Multi Asset Stewardship Report

Summary of the Multi Asset Team's Stewardship Activities for 2020/21

BAILLIE GIFFORD | *Investment managers*

Risk Factors

The views expressed in this article are those of the Multi Asset Team and should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect personal opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication was produced and approved in October 2021 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

Stock Examples

Any stock examples and images used in this article 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.

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

The images used in this document are for illustrative purposes only.

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Introduction

We know our clients want us to achieve strong investment returns and we also believe that they care about the impact their capital can have on society and the environment.

For Baillie Gifford, stewardship is about being thoughtful, active and responsible investors on behalf of our clients. We aim to be the best possible stewards of our clients' capital. We do this in various ways, not least through active management of our investment portfolios. Good stewardship starts long before we commit capital. We take time to learn as much as we can about potential holdings, including thinking about their impact on society and their approach to environmental, social and governance issues. Once we have made an investment on our clients' behalf, we continue our research and monitoring of the thesis, meet with key stakeholders regularly and vote thoughtfully at company meetings.

This report focuses on how the Multi Asset portfolios fulfil their stewardship responsibilities. In the pages that follow, we seek to demonstrate the breadth and depth of the integration of environmental, social and governance issues throughout our investment process through a series of case studies and engagement examples, as well as providing details of the proxy voting undertaken.

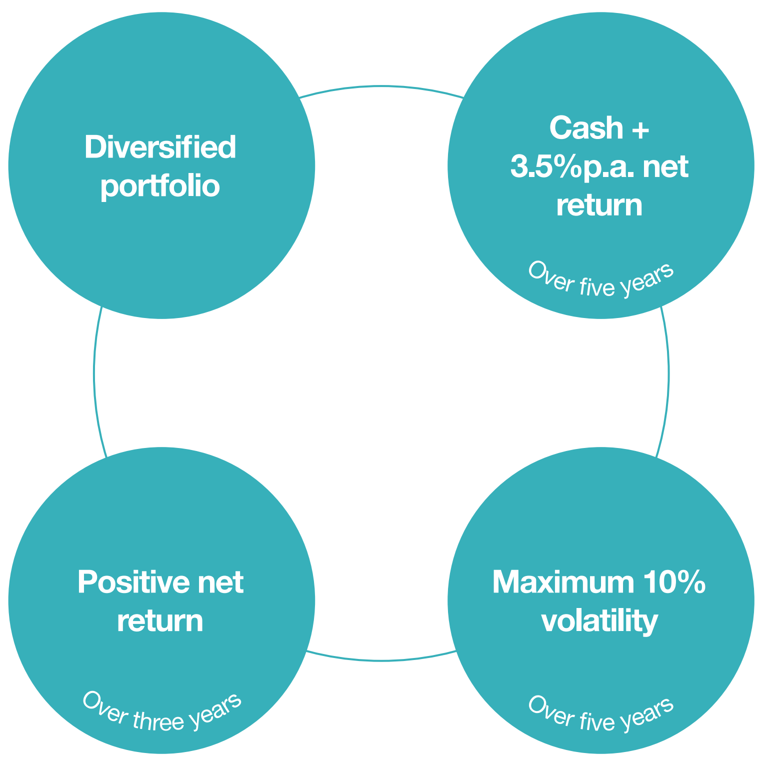
We have had many interesting interactions with our holdings and our clients on ESG and stewardship. We hope this report sparks further conversations and look forward to continuing these with you during 2022, and beyond.

Embedding ESG factors into the investment process

From forming our macroeconomic views of the world to assessing long-run asset class valuations and analysing individual investments, ESG is woven into our day-to-day investment activities.

As long-term investors who take a top-down view of the world, we have a clear alignment with investing sustainably. It is important for us to understand the environment within which we invest, together with the potential medium- and longer-term factors and trends which could impact our investments and our understanding of asset classes over time.

Our Multi Asset portfolios have dual objectives focusing on return and risk, and so we actively consider all potential opportunities and vulnerabilities associated with each position throughout the investment process.



We have a great deal of flexibility in how we implement the positions in our portfolio, using internally managed Baillie Gifford funds, investing directly into stocks and bonds, and making use of externally managed fund opportunities where appropriate. Where we invest in other funds, either internally or externally managed, we conduct extensive due diligence and seek alignment with our own beliefs and practices.

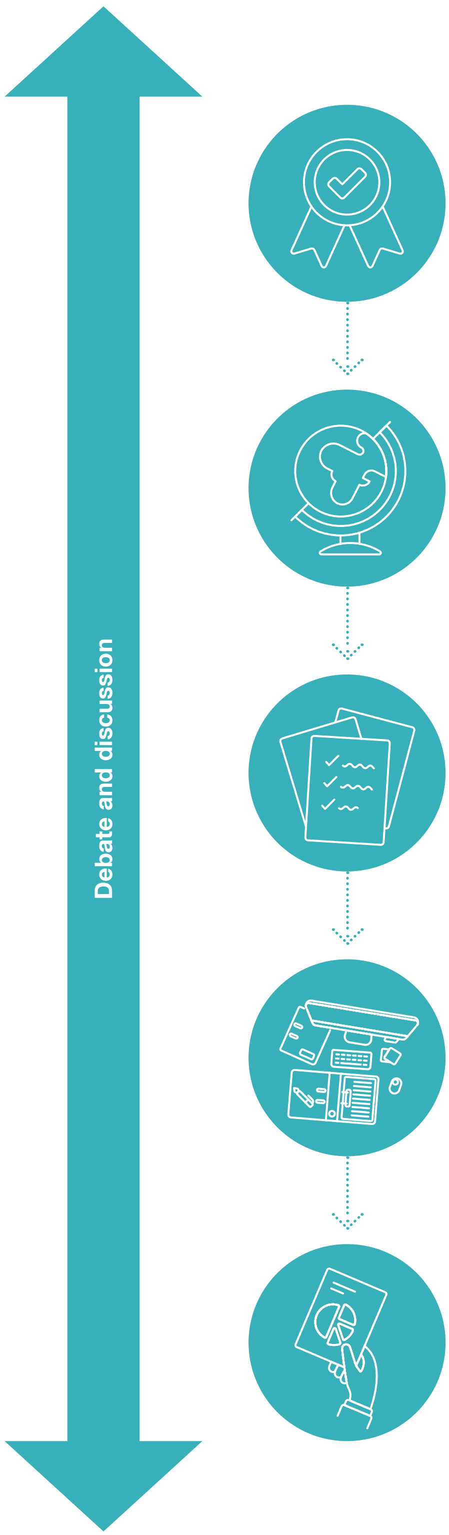
Of course, active engagement is important and a central part of our stewardship role. We frequently engage by speaking with boards and management where we see the opportunity for improved practice, contractual terms, or enhanced disclosure. This report shares many examples of this, highlighting the motivation for engagement, the nature of our work and relevant outcomes.

We aim to be long-term holders of investments in our portfolios and so we consider voting decisions carefully and consistently, with the aim of encouraging good long-term behaviours. We vote at company meetings on a global basis, with all voting decisions made in-house.

Our diversified Multi Asset Team has developed an ESG scoring framework which allows for consistent application while leaving scope for suitable interpretation of the relevance and materiality of individual factors within each asset class.

Last but certainly not least, we aim to be open and transparent, reporting regularly on our activity and providing insight into our analysis, engagement, and voting. We continue to work with our clients to evolve the information and materials we provide.

How is ESG integrated into our Multi Asset investment process?



