Baillie Gifford™

Responsible Global Equity Income

Philosophy and Process

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Our vision

One of the orthodoxies of income investing has been that the best dividends come from the worst companies. Whether it's tobacco, big oil, or payday lenders, income-seeking investors have been told that if they want to generate income from their investments, they need to hold their noses and invest in companies with unflattering reputations.

We doubt that this was ever really true, and it certainly hasn't been the case over recent years. Changes in consumer preferences, technology, and expectations of regulators have forced many of these challenged businesses into painful dividend resets, leaving the investors who relied upon them in a difficult situation.

We believe that over the coming decades the investments that deliver the best income will look very different from those favoured in the past. They will provide truly sustainable dividend streams, and will be in companies that take a long-term view of their purpose. These will be genuine growth companies, which have the capacity to pay dividends as they grow. They will be best-in-class in their industries and run by outstanding management teams. They will also work hard to strike the right balance between all their stakeholders: the customers and employees who require reinvestment in the business, the communities in which they exist, and the investors who rely on them for both dividends and growth. These companies will not just help support investors today, but will still be growing healthily in 10 years' time.

We accept that focusing on companies that get this balance right may mean accepting a lower starting level of income today, when compared to a strategy that focuses on companies that offer the highest short-term yields. But we strongly believe that for the individual who invests to support 10 or 20 years of retirement, or the endowment looking to support generations of beneficiaries, this will be the right call. For these investors, what truly matters is the long-term income stream, not the yield on offer today.

The Responsible Global Equity Income strategy seeks to find the companies that can deliver that sustainable long-term stream of income.

Our objectives

The purpose of our strategy is to deliver two outcomes to our clients over the long-term:

A sustainable income stream

We aim to deliver an income stream that our clients can rely on for the long-term, and that is resilient during periods of stress. We seek companies that have genuinely sustainable business models and which are capable of paying dependable dividends over the course of an economic cycle. We also take account of climate-related risks and opportunities when selecting investments.

The companies we back typically strike a sustainable balance between income today and income for the future: our strategy's yield has typically been 20–40 per cent higher than the global equity market.

Real growth in income and capital

We aim to deliver growth in both income and capital that is well ahead of inflation over the long run. We invest in companies with substantial earnings growth opportunities and for which paying dividends does not compromise future growth.

We expect our income performance to be assessed on whether we have delivered an income stream which grows faster than inflation over rolling five-year periods, and is much more stable than that of the global equity market during periods of stress.

We expect our growth performance to be assessed by comparing our returns to either a global equity benchmark, or to a peer group of funds seeking to deliver both income and growth.

We will report on our engagement work and how we are addressing the portfolio's exposure to climate risk in our annual Stewardship Report.

Our UCITS Irish-domiciled Responsible Global Equity Income Fund is categorised as Article 8 under SFDR.

What makes our approach different?

A growth mindset with a long-term focus

Our focus is on long-term income, not short-term yield. We believe that many income investors are distracted by the near-term yields and underestimate the power of compound dividend growth for a long-term income investor.

We focus on identifying companies with outstanding long-term growth opportunities, and then holding them for many years to benefit from this compounding. Our portfolio turnover is typically 10–20 per cent in any year, consistent with this objective. This long-term approach helps us to build strong relationships with portfolio companies, which can be a foundation for constructive engagement.

For a lifetime of income, we choose growth

Sustainability driven

Given this long-term horizon, the sustainability of a business model is crucial: it is on a five or ten-year time horizon that ESG challenges and opportunities can start to exert a material impact.

Assessing this fully requires us to make our own judgements, rather than the shortcut of relying on third-party scores. The strategy benefits from the insights of ESG specialist, Ben Hart.

Sustainability considerations therefore lie at the heart of our team's research and debate, and have a direct influence on the portfolio.

A dedicated team

The Global Income Growth Team, which manages the Responsible Global Equity Income strategy, is dedicated to income investing.

We believe that key factors in our success include our long-term orientation and a research process which emphasises both sustainable growth and dividend resilience.

The team

The Responsible Global Equity Income Strategy is managed by James Dow, Ross Mathison and Toby Ross.

