr/>	<hr/>	<hr/>
Baillie Gifford Corporate Bond Funds		
08		
<hr/>		



Philosophy

Our clients trust us to oversee and manage their investments for the long term. Our genuinely long-term approach to corporate bond investing is evidenced by our low portfolio turnover relative to the broader market. If you analyse a company's business prospects over a multi-year investment horizon rather than the next quarter, you have to think deeply about how the future might look, acknowledging that the recent past is often not the best guide.

In our view, the transition to a sustainable economy, one which achieves a balance between economic, environmental and social needs, has begun. As stewards of our client's capital, we regard it as our responsibility to steer businesses away from destructive practices and towards activities that create genuine economic value.

We believe the sustainability transition is a material shift that will affect all companies, creating long-term investment opportunities as well as risks. In this context, in-depth, forward-looking sustainability analysis will help us understand where a company's future resilience is not reflected in its valuation, giving us an edge relative to the market.

Our sustainable corporate bond investment philosophy focuses on three key elements.

Fundamental company research

Sustainability analysis is at the core of our company research framework because we believe this factor is fundamental to long-term returns. By assessing whether each investment is compatible with a sustainable economy, we believe we are building more resilient corporate bond portfolios for our clients. Given the importance of this factor, we do not invest in companies that our analysts deem to be unsustainable.

Active ownership

Engaging with and monitoring our companies on an ongoing basis is a fundamental part of our investment process and how we discharge our stewardship duties. All members of the Credit Team are regularly involved in company engagement. As long-term investors within the asset class, we are well positioned to influence corporates and set meaningful ESG milestones for the businesses we lend to.

Climate ambition

Climate change is a systemic risk that threatens the long-term return potential of all companies. We are committed to proactively ensuring that our investment process helps to accelerate timely global decarbonisation. Our ambition is to guide our corporate bond funds on a path to limit global temperature increases to 1.5°C.

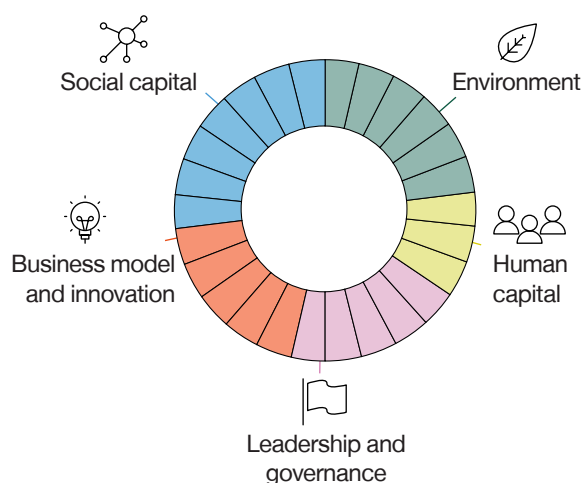
Process

Fundamental company research

We started to incorporate ESG factor analysis into our investment process for corporate credit in 2016, focusing on financial materiality. In 2021 we enhanced this framework and now assess a broader range of ESG factors through sustainability analysis.

The Credit Team are responsible for sustainability assessment, scoring each company on the basis of five sustainability dimensions with a view to answering the question, is this company compatible with a sustainable economy? This structured approach encourages in-depth, forward-looking analysis. It is designed to go beyond standard ESG metrics and heavy reliance on external ratings which can be inconsistent, narrow, and backward looking. We believe this will give us an edge in assessing the fundamental strengths and weaknesses of companies.

Five sustainability dimensions



Our framework is designed to identify risks and opportunities related to material sustainability dimensions as an input to our overall assessment of a company's resilience. The scores influence investability, position size and sell discipline. They also drive our engagement priorities. Each company we lend to receives a sustainability score and corresponding categorisation as follows:

- 4 – Enabler:** Companies enabling the transition to a sustainable economy
- 3 – Leader:** Neutralising or making positive negative externalities
- 2 – Neutral:** Minimal negative externalities within the sustainability dimensions
- 1 – Adapting:** Significant issues identified but company demonstrates a clear commitment to improve
- 0 – Unsustainable:** Significant negative impact and no or insufficient measures in place to improve

Companies that we deem to be **Unsustainable** demonstrate high sustainability risks, such as the prospect of significantly increasing regulatory costs, and are not considered for investment. Companies that are **Adapting** are the focus of monitoring and engagement – and where our dialogue with management can be most impactful. In terms of opportunities, we believe capital will be reallocated towards businesses that appropriately manage their impact and provide solutions to sustainability issues. This leads us to actively seek out **Leaders** and **Enablers** that have these characteristics.

Sustainability is complex and nuanced, requiring us to spend time carefully thinking about the future and engaging with our holdings. The Credit Team is supported by two dedicated ESG analysts who work alongside investment managers to build a deeper understanding of sustainability risks and opportunities, provide challenge and collaborate on engagement.

Active ownership

The purpose of company engagement is to monitor, fact find and influence. Our proprietary scoring system drives our ESG engagement and monitoring process, prioritising those investments identified as Adapting and high climate impact holdings. Here, we apply objective markers, or milestones, against which to measure and monitor the progress for each investment. If these expectations are not met within the relevant timeframe, we will, unless there are clear mitigating circumstances, escalate or divest of the lagging holding. All of our investments are subject to the required due diligence before investing and ongoing review of the investment case. We regularly engage with key stakeholders to ensure alignment of interests and execution of appropriate policies.