1. Firmwide shared beliefs, principles and policies

- Shared beliefs, stewardship principles, ESG principles and guidelines
- Dedicated and embedded Multi Asset ESG analysts

2. Top down: ESG - risks and opportunities

- Thematic macro research
- Climate informed Long Term Return Expectations
- ESG-related scenario analysis

3. Bottom up: A case-by-case approach

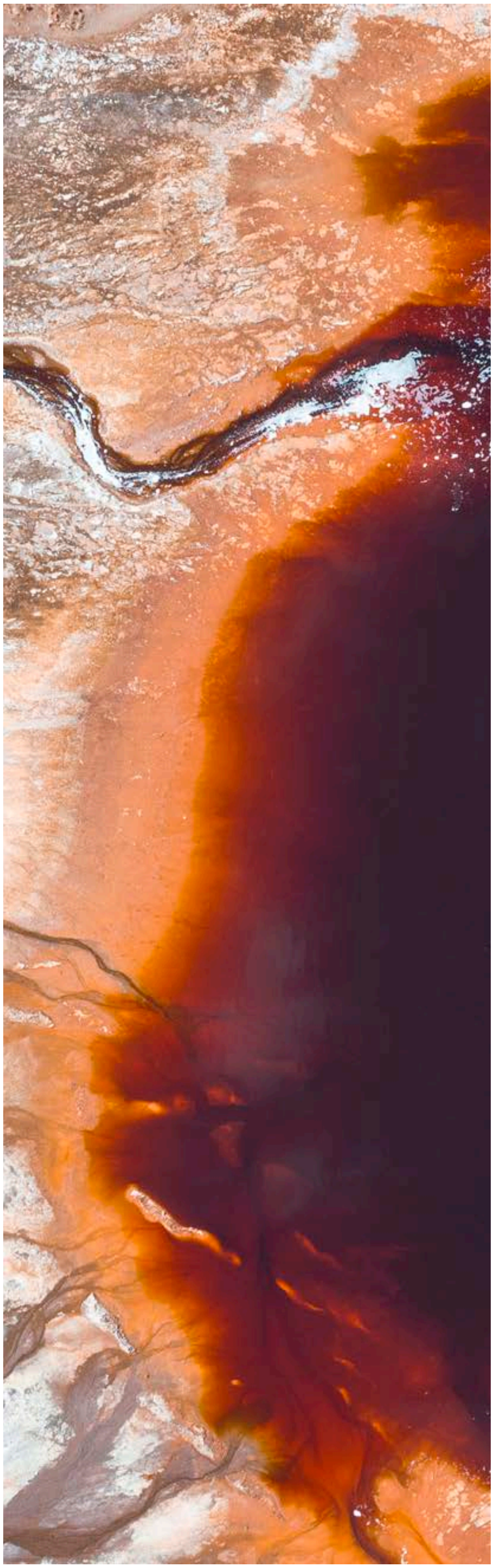
- ESG materiality scoring assessment
- External relationships, industry memberships
- Identification and monitoring of ESG milestones
- Company engagement

4. Portfolio construction: an active approach

- Position sizes
- In-house proxy voting
- Stewardship research and engagement

5. Reporting

- Engagement and proxy voting
- Firmwide TCFD report
- Annual Stewardship report
- Fund-level carbon footprinting



Top-down: macro-views

Climate-Informed Long-Term Return Expectations (LTRE).

The Baillie Gifford Multi Asset Team has investigated and quantified the impact of different climate-related scenarios on the long-term return expectations of core asset classes. Blending climate and financial modelling techniques with informed assumptions for a focused range of possible pathways over the next 10 years and the very long term, we have identified which asset classes may be most sensitive to adverse financial shocks and which can support, and benefit from, the opportunities that lie ahead.

We find the multi asset investor at a crossroads. While the likely achievable outcomes over the next decade are broadly similar in each of the different scenarios, it is in the following decades that the investment (and real-world) impacts will be far more significantly felt. Failing to align with the low-carbon transition pathway now will result in far worse investment prospects in the 2030s and beyond. Investors would be leaving the next generation with a more challenging investment environment and, much more importantly, this would coincide with the legacy of potentially irreparable physical damage and more challenging living conditions for populations around the world.

Providing genuinely long-term capital to selected projects and technologies needed to make the transition will reap benefits not only over the next few years but also for the wider system in the long run. Making these types of investments today will mean a far greater chance of there being attractive investments available in a decade or two's time. This is no time to be passive.

Climate scenario analysis is an important forward-looking risk assessment and management tool which in this case helps us to quantify climate risk and build resilient portfolios. To do this, we followed a structured and well-documented process:

Identify and define scenarios → Integrate into LTRE model → Document key inputs, assumptions, analytical methods and outputs → Interpret resillience of each asset class → Disclose investment response

Identity and define scenarios

Our assessment takes place over a medium-term timeframe (10 years to 2030) and long-term timeframe (2030 to 2050). The representative climate pathways that we have chosen to assess should be regarded as possible storyline examples of plausible pathways, rather than future predictions or worst-case forecasts:

2°C

Orderly Transition

This scenario sees quick, coordinated, and predictable global action to limit global average temperature rises to 2°C which financial markets price in smoothly and gradually. With immediate action, global emissions have already peaked and are already reducing but even if global warming is limited to 1.5°C, we will still experience locked-in physical climate impacts greater than today and will see impacts on growth that are less than under the Failed Transition scenario.

2°C

Disorderly Transition

This scenario results in the same real-world transition risks and opportunities, as well as the same locked-in gradual and acute physical risks, as the Paris Orderly pathway, but the reaction of financial markets is delayed until an abrupt realisation of the problem and confidence shock to the financial system. Differentiating features from the Paris Orderly scenario include the delayed global policy response and pricing-in of climate-related risks for carbon-intensive assets.

