BAILLIE GIFFORD

Governance, Risk Management and Capital Disclosures ('Pillar 3')

June 2020

Contents

1. Introduction and Context

Purpose of Disclosures

Under EU legislation, the Capital Requirements Directive ('CRD IV'), Baillie Gifford is required to disclose information in line with rules issued by the Financial Conduct Authority ('FCA') for any firm within the scope. However, the FCA has continued to apply to certain firms, disclosure requirements contained within the prior iteration of the Capital Requirements Directive, known as 'CRD III'. Accordingly, the disclosures required by these regulatory provisions apply to a number of firms in the Baillie Gifford group.

The FCA's General Prudential Sourcebook ('GENPRU'), Prudential Sourcebook for firms known as BIPRU Firms ('BIPRU') and Prudential Sourcebook for Investment Firms ('IFPRU') implement the CRD and other prudential requirements in the UK ('Prudential Rules'). These rules are built on three pillars:

- Pillar 1: establishes the Capital Resources Requirement (the minimum capital requirement)
- Pillar 2: the process for assessing capital adequacy in relation to the actual risk profile of the firm and determining whether additional capital is required to cover these risks by the firm's governing body through the Internal Capital Adequacy Assessment Process ('ICAAP') and the subsequent regulator's Supervisory Review and Evaluation Process ('SREP').
- Pillar 3: rules for the disclosure of risk and capital management, including capital adequacy, governance and the firm's remuneration policy for certain categories of staff.

This document is updated and published annually, or more frequently if there are significant changes to the business or activities of the Baillie Gifford group which materially affect these disclosures.

Scope

The information in this document relates to Baillie Gifford & Co, and its subsidiary and joint venture companies.

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.

In order to provide its services to clients, Baillie Gifford & Co and certain of its subsidiary and joint venture companies ('Baillie Gifford') are authorised and regulated by a number of regulatory authorities. These include the Financial Conduct Authority ('FCA'), in respect of our UK operations, the Securities and Exchange Commission ('SEC'), in respect of our investment advisory activities for clients in the United States, and the Central Bank of Ireland ('CBI') in respect of investment management activities for our clients in Europe. The FCA register numbers and relevant Prudential Rules for each firm are as follows:

Partnership	FCA Register[1]	Prudential Rules
Baillie Gifford & Co	142597	BIPRU
Subsidiary Companies		
Baillie Gifford Overseas Limited	121818	BIPRU
Baillie Gifford & Co Limited	119179	IPRU (INV)
Joint Venture Company		
Mitsubishi UFJ Baillie Gifford Asset Management Limited	145243	BIPRU

[1] Access to the FCA's register is available via their website at http://www.fca.org.uk/register/.

On 4th May 2020, the FCA approved the removal of Baillie Gifford Savings Management Limited's regulatory permissions as part of the planned cessation of business. Following this approval, Baillie Gifford Savings Management Limited entered into a members' voluntary liquidation on 2nd June 2020.

Disclosure of Baillie Gifford's remuneration policies and practices are covered in a separate Remuneration Disclosures document which is available on the Baillie Gifford website (www.bailliegifford.com).

In 2019 the European Parliament approved legislation which will implement prudential regulation for EU investment firms. The investment firms regulation and directive (IFR and IFD) is due to be effective from June 2021 and will impact asset managers. We have performed an initial assessment of the IFR and IFD and have determined that it is unlikely to materially impact our regulatory capital requirements.

Basis of Preparation

The financial information has been taken from historical information from the 30th April 2020 Baillie Gifford Capital Adequacy FCA Return.

The disclosures have been reviewed and approved by the governing body of Baillie Gifford & Co (the 'Management Committee') and are published on the Baillie Gifford website. They have not been subject to audit.

As a Scottish general partnership, Baillie Gifford & Co is not required to produce consolidated group accounts. The firms above are consolidated for regulatory reporting purposes using the aggregation method under the FCA rules for investment firms.