Responsible Global Equity Income

Global Income Growth Team

Team of 3 investment managers, 4 analysts,
1 ESG specialist, 1 investigative researcher

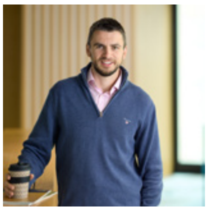
Investment managers

James Dow

Head of Global Income Growth

Toby Ross

Investment Manager



Ross Mathison

Investment Manager

Investing responsibly for income

The companies that will help us meet our dual objectives are relatively rare. Our process is designed to help us find those companies.

Universe	5000 dividend-paying companies (>£1bn market cap) Excludes companies with harmful products and business practices
Idea generation	Ideas sourced by dedicated investment team Strong support from our Baillie Gifford colleagues' research
Research	9 Question stock-picking framework: long-term growth and dividend sustainability Forward-looking sustainability assessment: Impact, Ambition, Trust
Debate and decision	Team debate Joint decision-making Right of veto for ESG Specialist
Portfolio construction	50–80 names Clear investment hypotheses for monitoring holdings
Contructive engagement	Stock-level engagement priorities Pro-active engagement plan for portfolio

Idea generation

We start with the benefit of a very diverse global universe, from which we exclude businesses which sell harmful products, or where business practices fall short of the standards of the UN Global Compact (details of these exclusions are on page 14)

All members of the team are analysts, and spend much of their time on finding and researching new ideas. In addition, we draw on the experience of the firm's other teams, filtering their research output for ideas which might be suitable for the strategy.

Long-term stock-picking research

Our analysis starts with our nine-question research framework, which considers factors such as:

- The long-term sustainability of a company's business model.
- The earnings growth opportunity.
- Whether we should back management to execute on this potential.
- Whether dividends will be resilient during times of stress.
- The likely skew of total returns.

The qualitative examination of companies is critical to the process. We seek out different sources of insight, and our investigative researcher often adds significant value here.

We also have reflected a lot on what causes companies to cut their dividends, and have distilled this learning into a 'dependability checklist', which we have found helpful in assessing the resilience of dividend streams.

Nine question research framework

01
Summarise the company's business model. How sustainable is this model in the long-term?

02
How large is the company's long-term growth opportunity? What rate of earnings growth should we expect over the next ten years?

03
What do the positive and negative tail outcomes look like?

04
Who are the principal competitors? Are they likely to get stronger or weaker from here?

05
Why does the company deserve to earn attractive returns? Are these likely to rise or fall over time?

06
How highly should we rate the management and board?

07
To what extent will growth in earnings flow through to cash flow and dividends?

08
Explain how dependable these dividends are likely to be over time?

09
Are the shares under-valued and if so what do we suspect the market is mis-pricing?

Forward-looking sustainability assessment

We complement this work with a forward-looking sustainability assessment. Many third-party assessments are essentially backwards-looking and focus on what can be easily measured (with spurious accuracy), rather than what is potentially transformational. They also miss the importance of the rate of progress at a company – something which supportive investors can help to encourage.

The purpose of our sustainability assessment is instead to look forwards and judge:

- The **Impact**, positive or negative, of a company's products and operations on society.
- Its **Ambition** to either further or address that impact, and whether this is best-in-class.
- The level of **Trust** we should have in the management team and the board.

Our ESG analyst, Ben Hart, undertakes an independent sustainability assessment of every potential new holding and has the right to veto purchases which are inconsistent with our responsible approach.

We believe that thinking critically about these issues allows us to differentiate between those companies that are leading their industries, and those dragging their feet in the face of major challenges. This sustainability assessment also identifies our key engagement priorities for each company.

Debate and decision

Every investment idea is robustly tested at a stock discussion, where the entire team participates.

Decisions are taken by the investment managers James Dow, Toby Ross and Ross Mathison, who have full responsibility for the portfolio and vote on buy and sell decisions However, based on our sustainability assessment, Ben Hart has the right of veto over any investment which he believes is inconsistent with a responsible approach.

Portfolio construction

The portfolio typically contains 50–80 stocks, and positions at initiation are 1–3 per cent of the portfolio. We seek to ensure a high degree of diversification of both income and capital, with no stock representing more than 5 per cent of the portfolio's income stream or capital.