4°C

Failed Transition

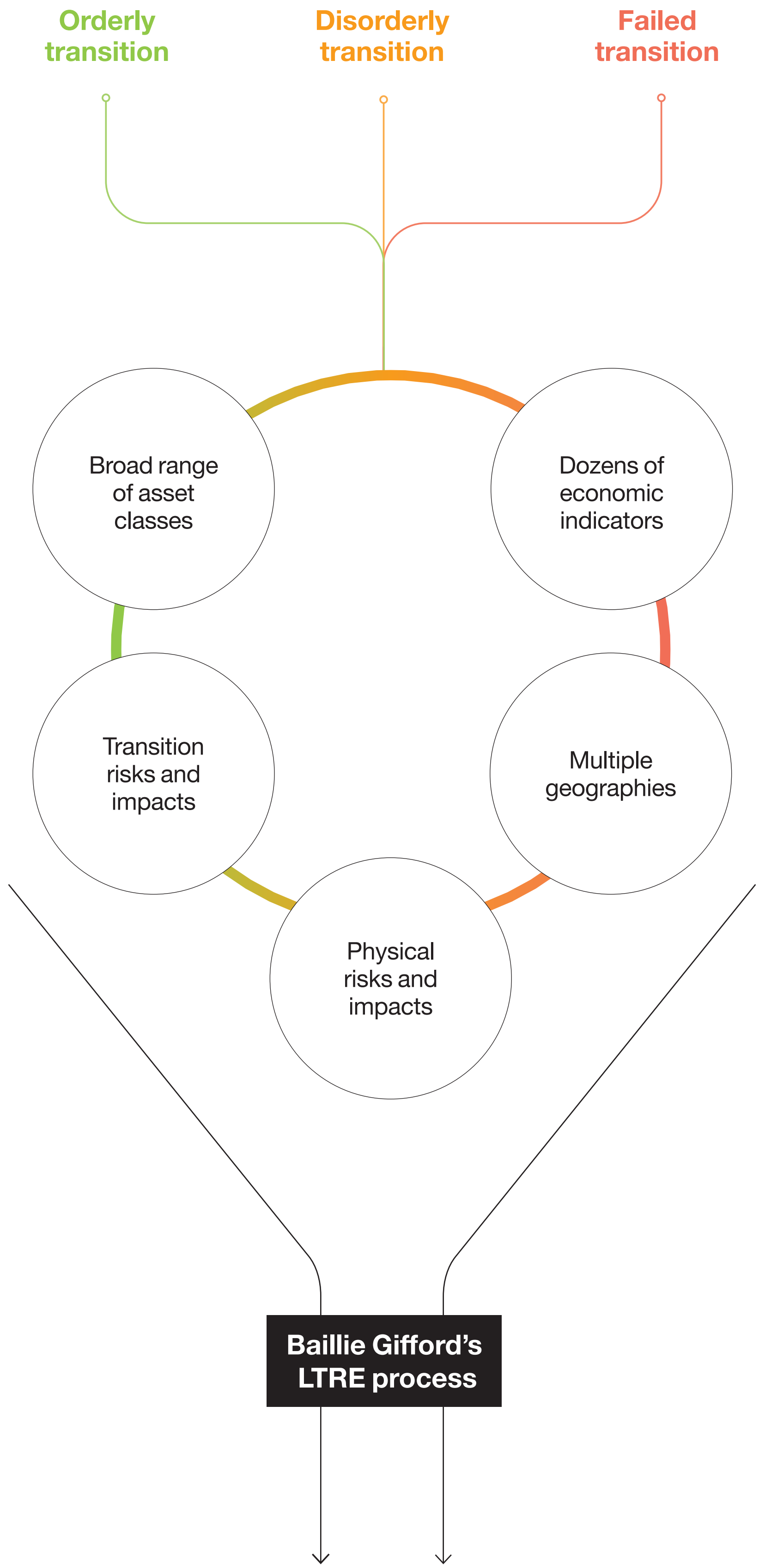
Although many countries are putting more low-carbon policies in place, and renewable energy prices are falling significantly, a continuation of current policies will not be enough to limit global warming to 2°C in this scenario. No additional climate policies are implemented, and the global average temperature rises by 4°C by 2100 with a dramatic increase in frequency and severity of physical climate impacts; no further transition to a low-carbon economy takes place; there is continual growth in global emissions as well as disparate spending on adaptation and defence leading to the potential for a far less equal world.

Key inputs, assumptions and outputs

The Long-Term Return Expectations (LTRE) exercise is a key part of our Multi Asset investment process. These long-term views provide context for our investment discussions and over the long run our portfolio allocations tend to reflect these realities. Integrating climate scenario analysis more directly into our LTRE exercise is a natural evolution of this process.

Being naturally optimistic, these base case forecasts implicitly assume that the world will broadly achieve an Orderly Transition to alignment with the Paris goals. We expect global governments' climate commitments to continue to develop in the coming years (for example, at the UN Climate Change Conference, aka COP26, in Glasgow in November 2021) and we expect technological progress over the coming decades to support – and reduce the costs of – that transition. We therefore align our existing forecasts with the Orderly Transition scenario described above and will seek to investigate what the impact on these forecasts would be if our optimism turns out to be wrong.

The following table sets out the parameters of our analysis and integration of global warming pathways, policy and technological changes, time horizons, geographies, asset classes and climate-informed macro-economic indicators into our proprietary Multi Asset LTRE investment process, and the associated analysis outputs in the form of adjusted expected asset class returns.

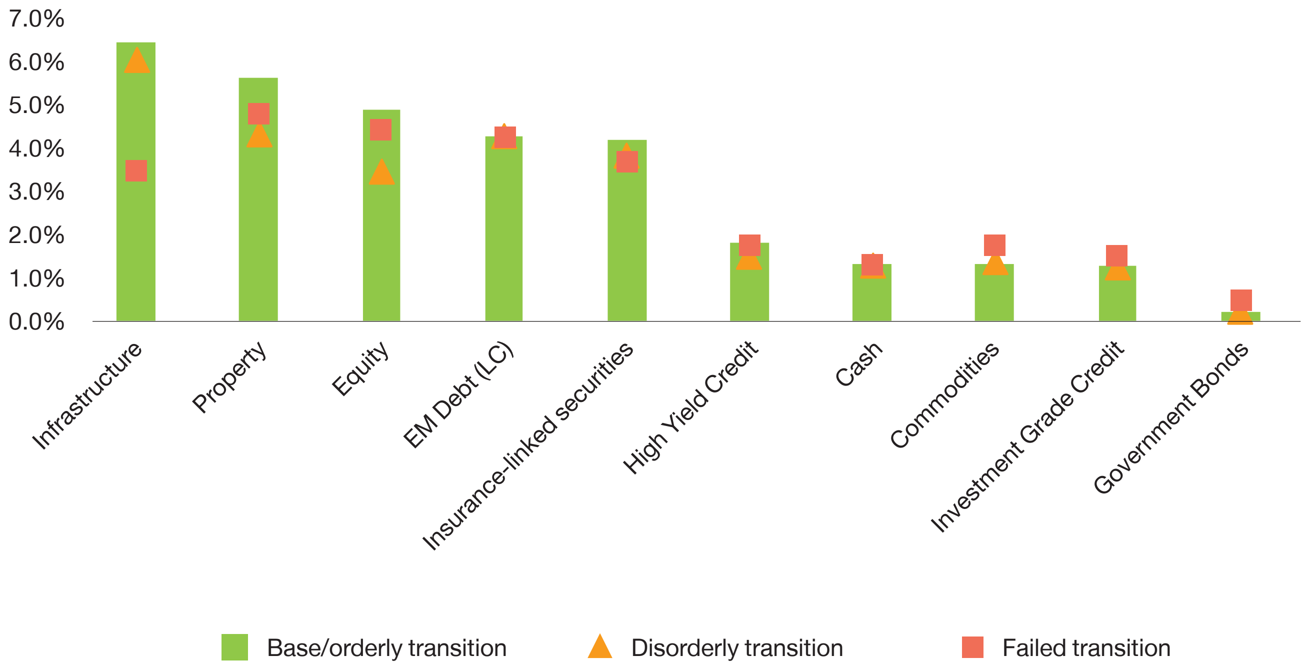

Orderly transition
Disorderly transition
Failed transition
Broad range of asset classes
Dozens of economic indicators
Transition risks and impacts
Multiple geographies
Physical risks and impacts
Baillie Gifford's LTRE process

Interpret asset class resilience and investment response

This work estimates the likely net impacts on asset returns of climate-related events, policy developments and technological changes experienced over the next 10 years and beyond. What would we expect to happen if the transition is delayed, and needs an event to kick-start the policy or technological change, ie, the Disorderly Transition scenario? And what would be expected if there were no real developments in climate commitments and technological progress, ie, the Failed Transition scenario?

The following table shows the adjusted expected returns for the core asset classes under each climate pathway.

Expected 10-year nominal return, pa



Source: Baillie Gifford & Co. As at 30 June 2021.