Baillie Gifford benefits from the FCA Capital Requirements Regulation derogation which allows it to apply disclosure requirements under CRD III. Therefore the following capital, risk management and governance disclosures are prepared in accordance with these requirements for firms in the Baillie Gifford group which are subject to the BIPRU sourcebook.

2. Governance Arrangements

The members of the Management Committee (the governing body of Baillie Gifford & Co) are determined by the Joint Senior Partners and are largely based on the executive roles held by the individuals across the firm. In addition, to provide challenge in the Management Committee's decision making processes, two members are appointed who do not hold direct accountability or responsibility for reporting of an executive nature.

It is a requirement that these individuals have a good understanding and knowledge of the business of Baillie Gifford and its main risks and sufficient time in their current role to take on Management Committee responsibilities effectively.

The Chairperson of each Baillie Gifford subsidiary company Board has responsibility for considering the overall composition of their Board, identifying any skill gaps and, in conjunction with the Management Committee, for ensuring that appropriate individuals are approved for appointment. They must have adequate collective knowledge, skills and experience to understand the subsidiary company's activities and its risks. All directors undergo induction training on appointment.

The governing body of each regulated firm in the group receives a pack each year which documents the entity's overall governance framework which is designed to provide the respective governing body with assurance as to the organisational and decision-making arrangements which are in place and any changes that have occurred, and the opportunity for objective challenge and review on an annual basis.

Baillie Gifford is committed to providing equal treatment and equal opportunities in all aspects of employment and in the management and governance of its business affairs. Information about our approach to diversity and inclusion is provided on our website.

3. Risk Management

Overview

Baillie Gifford's sole business is investment management and it is not involved in broking, investment banking or any other trading activity (save in very limited circumstances where it deals on its own account in providing initial seeding for new funds) and does not hold client 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 Baillie Gifford are therefore operational, strategic and business in nature including obligations in respect of its Defined Benefit Staff Pension Scheme.

As Baillie Gifford is headed by an unlimited liability partnership with partners responsible for all areas of the firm, there is a particularly strong awareness of risk with a well-established and resourced framework of internal controls. This control framework is supplemented by high levels of general and financial lines insurance.

Group Risk Management Framework

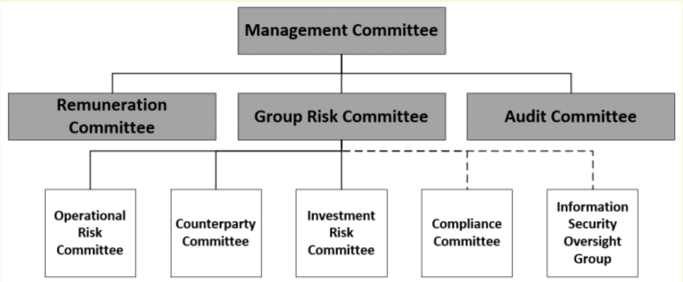
Baillie Gifford operates a group wide risk management framework, which includes a Risk Appetite Framework, Group Risk Policy, and several committees to provide a mechanism to ensure that risks are managed effectively. The framework aims to focus risk management activity on the strategic aims of the business and provide a high degree of confidence that unexpected risk events will not interfere with the strategy. It provides a means of expressing the firm's attitude to risk and forms a framework for risk decision making.

The Baillie Gifford group's overall aim is to add value for clients, support companies and benefit society through thoughtful long term investment. Our strategy to do this is that acting with professionalism and integrity, we will continually invest in our people and adapt our business to deliver exceptional long-term investment performance and unparalleled client service. Our first priority is therefore to focus our efforts on our own investment capabilities alongside thinking ahead to meet our clients' needs before they realise they have them.