Constructive engagement

A vital part of our role as stewards of our clients' capital is to help companies realise their full potential, and address material sustainability challenges early.

We focus on the most critical issues facing each company, where we think engagement can make a material difference. We combine this with a portfolio-wide proactive engagement plan, which focuses on the biggest risks facing the portfolio as a whole.

Our long-term time horizon is a huge advantage here. It allows us to build meaningful relationships with company management teams, and to engage on complex issues over several years. We typically intend to remain shareholders for long enough to see the benefits of our engagement.

Example: Nestlé

Is it suitable for a responsible investment portfolio? Yes.

Clear ambition to address its impact, and deserves our trust.

Impact	High	Material	Modest	Neutral	Positive
Ambition	Deny	Frustrate	Progress	Material	Leader
Trust	Broken	Low	Neutral	High	Full

Climate change

Our approach

Climate change is an increasingly tangible risk and meeting the goals set out in the Paris Agreement, notably limiting the overall rise of global temperatures to 1.5 degrees or less, is vitally important for society. Therefore, Baillie Gifford have signed up to the Net Zero Alignment Managers initiative (NZAM) whereby our Responsible Global Equity strategy will contribute to that target. We have made a climate commitment that by 2030, 90% of our 90% largest emitters will be aligned with a Net Zero target. We therefore take account of climate-related risks and opportunities when selecting the companies in which we invest.

To learn more about our climate commitment please visit: **bailliegifford.com/climatecommitment**

We believe that over the long run we will be more likely to achieve our investment objectives if we:

- Identify those companies for whom a transition to a less carbon-intensive economy is a genuine opportunity for growth – in other words, solutions-providers.
- Steer our portfolios away from the companies that face the largest transition risks: these are likely to be the businesses where a big tension emerges between dividends and ensuring the viability of the business.

Our main lens for considering these risks and opportunities is our Impact, Ambition and Trust framework, outlined above. We ask what each company's potential Impact on the climate is; how Ambitious it is to address this; and whether we can Trust that these ambitions are credible. This helps us to focus our engagement on the companies where we can deliver the greatest impact – and also to identify the leaders and laggards within our portfolio.

It is hard to distil progress on such a complex area to a single statistic. However, as a marker of our companies' progress, we expect that the portfolio's emissions will decline over rolling five-year periods, on a comparable basis[1].

That progress won't be linear. If our portfolio's emissions do not decline as expected, we will explain why this is the case, and why we believe our decisions are consistent with our long-term ambition.

Reporting

We will report:

- The portfolio's emissions, on both scope 1+2, and scope 3 as the data becomes available, and how these have developed from period to period.
- The portion of our portfolio represented by 'solutions-providers.'
- The portion of our portfolio which we believe to have credible commitments to decarbonise their businesses.
- Whether climate considerations have led any stocks to either have larger holdings, or be excluded from the portfolio.

We are also seeking to identify an appropriate EU-defined Climate Transition Benchmark against which to report our portfolio's progress in reducing emissions.

[1]Emissions are defined as relative carbon footprint - ie tCO_2e/£m invested.

How we view risk

Our attitude to risk is pragmatic and we consider it from several perspectives.

Fundamental Risk

The key risk to our approach is incorrect analysis of company fundamentals. We aim to avoid this by debating all new buy ideas and rigorously challenging investment cases.

As long-term investors, the sustainability of future income streams is a key factor for our long-term success. An important part of our fundamental analysis thus focuses on sustainability considerations, using the Impact, Ambition and Trust framework.

Income Risk

We assess the dependability of each company's dividend policy using our Dependability Checklist.

To further mitigate the income risk of any one stock, we cap every stock's contribution to the portfolio's underlying income at 5 per cent.

Portfolio Risk

Our portfolios are constructed from the bottom up. To avoid excessive concentration of income and capital, we have prudent guidelines to ensure diversification.