Asset Class	Expected Nominal Return (Next 10 Years, pa) Base Case/ Orderly Transition %	Disorderly Transition %	Failed Transition %	Expected Nominal Return (Long Term, pa) Base Case/ Orderly Transition %	Disorderly Transition %	Failed Transition %
UK GDP Growth	1.50	1.50	1.50	1.50	1.50	1.25
UK Cash (Bank of England Base Rate)	1.25	1.25	1.25	2.00	2.00	1.50
Inflation (UK CPI)	1.75	1.75	1.75	1.75	1.75	1.75
Government Bonds – Developed	0.25	0.25	0.50	2.25	2.25	1.75
Government Bonds – Emerging (Local)	4.00	4.00	4.00	5.00	5.00	4.50
Government Bonds – Emerging (USD)	3.00	3.00	3.00	4.75	4.75	4.25
Credit – Investment Grade	1.25	1.25	1.50	3.75	3.75	3.00
Credit – High Yield Bonds	1.75	1.50	1.75	4.25	4.50	3.00
Credit – Senior Loans	3.25	3.00	3.25	3.75	3.75	3.25
Structured Finance – Mezzanine	4.50	3.75	4.50	4.75	5.00	3.50
Equities	4.50	3.25	4.25	5.25	4.75	4.00
Real Estate	5.25	4.00	4.50	6.00	5.75	5.00
Infrastructure	6.00	5.75	3.25	4.75	4.75	4.00
Commodities	1.25	1.25	1.75	2.00	2.00	2.00
Insurance Linked Securities	4.00	3.50	3.50	4.50	4.50	4.00

These top-level asset class forecasts mask the underlying detail that there will inevitably be winners and losers within each asset class. Within equity markets, for example, there are outstanding opportunities for companies able to participate, and even lead, the climate transition in the coming years. These tend to be the smaller, more disruptive entities, currently outweighed in equity indices by many less well-prepared companies. This is exactly why we believe an active, forward-looking, and optimistic investment approach will be able to generate results in excess of those passive returns noted above.

We see far bigger distinctions in the longer-term numbers beyond the next decade. Here, the impact of a Failed Transition is clearly visible and easy to imagine; with significantly impaired return expectations for many of the 'risky' asset classes, the multi asset investor of the mid-21st century will almost certainly see substantially lower returns if the world follows this pathway.

Putting these together, the situation is clear – the cost of not meeting the Paris Agreement goal to limit the average global temperate increase this century to well below 2°C may not be fully felt by investors over the same timeframe but it will have a dramatic impact thereafter; the next few years are crucial. Looking at it a different way, achieving the Paris targets allows the investment opportunity set to stay reasonably attractive for the long term, and this can be done with limited impact to contemporaneous investment results. In purely investment terms, the mitigation costs need not be high, but the financial, environmental, and social benefits are enormous.

One tangible output from our thinking about climate change as a macro trend is that our allocation to infrastructure has grown substantially in recent years, and its composition has adapted to include more renewables exposure and to be supportive of infrastructure upgrades, such as the electrification of energy grids. Commodity exposures have also grown, selectively owning industrial metals such as nickel and silver, important components of electric vehicles and solar panels.

[1] We show the asset class returns to the nearest 0.25%. However, here we show the Real GDP Growth rates, inflation rates and policy rates on an unrounded basis, to illustrate the differences inherent.

[2] All returns are shown here at a global asset class and geographic level, net of any access costs and, importantly, assuming that investment is on a passive basis, so these should be regarded as minimum achievable returns. We view these estimates as broadly sensible indications of likely returns and as central projections from a wide range of possible outcomes. They should not be interpreted as high precision forecasts and, even if they prove accurate in the long-term, it is very likely that actual returns in the short- to medium-term, and over the course of any given year, will be quite different.

Bottom-up: investment research

Infrastructure: carbon impact, ambition analysis and engagements.

The Multi Asset Infrastructure portfolios are positioned to take advantage of the rise in renewables through investment in global renewable developers and operators, as well as investment in companies that service the renewables sector – such as high-voltage cable providers and wind turbine manufacturers – and in power generation, transmission and distribution companies. While also having environmental benefits, increased infrastructure construction and government spending in critical infrastructure assets – schools, hospitals, transportation – delivers social benefits to society and is a vital component for economic growth.

As follow-up to the portfolio's carbon footprint assessment and with the goal to better understand the unique climate-related risks and opportunities of our infrastructure holdings, we developed a framework for considering the different stages of the low-carbon transition. We linked each stage of the low-carbon transition to potentially financially material climate-related risks and opportunities and categorised the infrastructure portfolio accordingly, this supports our integration of sustainability factors into the investment case. After the initial categorisation, we reached out to holdings categorised as 'high impact, high transition potential' and 'early-stage transition' to gain a more in-depth climate-related understanding and assess the relationship with expected financial returns. In some cases, this led to the setting of SMART (Specific, Measurable, Achievable, Relevant and Time-Bound) sustainability milestones to monitor.

Stages of the low-carbon transition

Enabling Avoided Emissions/Decarbonisation

Naturally, the majority of our infrastructure portfolio sits towards the opportunity end of the spectrum, where sustainability is core to long-term strategy. For holdings in this category, decarbonisation-related opportunities may include increased sustainable capital flows and sector growth, alongside a current of favourable investor sentiment and policy support.

1

Transition Well Underway

In the later stages of transitioning, the bulk of holdings' climate transition-related capital expenditure is likely to have already taken place. Holdings in this stage are likely to also be benefitting from the associated reduced operational costs. Financial return profiles in this category are likely to be more appealing over the investment horizon, offering both stable cash flows and investments in critical infrastructure assets with both social and environmental benefits.

2

Early Stage Transition

Here, holdings likely face large climate transition-related capital expenditure ahead for the upgrading, retrofitting or purchase of new assets. The financial risk of asset repricing may also still be applicable. Climate transition-related opportunities may be starting to be realised, for example, increasing profitability following replacement of high-cost coal energy generation with lower-carbon and less expensive renewable generation. The investment growth opportunity is linked to the required scale of new renewables generation capacity. Connected social considerations may include negative long-term financial and cultural impacts on jobs and local communities without the realisation of a well-planned and equitable transition. We believe executive remuneration should be linked to materially relevant environmental and social performance targets, including power generation carbon intensity.

3

High Carbon Impact, High Transition Potential

In this category, there may be pertinent concerns around asset repricing and/or stranded asset risk; elevated costs associated with potentially sharp climate regulatory changes around the speed of transition; potentially increased exposure – and costs – to changes in power prices and increasing carbon prices; and, likely uncertainty around future climate transition-related capital expenditure and unfavourable investor sentiment. Our preference is to actively engage to encourage higher performance and a reduction in absolute greenhouse gas emissions levels, rather than moving straight to disinvestment.

4

1

The Renewables Infrastructures Group (TRIG)

A London-listed investment company whose purpose is to generate sustainable returns from a diversified portfolio of renewables infrastructure that contribute towards a zero-carbon future.

We met TRIG's Risk and Investment Director, Financial Director and Investor Relations on 9th June 2021 to gain a deeper understanding of the company's approach to integrating sustainability into the investment process. TRIG is a clear example of a Multi Asset infrastructure holding that is not resting on its laurels by virtue of being a clean energy player. Rather, the company is contributing to local communities through financial support and by offering local employment opportunities. It is seeking to go over and above industry requirements for preserving the quality of biodiversity around its sites as well as through initiatives relating to the conservation of local wildlife.

Top sustainability factors for the investment case	Sustainability monitoring/milestones
TRIG mitigates climate change as an investor in renewable energy	Improved disclosure of carbon emissions
Carefully managed power price risk, especially in a scenario of significantly greater renewables deployment	Continuing efforts to remain relevant to the energy transition by considering further investment in clean energy assets such as battery storage
Mindful of local communities and social licence to operate; directly engaged in supporting local communities and in preventing biodiversity loss on its sites	Increased focus on supply chain labour standards for solar panel manufacturing

3

Ameren Corporation

Engaged in rate-regulated electricity generation, transmission, and distribution activities; and rate-regulated natural gas distribution and transmission businesses. Ameren primarily generates electricity through coal, nuclear, and natural gas, as well as renewable sources, such as hydroelectric, wind, methane gas, and solar.

