

Baillie Gifford Sustainable Income Fund

What does Sustainable Income mean to us?

Our Sustainable Income Fund is simple; it is designed to deliver an attractive level of monthly income that is resilient over the long term. We care about the actual monetary amount of income we deliver, now and for years to come. And we seek to protect against the power of inflation over time.

We believe the best way to achieve a sustainable income stream is through a multi-asset approach. The Fund allocates to equities, which can provide real income growth over time. Its fixed income allocation includes sovereign and corporate bonds in developed and emerging markets. Exposure to real assets includes listed infrastructure, property and commodities companies.

There is a way to earn an attractive and growing income from assets of the future, those that are compatible with a sustainable future. Income investing does not need to involve owning the high yielding companies of yesterday's economy.

We look for long term income, not short term yield

Sustainable in every sense of the word

To deliver a resilient stream of income, we must identify how the world is changing and align our investments to a sustainable future.

Our assessment of sustainability is simple. We ask the question: is this investment compatible with a sustainable economy?*

In our view, the transition to a sustainable economy, one which achieves a balance between economic, environmental and social needs, has begun. That is a material shift that will affect all companies and countries, creating long-term investment opportunities as well as risks.

We expect the leading income payers of tomorrow will be the forward-thinking companies that successfully adapt to meet the needs of a sustainable economy.

Over the long term, we believe that our emphasis on sustainability will lead to better investment decisions and financial returns for our clients.

* All asset types, with the exception of cash and cash-like instruments, are subject to an assessment of their sustainability.

Key features of our approach to sustainability

Revenue and norms-based investment restrictions

A bottom-up, qualitative assessment for every underlying holding in each asset class

Consistent scoring across asset classes*

How do we approach Environmental, Social & Governance (ESG) matters?

1. Sustainability assessment

A straightforward scoring process

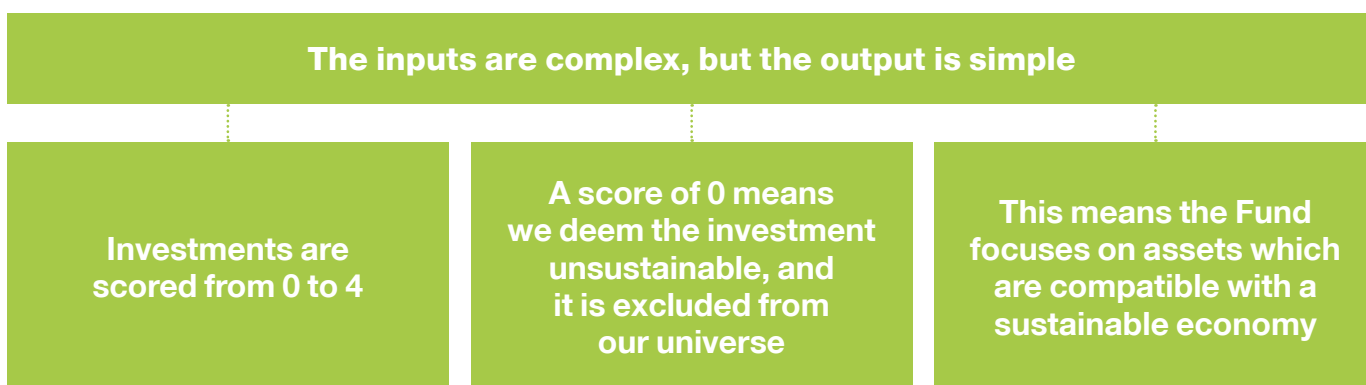
Bottom-up analysis of sustainability is a research-intensive process. We use Baillie Gifford's investors across asset classes, along with our depth of ESG expertise, to form an opinion and assign a score in the portfolio.

Tailored to each asset class

Assessing sustainability requires nuance at the asset class level. We recognise that the sustainability considerations for a company are different from those of a government. Our bottom-up approach allows us to consider the material factors relevant to equities, fixed income and real assets.

Helping us to build a portfolio that is fit for the future

The world is changing fast. We cannot assume that the large dividend payers today will endure. We want to find the best income growth opportunities across the world, looking for innovative companies that have a durable competitive advantage.



What factors do we consider in our qualitative assessment?

Companies

Whether as bondholders or shareholders, the common factors we consider to assess a company's sustainability credentials include: the environment, human capital, social capital, leadership and governance, and its business model and innovation. These apply to all holdings across equities, corporate bonds and real assets, which includes property and infrastructure companies.

Countries

Some say it is too difficult to form a judgement on a country's sustainability. We disagree. Our country assessment asks two fundamental questions. Is the country on track to achieve the Paris Agreement targets on climate change? Will it deliver sustainable development as measured by the UN Sustainable Development Goals? A score of zero in either of these areas excludes the country's sovereign bonds from our investable universe.

2. Investment restrictions

In addition to our bottom-up analysis, we also apply investment restrictions to ensure minimum standards and provide clarity about investments we avoid. Here is a full breakdown of the Fund’s investment restrictions:

Revenue-based restrictions	
Fossil fuel extraction and/or production	≥10% revenues
Thermal coal distribution	≥30% revenues
Tobacco manufacturing	≥5% revenues
Manufacture of controversial weapons	Any tie*
Production or sale of weapons and armaments	≥10% revenues

*Please refer to the Prospectus for further information.

How can you monitor our progress?

Regular reporting

Our TCFD* Climate Report includes key metrics, including the Fund’s carbon footprint, carbon intensity and a breakdown of emissions. It also provides insights into the ‘Net Zero’ alignment of the Fund’s underlying holdings.

Engagement and outcomes

As long-term investors, our patient approach means we can build trust with the companies and countries we invest in and engage on the important issues regarding sustainability.

Our Stewardship Report will include information about our engagements with companies and countries in the pursuit of truly sustainable income.

* Task Force on Climate-related Financial Disclosures.

Important Information

Baillie Gifford & Co. and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority.

Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

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

Potential for profit and loss

All investment strategies have the potential for profit and loss.

Stock examples

Any stock examples, or images, used in this document are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us.

Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style.