Diversification Parameters	Capital	Income
Stocks	Maximum 5% at time of purchase, 6% maximum	Maximum 5% per stock
Industry limits	Maximum 20%, no minimum	
Number of industries	Minimum 10	
Number of countries	Minimum 10	

Ensuring high standards

Our aim is to identify sustainable income streams, and the heart of our process is our forward-looking assessment of both a company's opportunities and its sustainability footprint.

As mentioned on page 9, our experienced ESG analyst Ben Hart undertakes an independent sustainability assessment of every potential new holding and has the right to veto purchases which are inconsistent with our responsible approach.

However, many responsible investors also have red lines around the types of businesses they do and do not wish to be exposed to. We reflect these in two formal exclusions:

- Rule-based exclusions, based on product harm.
- Principle-based exclusions, based on the UN Global Compact.

Exclusions based on product harm

Whilst we strongly believe that a focus on sustainability is intrinsically linked to consideration of the good that companies can do, it is clear the avoidance of harm is a legitimate concern for those who wish to invest responsibly. Therefore, in managing the Responsible Global Equity Income portfolio, we exclude companies that derive more than 10 per cent of their annual revenues from:

- Production or sale of alcohol
- Production or sale of tobacco
- Adult entertainment
- Fossil fuel extraction and production
- Production or sale of weapons and armaments
- Gambling

These sector exclusions are both widely recognised and used across the investment industry.

Applying the principles of the united nations global compact in a thoughtful way

these principles set out to ensure that companies operate in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption.

We aim to apply both the letter and the spirit of the UN Global Compact principles, and the issues involved are often complex. When a potential breach at an existing holding is identified, we undertake further research in order to clarify whether a breach has taken place. If we believe that it is likely that a breach has happened, we engage with the company, and strongly encourage them to address the issue promptly.

If we believe the company is displaying a clear ambition to comply with the Compact, and our monitoring suggests they are making significant progress, we may continue to hold the shares while they address the issue. If, however, we think there is little prospect of the breach being resolved in a timely way, with no evidence of progress, we will sell our holdings in the company.

Human rights

01

Businesses should support and respect the protection of internationally proclaimed human rights; and

02

Make sure that they are not complicit in human rights abuses.

Labour

03
Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

04
The elimination of all forms of forced and compulsory labour;

05
The effective abolition of child labour; and

06
The elimination of discrimination in respect of employment and occupation.

Environment

07
Businesses should support a precautionary approach to environmental challenges;

08
Undertake initiatives to promote greater environmental responsibility; and

09
Encourage the development and diffusion of environmentally friendly technologies

Anti-corruption

10
Businesses should work against corruption in all its forms, including extortion and bribery.

How we report to you

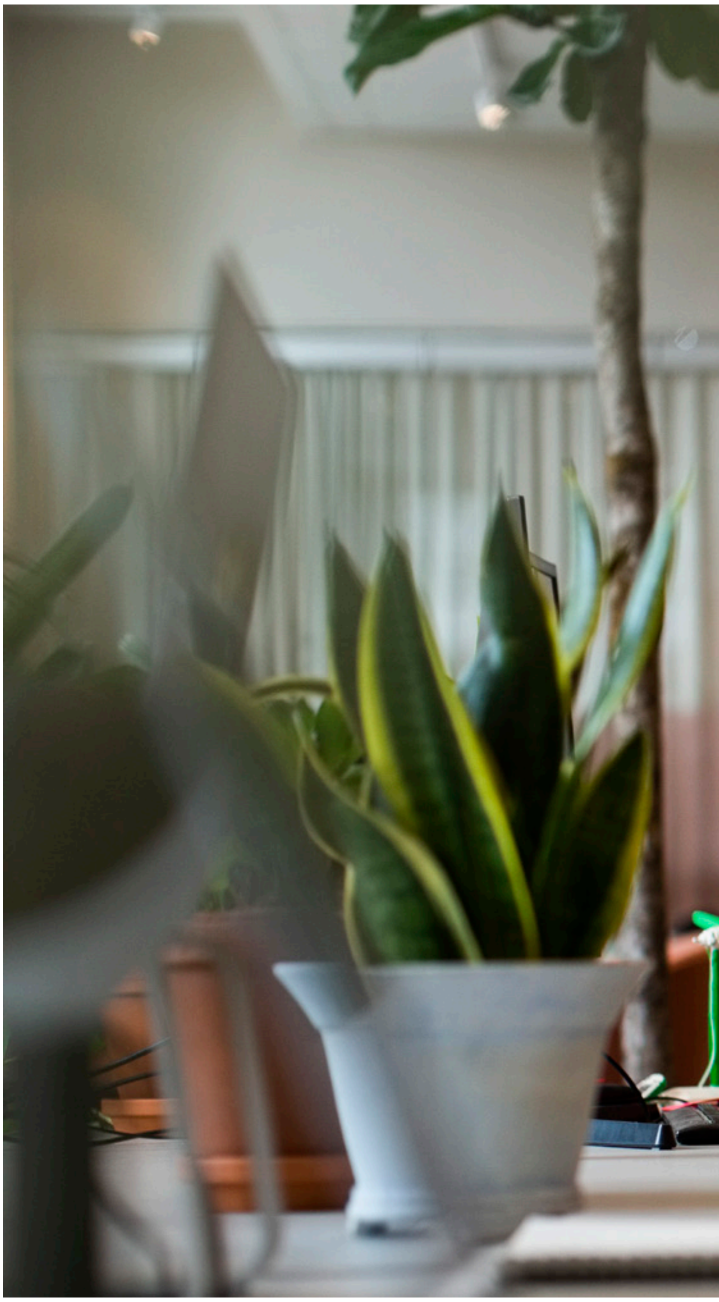
We know that different clients have different expectations of what they will find in a "Responsible" portfolio, and we want to be totally transparent about our approach.