We believe the nature of Ameren's business as a regulated investor-owned utility results in exposure to a range of climate-related financial risks and opportunities. On the one hand, the company's exposure to coal energy generation could potentially lead to negative financial costs as a result of more stringent environmental regulation and carbon taxation. On the other hand, this is a company that is clearly aware of the climate-related risks to its business model and it has been making important steps in positioning itself at the centre of an equitable and well managed energy transition.

We met the company's senior management on 21st April 2021. The company believes sustainability is built upon four pillars: sustainable growth, governance, social impact and environmental stewardship. In our engagement we discussed each one of these and focused attention on the company's carbon ambitions, trajectory and timeframes for managing material climate-related risks.

While today the company has significant coal power generation exposure, the company has a clearly articulated long-term clean energy transition strategy over a defined period, an engaged board and the structured integration and accountability of sustainability across the business, including in executive remuneration. In addition, the company's long-term net-zero ambitions are backed up by short-term carbon reduction and operational targets.

Ameren's focus is on leaving communities better than when they arrived and when coal plants close "recognises its obligation when it leaves a community", specifically in terms of job and tax loss. Ameren's next coal plant closure will take place in 2022 which has required a couple of years of thoughtful planning regarding finding alternative job opportunities for people elsewhere within the company and beneficial land use on the site.

We support a global phase-out of coal and encourage an equitable and well-planned transition away from coal to cleaner sources of power generation. Ameren's commitments to fully retiring coal plants and its increasingly larger investment in renewable energy generation creates a balance of risks and opportunities that we deem to be satisfactory and improving. We look forward to continued engagement with the company to support its low-carbon transition and to hear about progress made.

Top sustainability factors for the investment case	Sustainability monitoring/milestones
Clear ESG policy with direct accountability and incentives for top management executives and for the Board of Directors	At a minimum, continued progress of closing coal plants as planned
Continued commitment to invest in clean energy solutions, primarily through investment in renewable energy	Continued increased investment in renewable energy
Coal exposure with clear targets for complete phase out by 2042	Updated executive Long-Term Incentive Plan to include a higher target level for non-emitting electricity generation capacity

4

Keppel Infrastructure Trust (KIT)

A listed business trust based in Singapore investing in a well-diversified portfolio of core infrastructure assets.

Our assessment revealed a limited integration of ESG in the company's investment process, so we organised a meeting to discuss KIT's approach to ESG and climate. We were disappointed with the discussion we had with KIT's CEO, Head of Finance, Head of Asset Management, and Investor Relations on 4th April 2021: if we were to give this company the benefit of the doubt, we might conclude that they are early in their sustainability reporting journey, however, the other side of the coin is that it was not straightforward to gain climate-related financial materiality insight from the CEO.

Taking into account the different stages of regional market development and shareholder pressure, we chose to initially continue to engage and provide our perspective on how the company might improve integration of ESG into their investment approach, and pushed strongly for greater integration of sustainability factors, rather than moving straight to disinvestment.

We have identified ESG milestones to monitor our expected improvements, allowing for a grace period following the change in CEO, effective August 2021, to see what this delivers. If, in a year's time, KIT does not have a clear ESG policy and a board that is sufficiently confident to challenge the manager about how it is applied in practice, we will sell our position.

Top sustainability factors for the investment case	Sustainability monitoring/milestones
Limited integration of ESG into investment decisions	Evidence of active and thoughtful engagement by the Board of Directors in setting and monitoring adherence to an ESG policy
No clear evidence of ESG accountability or challenge by the Board of Directors	Clear articulation of the financial materiality of relevant ESG risks
	Publication of company-level greenhouse gas emissions and water reduction targets following active review

Portfolio monitoring: diversity and inclusion

Diversity is having a seat at the table; inclusion is having a voice and equal opportunities.

The diversity lens offers us a unique window through which to view the corporate culture and practices of the investments we hold on behalf of our clients. The insight we glean feeds into our overall assessment of how effective a board is in providing strategic challenge to management, and how they ensure key stakeholder voices are heard and considered in strategic decision-making.

Our focus on diversity and inclusion extends beyond the board of directors throughout a company – and beyond its boundaries. Our interest also extends across a wide-ranging spectrum of characteristics; we think about it holistically and in its broadest sense:

Cognitive diversity	**Differences in how we interpret, reason and solve.**
Identity diversity	**Differences in race, gender, age, ethnicity, religion, physical qualities, and sexual orientation.**
Experiential diversity	**Socio-economic backgrounds, skills, and experiences.**

Source: Deborah Gilshan and Mark Chambers (2020). *Institute of Business Ethics: The Ethics of Diversity.*

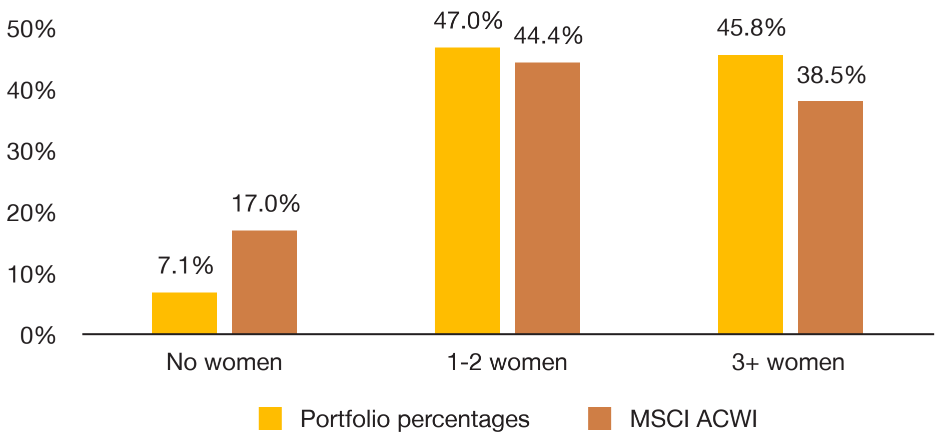
Just as is the case with the governance of diversity, inclusive practices are applicable to all levels of an organisation. As is the case in other ESG areas, it is our preference to seek constructive engagement with our holdings in the first instance to raise any concerns we may have. When engaging with an all-male board, we expect to see change; in this day-and-age, a lack of diversity manifesting in an all-male board is unacceptable. Special exempting circumstances may include very small boards or companies whose diverse nominees have been rejected by investors; or, where there are other redeeming diversity features. We will engage with all relevant investments with a clear commitment to disinvest if we do not see change.

The instrument-level analysis overleaf covers all relevant asset classes, excluding active currency, cash and equivalents and government bonds. We are supportive of non-binary gender identification and accept the limited and binary nature of this analysis.