Baillie Gifford & Co's partnership structure allows us to focus on our clients and their investments. It helps foster a no-blame culture with the focus on learning from our mistakes and a lack of external pressure to manage short-term earnings. This allows the group to take a long term approach to the business, for example by continuing to invest in people, systems and processes in downturns or closing to new business when we are growing too quickly. The emphasis in our strategy on high service standards leads us (within reason) to try to avoid or carefully manage conflicts of interest with clients, to put their interests first, to avoid products we do not think are likely to be good investments for them, and to reduce operational and reputational risks, all of which are threats to clients' perceptions of high service.

The strategy and general risk appetite statement is periodically communicated to all staff.

Baillie Gifford's committee structure and risk management reporting framework are designed to provide a mechanism to assure management that risks are managed effectively and internal control processes are operating as required. The key governance committees in respect of risk management are as follows:



The Management Committee of Baillie Gifford & Co is responsible for overseeing the overall strategy and risk profile of the business and approves the risk appetite framework.

Implementation and oversight of the risk framework, including the Group Risk Policy, is the responsibility of the Group Risk Committee. The Remuneration Committee is responsible for the supervision and oversight of employee rewards and benefits. The Audit Committee assists the Management Committee in carrying out its responsibilities in relation to Baillie Gifford's accounting policies, internal controls and financial reporting functions.

In turn, three specialised committees are responsible for implementation and oversight of operational risk, counterparty risk and investment risk.

The Compliance Committee is responsible for ensuring the adequacy of Baillie Gifford's policies and procedures to ensure compliance with regulatory obligations, and the Information Security Oversight Group is responsible for ensuring we have an effective information security strategy and that systems and controls are robust and proportionate. The group comprises representatives from Information Systems and Business Risk Departments.

The risk management framework is reviewed at least annually by the Management Committee. It is amended to reflect any significant evolution in strategy, financial capacity, regulatory constraints, internal change, etc. In addition, any issues arising from the limit monitoring and reporting process may result in revisions to the risk appetite during the year.

Risk Identification and Management Process

The Baillie Gifford risk management framework takes a bottom up approach to risk assessments complemented by a top down assessment of the risk profile and is organised using a three lines of defence model.

Line 1: Management Functions

Management of each business area is responsible for continually identifying, assessing and managing the risks within their area on a day to day basis.

Key risks and controls are reviewed by departmental management as and when changes occur to the business profile, processes, risks, controls and external environment. This process is supplemented by a quarterly assessment by each business area, which is facilitated by the Business Risk Department and overseen by the Operational Risk Committee. Risks are escalated to the appropriate governance committee to support the timely resolution of issues.

Line 2: Risk Functions

The Business Risk and Compliance Functions, assisted by other functions such as Legal, Finance and Human Resources, support the risk and compliance committees. This line provides policy direction and oversees and monitors the risk framework to determine whether all key risks are being identified, assessed and controlled by management in a manner commensurate with the Firm's applicable risk appetite and regulatory needs.

Functionally, these areas report to the Operations Partners and maintain direct access to the Joint Senior Partners. Independent information regarding business and regulatory risks is delivered through this structure. A summary of these areas is given below:

Business Risk: The role of the Business Risk Department is to ensure that the risk management framework is aligned with Baillie Gifford's strategy and culture. This includes responsibility for the regular assessment of risk exposures against the agreed risk appetite and the resulting adequacy of capital, liquidity, insurance and business recovery plans. The Chief Risk Officer reports to the Management Committee quarterly. Business Risk also records and reviews incidents and monitors operational risk exposures.

Compliance: The Compliance Department is responsible for providing assurance to Baillie Gifford on its management of regulatory risk by identifying, assessing, monitoring and reporting on regulatory risks and providing advice on the group's regulatory obligations. The department adopts a risk-based approach to monitoring, utilising a combination of departmental and procedural reviews, substantive sample checking and trend analysis.

Incident Management

Baillie Gifford has a firm-wide policy for dealing fairly with incidents, including those that may affect clients. Incidents are recorded in an 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 are reported to the Operational Risk Committee and escalated to the Group Risk Committee where appropriate. Relevant breaches of regulatory obligations, significant loss events or near misses and complaints are reported to the Compliance Committee and Boards of the relevant Subsidiary and Joint Venture Companies.