Therefore, as well as our detailed quarterly reporting, each year we will produce a "Stewardship Report", which details:

- Where we believe the greatest sustainability opportunities within our portfolio are at the current time.
- Where we have focused our engagement effort, and what change we have helped to achieve.
- How any veto or exclusions have been applied during the year.
- How well-prepared the portfolio is for the challenge of climate change.
- How we have voted on our clients' behalf.

Over time we seek to make this reporting as useful as possible to investors in a portfolio, as well as ensuring that it meets the disclosure requirements of an Article 8 fund (under the SFDR).

For more information, please visit bailliegifford.com



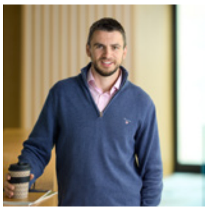
People

James Dow

James is head of Global Income Growth and co-manager of the Scottish American Investment Company, as well as a member of the Portfolio Construction Group for the Sustainable Income Strategy. He joined Baillie Gifford in 2004 and became a partner in the firm in 2023. Prior to this he was an investment manager in our US Equities Team. Before joining the firm, he spent three years at The Scotsman, where he was economics editor. James is a CFA Charterholder. He graduated MA (Hons) in Economics and Philosophy from the University of St Andrews in 2000 and MSc in Development Studies from the London School of Economics in 2001.

Toby Ross

Toby is an Investment Manager on the Sustainable Growth Team. He joined Baillie Gifford in 2006 and became a partner in the firm in 2023. Toby joined as an analyst on the UK equities team and went on to join the Global Income Growth Team as an Investment Manager in 2013, and in this role, he helped to develop the team's approach to responsible investment. He became the Joint Manager of The Scottish American Investment Company PLC (SAINTS) in 2017. In 2022, Toby assumed the leadership of the Sustainable Growth Team. He graduated MA in English Literature from the University of Cambridge in 2006 and is a CFA Charterholder.



Ross Mathison

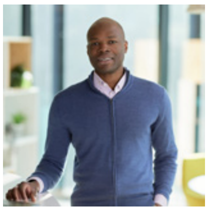
Ross joined Baillie Gifford in 2019 as an investment manager in the Global Income Growth Team and became Deputy Manager of The Scottish American Investment Company PLC (SAINTS) in August 2023. Previously, he spent a year at Aviva Investors and prior to that nine years at Standard Life Investments as an investment manager, first in the European Equity Team and latterly in the Global Equity Team. Ross is a CFA Charterholder and graduated MA (Hons) in Business and Finance from Heriot-Watt University in 2008. He also sits on the board of directors at Aberlour, a Scottish children's charity.