All male boards

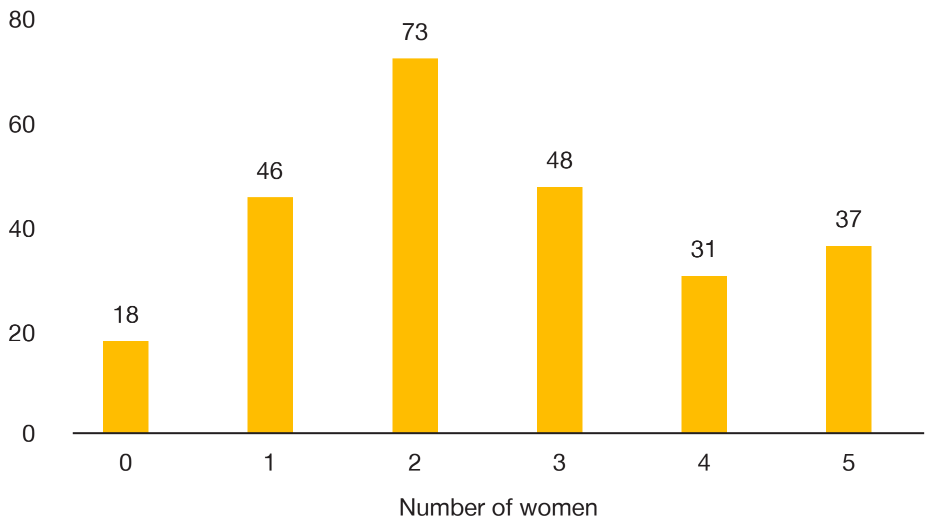
For a global comparison, the portfolio's boards' female representation is shown below, as compared to the MSCI ACWI benchmark (large- and mid-cap constituents across 23 developed and 26 emerging markets).[3] This shows that comparatively, seven per cent of the multi asset portfolio has all male boards (18 instruments), as compared to the MSCI ACWI index, at over double this proportion at 17 per cent; the most common number of female board seats within the multi asset portfolio is two.

Instrument breakdown by number of women on the board



Source: Baillie Gifford data as at 31 March 2021, based on a representative portfolio. MSCI data as at 30 October 2020.

Number of female board seats in the portofolio



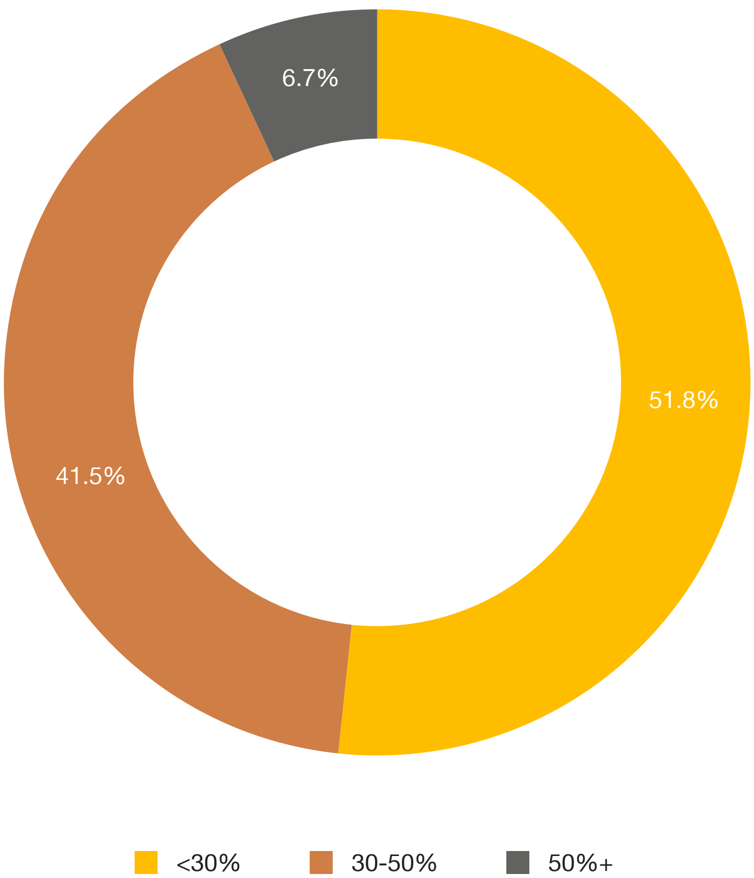
Source: Baillie Gifford & Co, as at 31 March 2021, based on a representative portfolio.

[3] Based on a representative portfolio as at 31 March 2021. MSCI ACWI data is shown as at 30 October 2020.
Benchmark data source: Christina Milhomem, MSCI (November 2020). MSCI Women on Boards 2020 Progress Report.
Available here: https://www.msci.com/documents/10199/9ab8ea98-25fd-e843-c9e9-08f0d179bb85)

Majority female boards

At first sight, seven per cent of portfolio instruments with all male boards may appear relatively low, however, in order to avoid a ‘one and done’ outlook, the chart below puts the portfolio’s board gender balance into the context of the size of the board which is an important consideration. In doing so, this highlights that, at the best practice end of the scale, a similar percentage at almost seven per cent of the portfolio has achieved an equitable 50 per cent, or greater, gender split. Nonetheless, in aggregate, 41.5 per cent of relevant holdings in our diversified global multi asset portfolio has good female board representation of 30 per cent or greater.

In context: portfolio breakdown by percentage of women on the board



Source: Baillie Gifford & Co, as at 31 March 2021, based on a representative portfolio.

Investment in focus: emerging market sovereign bonds

ESG matters are rarely black-and-white, and interpretation often varies over time and between individuals and situations. A topical example is our portfolios' current holdings in emerging market sovereign bonds, on which we work closely with our specialist colleagues on the Baillie Gifford Emerging Markets (EM) bond team. **Lindsey Knight** from our Clients Department discusses the approach of the team with **Sally Greig**, Investment Manager on Baillie Gifford's EM bond team.

Sally Greig
Investment Manager
EM Bond Team

Lindsey Knight
Client Service Director
Clients Department

Lindsey Knight (LK): What is your philosophy behind sustainable investing in EM sovereigns?

Sally Greig (SG): We believe that lending to emerging economies is inherently a positive enterprise and that the greatest social benefit is achieved through lending capital to countries which both need it and which can deploy it productively. Consideration of ESG factors allows us to better understand the risks and opportunities within EM debt, as well as allocating capital to positively impact society and the environment.

LK: How do you think about ESG while investing in emerging market sovereigns?

SG: We have two gateways, and both must be passed to be investable – one environmental, and one related to social and governance factors. We use Paris Agreement-related commitments on climate change and the UN Sustainable Development Goals (SDGs) to create a robust assessment framework.

Our approach is forward-looking with sustainability analysis forming an integral part of our country research process. We believe that it is crucial to assess not only the current levels of sustainability but importantly the outlook for sustainability. Lending to countries with currently low levels of ESG sustainability but with improving dynamics can be the most impactful use of capital for the countries and in turn for clients. These countries will tend to see their creditworthiness improve along with increasing bond prices and appreciating currencies.

LK: What are some of the common challenges incorporating ESG measures into EM investing?

SG: The notable challenge is the measurement and assessment of the countries' ESG quality. Objectively estimating a country's strength on ESG issues is far from straightforward, especially doing this in an equitable way without unjustifiably penalising poorer countries. We often encounter vagueness in how data is measured and accounted for. There are also data availability issues, and data tends to come with a lag, further complicating real time analysis.

LK: What is your engagement strategy with sovereign issuers?

SG: We endeavour to engage with issuers on climate, social and governance issues which we deem important for that issuer's development outlook. To amplify our voice and maximise our impact we are UN PRI signatories and an active member of Emerging Markets Investor Alliance (EMIA). We have been engaging with Colombia on budget transparency and have had some traction there recently, for example. We also maintain continuous dialogue with the issuers and policymakers by fostering close relationships over time and through regular travel to the countries, when permitted.

LK: Can you walk us through an investment example?

SG: Angola is a great example emphasising the benefits of using a holistic, forward-looking approach in sustainability analysis. Angolan governance has been shaped by a long and incredibly destructive civil war followed by a period during which the benefits of a booming oil economy were channelled to the victors/elites, and particularly to the ruling dos Santos family. Having said that, the outlook is now much more positive. In 2017, João Lourenço became the first new President in over 37 years, when José Eduardo dos Santos retired.

