

**Baillie Gifford™**

# Sustainable Finance Disclosure Regulation (SFDR) Approach



## **Risk factors**

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

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## **Potential for profit and loss**

All investment strategies have the potential for profit and loss. Past performance is not a guide to future returns.

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All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

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# Sustainable Finance Disclosure Regulation (SFDR) Approach

SFDR requires asset managers to disclose how they integrate sustainability risks in the investment process for products sold in the European Union. Our **ESG integration approach** sets out how we consider and manage sustainability risks, and opportunities, as part of our investment process. That document serves as our Sustainability Risk Policy. Under SFDR, investment products can disclose under:

- Article 6 (mainstream products which may or may not integrate sustainability risks).
- Article 8 (products that promote environmental or social characteristics).
- Article 9 (products with sustainable investments as an objective).

Baillie Gifford has a range of funds disclosing under Articles 6, 8 and 9 of SFDR. Please see the fund selector on the Baillie Gifford website for more details.

### Good Governance for the purposes of SFDR

SFDR requires that Article 8 or Article 9 products do not invest in companies that do not follow good governance practices. This policy describes how we determine good governance in the context of SFDR and for those funds and segregated accounts that fall under the scope of the regulation. It covers the areas of sound management structures, employee relations, staff remuneration and tax compliance.

In assessing investee companies against this definition, both third-party and internal research are used. Companies are monitored periodically to ensure ongoing compliance. The table below sets out the minimum expectations of good governance as required under SFDR; however, all holdings may be subject to other governance and stewardship elements set out in other Baillie Gifford policies.

Good Governance Indicator	SFDR element	Minimum standard
Accurate Financial Statement Reporting	Sound Management Structures	We will not own companies that have been found guilty of fraudulent financial statement reporting unless the company has taken appropriate steps to rectify an issue where it has occurred.
Corruption	Sound Management Structures	Compliance with Principle 10 of the UN Global Compact in line with the principles-based approach outlined in the Exclusion Policy.
Employee Relations	Employee Relations	Compliance with Principle 3 of the UN Global Compact in line with the principles-based approach outlined in the Exclusion Policy.
Remuneration Concerns	Remuneration	There are no ongoing remuneration concerns at the company that Baillie Gifford believes undermine the investment case.
Tax Behaviour	Tax Compliance	The company has not been found guilty of tax evasion, or has taken appropriate action to rectify concerns and prevent these convictions.

### **Defining sustainable investments within Baillie Gifford**

For SFDR purposes, this section outlines our approach to determining whether a holding can be classified as a ‘sustainable investment’ under Article 2 (17) of SFDR. This definition is relevant for our Article 9 products and those Article 8 products that commit to investing a proportion of assets in sustainable investments.

A sustainable investment is defined under SFDR as:

An investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

To arrive at a firmwide definition, the SFDR definition is broken down into three elements:

01. An investment in economic activity that contributes to an environmental or social objective.
02. That does not significantly harm any of those objectives.
03. Follows good governance practices.

The proportion of sustainable investments, including the level of taxonomy alignment, will be disclosed in annual reports.

### **Investment in economic activity that contributes to an environmental or social objective**

We define this as one, or a combination, of activities which, in our opinion:

- Are aligned with the broader sustainable objectives of society as currently best defined by the UN Sustainable Development Goals, evidenced through third-party data (based on a pre-determined revenue threshold) or internal research frameworks; and/or,
- Are aligned with the EU Taxonomy\* or other regional taxonomies as appropriate; and/or,
- Contribute to reducing absolute greenhouse gas emissions with a view to achieving the long-term global warming objectives of the Paris Agreement as evidenced through internal research frameworks.

\*The EU Taxonomy is a classification system that helps companies and investors identify “environmentally sustainable” economic activities to make sustainable investment decisions.

**Do not significantly harm any of those objectives**

To be considered a sustainable investment, the investments that have been assessed to contribute to an environmental or social objective must demonstrate that they do not significantly harm either objective through:

- Alignment with responsible business codes and internationally recognised standards, including the United Nations Global Compact principles and related standards, including the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights; and
- Threshold-based exclusion\* of business activities associated with certain indicators for adverse impacts on sustainability factors.

Other indicators of adverse impacts on sustainability factors not mitigated through threshold-based exclusions are considered through controversies monitoring and/or stewardship activities.

**Follows good governance practices**

As detailed in the section on “Good Governance for the purposes of SFDR” above.

While ‘sustainable investments’ are defined within SFDR, the definition is very broad. As such, financial market participants may interpret it differently. The definition of sustainable investments is also evolving, and the framework reflected here is based on our current understanding of the SFDR definition. Clients should exercise caution when comparing the level of sustainable investments between investment products.

\*Details of threshold-based exclusions can be found in relevant fund documentation.

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