Lucy Browne

Lucy is an Investment Analyst in the Global Income Growth team. She joined Baillie Gifford in 2020 and has previously worked in the International Growth team and Japanese Equities team. Prior to joining the firm, she trained as a corporate lawyer and qualified as a solicitor in 2019. She graduated LLB (Hons) in Law and PGDip in Professional Legal Practice from the University of Edinburgh in 2016 and 2017, respectively.

Joanna Abudar

Joanna is an Investment Analyst in the Global Income Growth Team. She joined Baillie Gifford in 2020, and prior to joining the team spent time working in our Emerging Markets Equity team. Joanna graduated MA from the University of Glasgow in Classics and English Literature in 2020.



Sujo Akoni

Sujo is an Investment Analyst in the Global Income Growth Team having joined Baillie Gifford in 2022. Previously, he worked on the Global Equity and Emerging Market teams at Stewart Investors. Sujo graduated MSc (Hons) in Computer Science from the University of Newcastle and MA (Hons) in Natural Sciences, Zoology from the University of Cambridge.

Kitsu Egerton

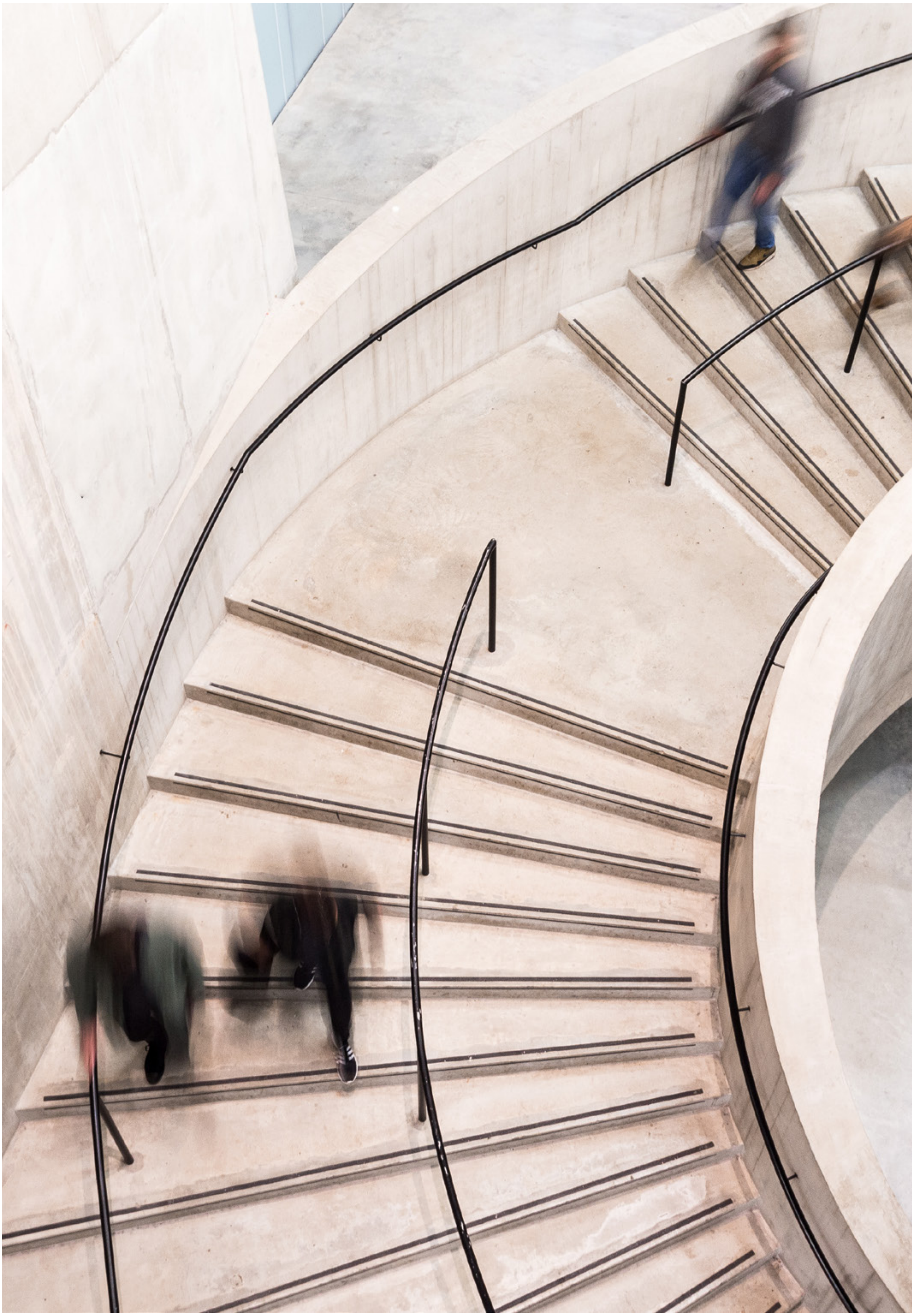
Kitsu is a second-year Investment Analyst who spent his first year on the Emerging Markets Equity Team and is now on the Global Income Growth team. Kitsu graduated BA (Hons) in Theology and Religion from the University of Oxford in 2020.