Climate ambition

We believe the most important contribution will be made by the companies we invest in implementing their own plans to align their business strategies with a 1.5°C scenario. Encouraging our holdings to be ambitious is where we can have the greatest influence. As such, we have set out the percentage of companies within the portfolio that we want to be aligned with net zero based on the emissions each company finances.

By 2030, 75% of the company emissions financed by the portfolio will be represented by companies on a net zero pathway aligned with a 1.5°C temperature rise.

By 2040, 99% of the company emissions financed by the portfolio will have net zero pathways in place, aligned with a 1.5°C temperature rise to be achieved before 2050.

ESG initiatives – selective but effective collaborations

We consider collaboration with industry partners on sustainability to be an important part of moving the whole market forward. Our goal is to build productive relationships with select partners over time. We prioritise our efforts on initiatives we believe will be beneficial for clients and add value from an investment perspective. For example, we actively support the standardisation and comparability of material ESG data through our membership of the Investor Advisory Group to the International Sustainability Standards Board. This is an example of an initiative we believe has the potential to move the dial by providing investment professions with improved data to analyse companies' sustainability profile.

To find out more and view our full range of ESG reports, please visit our dedicated ESG website.

Case studies

MercadoLibre – Enabler

MercadoLibre is a leading Latin American e-commerce platform and payments business linking merchants with buyers online. By making it easier and cheaper for businesses to trade, MercadoLibre's services are helping to reduce and remove some of the barriers that have held back socio-economic development in Latin America. In doing so, the company **enables** the transition to a sustainable economy and offers a compelling investment opportunity. E-commerce penetration is still low in Latin America making the company's growth prospects attractive.

LeasePlan – Leader

LeasePlan aims to become the world's first fully digital car-as-a-service company. The business purchases, funds, and manages new vehicles for its customers, providing a complete end-to-end service for a typical contract duration of three to four years. LeasePlan operates in an area of structural growth as companies continue to transition away from car ownership. It has a clear and ambitious sustainability strategy in place through its 'Driving to Zero' initiative leading us to classify the company as a sustainability **leader** within an industry that produces high emissions. The company aims to achieve net zero tailpipe emissions from their funded fleet by 2030. These efforts strengthen the investment case for LeasePlan as corporate clients increasingly look to use providers that can offer sustainable solutions.

Burford Capital – Neutral

Burford is a leading American speciality finance company providing financing and risk management services to major law firms and their corporate clients. Burford is the largest player in a high margin business with high barriers to entry. The company is compatible with a sustainable economy. Litigation financing can be used as a tool to make the rule of law fairer, more accessible and more efficient. In terms of sustainability, Burford is not exposed to material sustainability risks under our framework. Unlike consumer financing, regulatory risk for corporate financing is low. The company has a strong record on data security and diversity and inclusion. Ultimately, the impact of Burford's business is **Neutral**, it doesn't have to do anything differently to maintain its social license.

Victoria – Adapting

Victoria designs, manufactures and distributes flooring products across the UK, Continental Europe and Australia. It is a market leader in ceramic tiles and carpets and has strong and diversified distribution. However, Victoria's manufacturing is resource intensive and poor disclosure on carbon emissions and health and safety create sustainability risks. While the company have disclosed measures to reduce operational emissions, we expect Victoria to set emissions targets given the company's vulnerability to carbon pricing. Through engagement we have found that Victoria is willing to address sustainability issues. As an **adapting** company within our framework, we have set Victoria sustainability milestones including improved disclosure, product life cycle assessments and emissions targets. We will continue to monitor and engage Victoria closely.



Baillie Gifford Corporate Bond Funds

Fund	Domicile	SFDR classification
Strategic Bond Fund	UK	N/A
Global Strategic Bond Fund	Ireland	Article 8
High Yield Bond Fund	UK	N/A
European High Yield Bond Fund	Ireland	Article 8
Investment Grade Bond Fund	UK	N/A
Investment Grade Long Bond Fund	UK	N/A

Article 8 investment restrictions

While we stress the need for thoughtful, qualitative ESG analysis, we understand that our clients appreciate the clarity and reassurance that investment restrictions can provide. Therefore, our Article 8 funds adopt a number of norms-based and sectoral investment restrictions.

Annual revenue screens

>10% revenue from fossil fuel extraction and production	Excluded
>30% revenue from distribution of thermal coal	Excluded
>10% revenue from production or sale of armaments	Excluded
> 5% revenue from production of tobacco	Excluded
Controversial weapons – any tie	Excluded

Norms-based screens

UN Global Compact non-compliance	Excluded
----------------------------------	----------

Low carbon aim

Weighted Average Greenhouse Gas Intensity	Below index
---	-------------

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 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 and Type 2 licence from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes 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 Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, Telephone +852 3756 5700.

Important Information North America

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

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 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 Israel

Baillie Gifford Overseas is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This document is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

Important Information Australia

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a "wholesale client" within the meaning of section 761G of the Corporations Act 2001 (Cth) ("Corporations Act"). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this document be made available to a "retail client" within the meaning of section 761G of the Corporations Act. This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

BAILLIE GIFFORD. ACTUAL INCOME.

income.bailliegifford.com

**Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone *44 (0)131 275 2000 / bailliegifford.com**

Copyright © Baillie Gifford & Co 2023.