Risk Committee Oversight

The key risk committees supporting the bottom up risk assessments are the Operational Risk Committee, the Counterparty Committee and the Investment Risk Committee. The Operational Risk Committee is responsible for ensuring that operational risks are identified and appropriately managed in accordance with Baillie Gifford's policy, risk appetite and limits. It reviews the effectiveness of the operational risk framework and monitors and reports on the operational risk profile. The Investment Risk Committee provides oversight of the risk framework applied to Baillie Gifford's investment management activities. The Counterparty Committee reviews matters relating to counterparty relationships including deposit takers, custodian banks, brokers, clearing brokers, FX providers, and derivative counterparties. In addition, specific risks in relation to information security are overseen by the Information Security Oversight Group.

This bottom-up approach to business risk assessment is complemented by a top-down assessment of the risk profile by the Group Risk Committee. The committee reviews reports from various committees and groups that assess the nature and extent of risks facing Baillie Gifford, including assessments of the likelihood of the risk and the effectiveness of the system of internal controls to manage those risks. The resulting risk profile is considered in relation to Baillie Gifford's risk appetite to ensure action is taken as necessary. The committee also considers emerging risks.

The Finance function is responsible for the monitoring and mitigation of financial (market, liquidity and credit) risks for the balance sheet. This process is overseen by the Group Risk Committee and 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 Baillie Gifford's strategy. This process enhances the integration of risk assessment, business planning and overall strategy.

Line 3: Assurance Function

This line independently assesses the adequacy and effectiveness of the processes within lines 1 and 2 and provides periodic assurance on the control environment across Baillie Gifford. The Audit Committee also meets with external audit and considers outputs from consultants, where relevant, in making its assessment.

The role of the Internal Audit Department is to provide Baillie Gifford with independent, objective assurance on the adequacy and effectiveness of the internal risk, control and governance processes. An internal audit plan is reviewed and approved by the Audit Committee on an annual basis and is formally re-assessed, and refreshed as necessary, at the half year. Findings from internal audits are discussed and agreed with management, with review dates set for follow up of outstanding actions. A summary of findings and overdue actions is reported to the Audit Committee and Boards of the Subsidiary and Joint Venture Companies.

Other Risk Mitigants

Business Continuity Plans

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

The business recovery process, including the testing of the plans and facilities, is subject to supervision by the Recovery Planning Committee, supported by the Business Risk Department.

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.

4. Capital Resources

Overview

The overall group capital resources, including the partnership share of its joint venture company, is financed by capital from Baillie Gifford & Co. The majority of this, as simple paid-up capital and reserves, qualifies as a primary level of capital (Core Tier 1 Capital) under the FCA rules. The balance, representing revaluation of assets to market value, is classified as Tier 2.

Group Capital Resources as at 30th April:

	2020 £m	2019 £m
Tier 1	283.4	255.6
Tier 2	7.5	4.5
	290.9	260.1

Baillie Gifford's minimum capital requirement is its Pillar 1 requirement (including the Individual Capital Guidance) as this exceeds its Pillar 2 assessment.

The group's Pillar 1 requirement is the higher of the Fixed Overhead Requirement and the sum of the Credit Risk and Market Risk capital requirements. Individual Capital Guidance determined by the FCA is also applied to our Pillar 1 requirement. These measures are calculated in accordance with criteria set by the FCA.

Credit Risk is the risk associated with failure to realise the value of our assets as a result of default on the part of the counterparty. The group's primary credit risk exposures result from fee income debtors arising in the normal course of business where the risk of default is low. Credit risk may also arise in respect of cash and short term deposits held or small seed investments in Baillie Gifford pooled vehicles. Cash balances are reviewed on a weekly basis to ensure that these are spread across a range of institutions to minimise this risk.