Ben Hart

Ben joined Baillie Gifford in January 2022 and is an ESG analyst in the Global Income Growth Team. Prior to Baillie Gifford, he worked as a Research Associate at the World Resources Institute and as a Project Lead at the World Economic Forum; with both roles focusing on sustainable finance and how it relates to ocean governance and the sustainable blue economy. Prior to this, Ben worked for several years in sustainability consultancy and for an ESG-focused non-profit in London. He holds an MSc in Environmental Technology from Imperial College London and a BSc in Geography from the University of Nottingham.

Hatty Oliver

Hatty joined Baillie Gifford in 2015 and is a Researcher, specialising in global research on the Global Income Growth Team. She previously spent two years with London College of Fashion as a lecturer in cultural and historical studies and worked for the Times as a researcher for four years. Hatty graduated with a PhD in Media and Communications from Goldsmiths University in 2011 and MSc in Gender (distinction) from LSE in 2006.



Why invest with Baillie Gifford?

We are focused on delivering income strategies that will stand the test of time. We believe our structure and culture provides the environment necessary to deliver excellent and repeatable investment outcomes.

Our partnership structure

We believe that no investment firm, however rigorous in its approach, can consistently achieve great things for clients if the right corporate conditions are not in place. Baillie Gifford is an independent investment manager, wholly owned by partners who work in the firm. The partnership structure has prevailed for over 110 years and enables us to take long-term views. It has provided the foundation for an enviable record of corporate stability and firmly aligns us with the long-term interests of our clients. We see it as a key strength because successful investment management is not easy. It requires dedication, independent thought, and a long-term perspective.

We are not a faceless corporation. We ensure individuals can thrive and ideas flourish. Our satisfaction comes from the pursuit of knowledge and its application to investments, knowing that if we do a good job, as well as achieving outperformance for clients, we will have also contributed to society's progress.

Our people

Our people are fundamental to our success. The partnership structure creates a collaborative culture and one in which people stick around. We can attract and retain the very best investment talent. Our selection policy is based on intelligence, leading to the recruitment of individuals from a wide range of academic disciplines, with usefully different perspectives and approaches to analysis. Most of our analysts and investment managers are trained in-house, our aim being to combine a common culture with an atmosphere that encourages vigorous debate. The firm's values and beliefs are clearly communicated and, coupled with low staff turnover and long service, the firm has been able to capture a strong team spirit while growing steadily in recent years.

Our investment approach

We are long-term investors in everything that we do and this philosophy permeates the firm. Imagining what the future may hold requires mental flexibility. We need to imagine the potential implications of dramatic change and embrace uncertainty. We need to be ready to let go of preconceptions, while continuously learning and adapting our thinking to consider what we have learned. Our competitive advantage lies in understanding what matters and what is simply market noise, and in our ability to wait patiently to take advantage of periodic mispricing.

Our location

The majority of our staff and decision-makers are based in Edinburgh. Being predominantly based in a single location lets us share investment views and ideas, and facilitates the efficient management of the strategy. It also provides perspective in a global environment, a key factor in our investment approach.

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