Although from the same ruling party as his predecessor, President Lourenço has embarked on a more open engagement with bilateral partners and multilateral institutions, welcoming numerous technical assistance missions which should help build government effectiveness. The law governing the Banco Nacional de Angola is being revised to increase its independence, and measures to improve management of the public sector's finances should improve the functioning of the economy. Angola's improvement in global rankings may seem small from the perspective of a developed country with high scores across the board, but relative to the starting point these represent significant improvements.

According to the 2021 Sustainable Development Report,[4] Angola has a rank of 154/193 and the current assessment is weak in the sense that "major challenges remain" for most of the SDGs. Even adjusted for income, these levels are poor. This mainly reflects Angola's recent history of war and subsequent corrupt and unequal development. However much of this data is a few years out of date, and mainly captures the tail end of the dos Santos era, including the 2014 oil price crash. Lourenço's reforms provide some hope for the future. For example, inefficiently targeted fuel subsidies are being replaced with cash transfer programs benefiting the poorest households. More generally, reforms aim to develop the non-oil sector, and if successful should drive future progress on the social indicators outlined in the UN's sustainable development goals (SDGs).

[4] Sustainable Development Report 2021 (sdgindex.org), accessed 12 July 2021

Targeted engagement highlights

Baillie Gifford's Stewardship Principles

- Prioritisation of long-term value creation
- A constructive and purposeful board
- Long-term focused remuneration with stretching targets
- Fair treatment of stakeholders
- Sustainable business practices

Greencoat UK Wind PLC (Directly held)

Greencoat UK Wind is a leading listed renewable infrastructure fund, invested in UK wind farms.

We wanted to get further clarification from Greencoat on the board's approach to valuation assumptions and to understand the extent to which the board engages with – and challenges – the investment managers and portfolio operator's carbon footprint. We do not believe it is enough simply to be operating in the renewables space to be considered a 'good' ESG investment. Therefore, in February 2021 we had a meeting with Shonaid Jemmett-Page, Chairman, and Willy Rickett, Senior Independent Director seeking clarification and confirmation.

The discussion we had with Jemmett-Page and Rickett was encouraging. We were pleased to hear that the board maintains oversight of the pipeline of possible new windfarm investments and has a rigorous approach to assessing potential new acquisitions for the portfolio. Although Greencoat UK Wind is at the beginning of its carbon agenda, in the most recent annual report the fund reported for the first time in line with the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD).

We hope to see improvements to the board's oversight of – and challenge to – Greencoat Capital's management of the portfolio's operational carbon performance. Committing to disclose at fund level – our minimum expectation here – and to align carbon reporting to the TCFD recommendations in this year's annual report was considered a promising step forward. We expect the board to continue to be ambitious, drive timelines and develop climate-related risk management further. We will seek to re-engage with the company if we are not satisfied of further progress.

TAG Immobilien AG

(Directly held)

TAG Immobilien AG is a German real estate company that acquires, develops, and manages retail properties.

TAG Immobilien AG enjoys a great starting point when it comes to reducing greenhouse emissions, with a high percentage of assets already with an Energy Performance Certificate rating of ‘C’, or better.

Although the progress made over recent years is positive and encouraging, we didn’t have a clear view of the direction of travel going forward. Therefore, in June 2021, we met Martin Thiel, the CFO of the company. We wanted to gain a deeper understanding of the long-term strategy of the company to manage greenhouse gas emissions and the carbon performance of its assets. In addition, we wanted to discuss the company’s progress in monitoring and reporting material greenhouse gas emissions.

Our engagement confirmed to us that the company takes its responsibilities seriously by thoroughly thinking through decisions which have long-term implications, and we were pleased to hear the company planned to introduce strategic decarbonisation targets later in 2021. The company will also be including ESG targets in the management board’s short-term variable renumeration. These are welcome and necessary actions to be implemented; we will monitor developments and will engage further should carbon disclosure and ambition not evolve as expected.

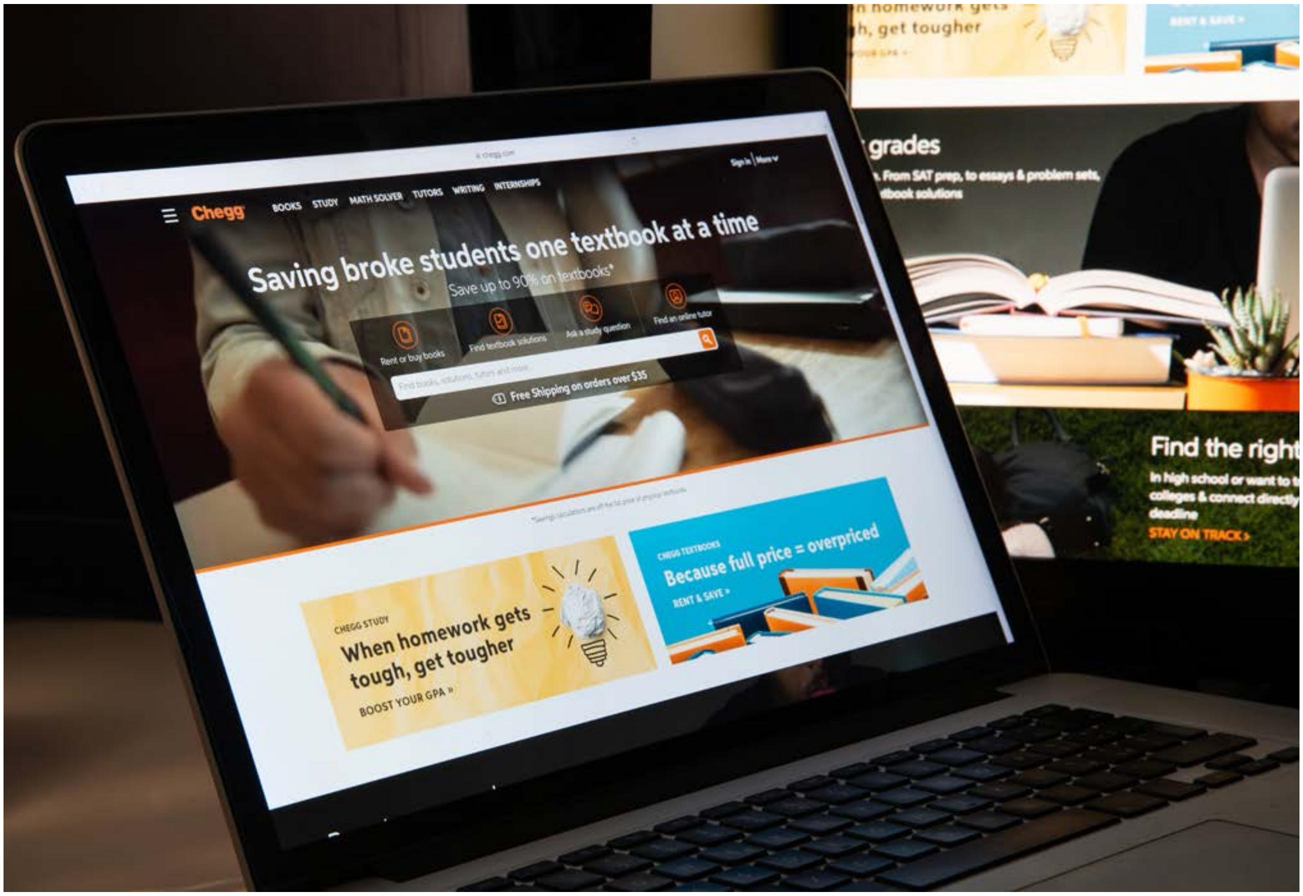
Amazon

(Held indirectly through Baillie Gifford equity funds)

The leading online retail and web services business.