Market Risk is the risk of loss resulting from fluctuations in the market value of positions and asset values attributable to changes in market variables including interest rates or foreign exchange rates. The group does not undertake trading on its own account so market risk arises from exchange rate fluctuations on foreign currency assets – primarily relating to fee income debtors due from overseas clients.

Credit and Market Risk are driven by the level of trade debtors, cash and deposits. Whilst significant, these remain below our Fixed Overhead Requirement at 30th April 2020.

Transferability of Capital

For key subsidiary entities in the group (those with large amounts of capital in excess of individual Pillar 1 requirements) there are no significant practical or legal impediments to the prompt transfer of funds amongst members other than the UK Companies Act requirements in respect of declaration and payment of dividends. In the event of an anticipated shortage of capital in a particular entity, there are no anticipated impediments to prevent re-capitalisation from Baillie Gifford & Co or support from other key subsidiaries in the group.

Assessment of Capital Adequacy

Overview

To meet its Pillar 2 obligations, Baillie Gifford is required to undertake an ICAAP to assess the level of capital it considers sufficient to hold in the context of the risks of its business.

The ICAAP is owned by Baillie Gifford's Management Committee. It is fully embedded into the risk management framework and considers the significant sources of risk to capital, the adequacy of the control environment and risk mitigants, and the related capital and liquidity requirements.

Assessment Process

Exposure analysis is undertaken for each of the risk categories (operational risk, business & pensions obligations risk, credit risk, market risk and liquidity risk) to assess a severe but plausible loss. A proportionate approach is taken in quantifying and analysing risks reflecting the business model and level of complexity. The results are compared with the Pillar 1 assessment to determine Baillie Gifford's minimum capital requirement. A summary of the approach for each risk category is as follows:

Operational Risk: Defined as a loss resulting from inadequate or failed internal processes or systems, human error, or from external events. As an agency business the main risks are operational, therefore a higher degree of focus is put into this area. These risks are stress tested using scenario analysis, taking into account mitigants such as the internal control framework and insurance. Results are modelled to assess whether further capital or action is required.

Business and Pension Obligation Risks: Comprises of a reduction in profitability or a fall in value of the Defined Benefit Staff Pension Scheme. Financial stress and scenario analysis is performed, projecting results over a 5 year period with varying market levels, investment performance, client inflows/outflows and other significant risk events. These scenarios also incorporate any stressed deficit arising from Baillie Gifford's Defined Benefit Staff Pension Scheme.

Credit Risk: Defined as a loss resulting from a failed payment obligation to Baillie Gifford or placement of assets. These risks are considered under stressed conditions, taking into account the control environment and loss history. Given our Pillar 1 assessment for this risk is higher than our own risk assessment, it is used as the basis for our minimum capital requirement.

Market Risk: Represents the potential for changes in the market value of assets, comprising currency risk, interest rate risk and other price movements. As an agency asset management business with no own account trading, market risk is in the main retained with client portfolios. As a result, our Pillar 1 assessment for this risk is higher than our own risk assessment, and therefore it is used as the basis for our minimum capital requirement.

Liquidity Risk: Represents the risk of a cash shortfall due to unexpected changes in cashflows. Stress scenarios are considered taking into account the control environment and loss history. We consider both capital and liquidity requirements arising from this risk.

In addition to the above risk assessments, Baillie Gifford also performs an analysis to consider the amount of capital required to undertake an orderly wind-down of all its regulated activities. The results are verified using reverse stress tests which, although not a capital assessment tool, are used to inform and challenge the wind down scenario.

Conclusions

The review of risks, the adequacy of the control environment and risk mitigants, and the related capital and liquidity requirements is an ongoing process embedded in the risk management framework which is reflected in quarterly reporting to the Group Risk Committee and Management Committee. At the end of the financial year this assessment is presented through the ICAAP Report which is reviewed and approved by the Management Committee.

Baillie Gifford'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.

Baillie Gifford & Co Head Office

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