In the first quarter of 2021 there was a unionisation vote at Amazon's fulfilment centre in Bessemer, Alabama. For us it was important to get a clear understanding of the technical components of the vote and seek assurance that communication between Amazon and its employees was clear and transparent. Therefore, we reached out to the company's Head of ESG in February 2021, seeking confirmation. At this meeting we explained our expectation that the company move forward in a constructive, positive manner irrespective of the outcome; in time, the Bessemer warehouse workers voted against unionisation. We maintain an open dialogue with Amazon on its approach to matters of governance and sustainability and are reassured by their focus on the long-term.

We found our engagement helpful to balance the competing narratives regarding Amazon's treatment of associates. The company has been challenged by this experience and will have learned from the process.



Chegg

(Held indirectly through Baillie Gifford equity funds)

Chegg has transformed itself from a textbook rental service into an online platform offering both study support and, increasingly, access to structured programmes for career-based learning.

Given the importance of integrity for online learning platforms, we wanted to clarify several long-term question marks concerning Chegg. Therefore, in September 2020 we engaged with CEO Dan Rosensweig to discuss uncertainties we had around made-to-order homework answers, plagiarism checks, questions banks with verified accuracy and expert tutors. Rosensweig acknowledged the various measures already in place to maintain academic integrity – including monitoring processes, training of Chegg 'experts', user bans and strict enforcement of the 'honor code'. Although these are all good measures, we still questioned whether this was enough to prevent cheating, particularly given the growing transition to digital examinations. Rosensweig was adamant that Chegg has no interest in aiding cheating, and we were reassured to hear that further measures were being developed to counteract this. We suggested that Chegg should explore ways to quantify the beneficial impact of the study platform on academia. Again, we were pleased to learn that objective student outcome data is considered a 'next step' for the company, and a study is underway to examine this.

In January 2021, we heard that Chegg had announced the launch of 'Honor Shield', a new tool to further support the integrity of online assessments. This tool limits access to Chegg solutions during designated exam periods and allows professors to confidentially, and without charge, pre-submit exam or test questions, preventing them from being answered on the Chegg platform during specified periods. We are pleased that we can play a role in encouraging responsible behaviours like these and contribute to underpinning Chegg's long-term sustainable growth.

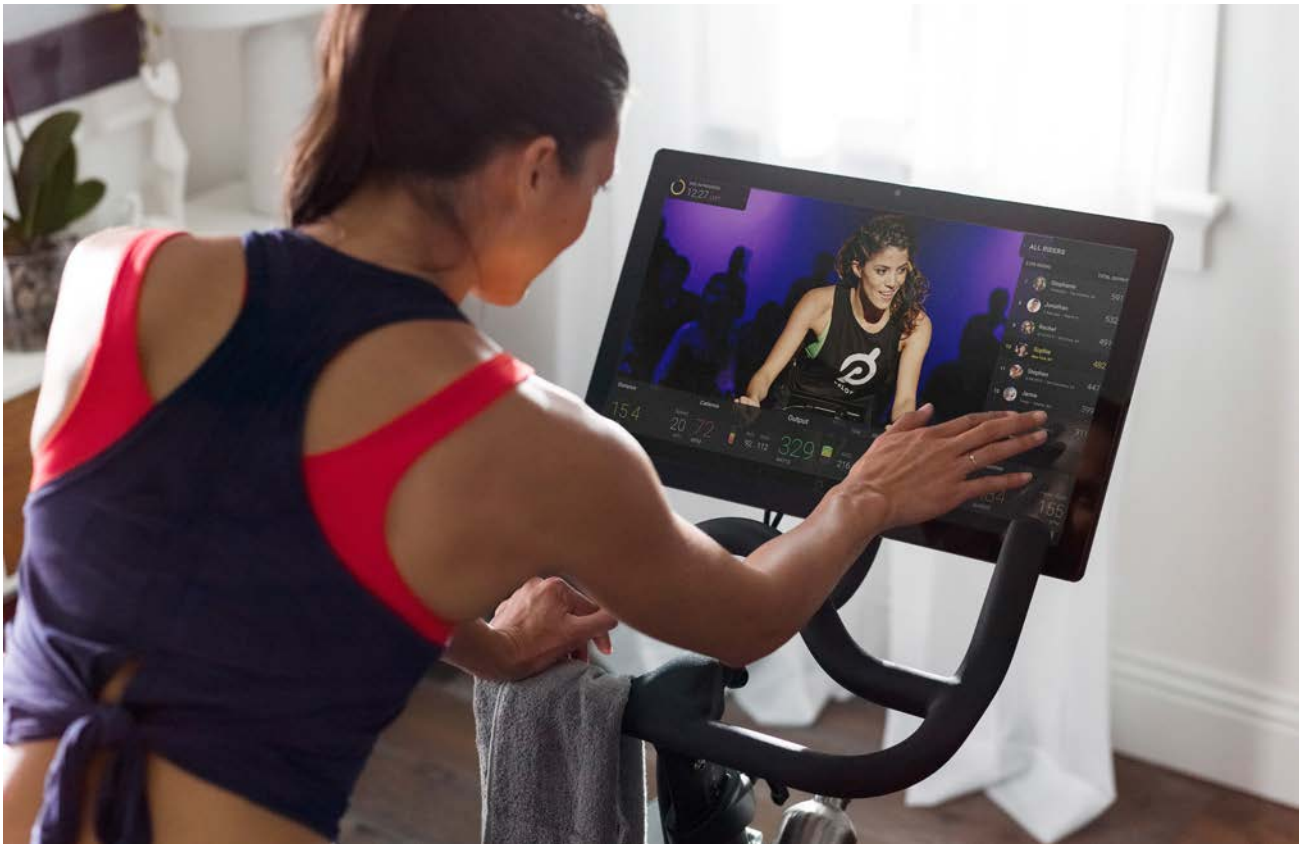
adidas AG

(Held indirectly through Baillie Gifford equity funds)

adidas is a German sportswear company which has built a globally recognisable brand since inception in 1949.

We engaged with Thomas Rabe, Chairman, to discuss proposed changes to the executive compensation plan and to seek confirmation around the direction of travel with respect to several governance topics. Pay policy changes included greater weighting on long-term incentives and the introduction of an ESG key performance indicator. The latter is likely to include a carbon emissions or climate change-related objective. We stated our view that performance targets place too much emphasis on a single net income target, and that our preference is for future awards to incentivise and reward key strategic developments such as direct-to-consumer and digitalisation of the business. We also discussed the supervisory board's role, and how it supported management during the Covid-19 pandemic. Ongoing work to make the board more diverse is inhibited by the long tenure of existing non-executives and German regulations requiring half of members to be employee representatives. Going forward we look forward to learning more about how employee representatives contribute to the board discussions, oversight of management and long-term value creation.

While challenging at times, we felt our first engagement with the company was constructive. We were encouraged the Chairman acknowledged the importance of maintaining an open dialogue with constructive challenges. International perspective will improve by adding a US-based director in 2021 and we will continue engaging with the company to encourage greater technology and Asia-Pacific expertise – areas we consider important for generating long-term value.



Peloton Interactive, Inc.

(Held indirectly through Baillie Gifford equity funds)

Peloton is the largest interactive fitness platform in the world, selling high-end equipment and subscriptions to over five million customers.

CFO, Jill Woodworth, contacted us to explain Peloton's response to the tragic death of a child on one of its treadmills in the US in March 2021. The company notified the Consumer Product Safety Commission (CPSC) as soon as it learned of the fatality. However, Peloton's two subsequent actions contributed to a rapid and public souring of relations. Firstly, Peloton directly contacted its treadmill customers within 24 hours to inform them of the incident and remind them of safety protocols, rather than doing so via the CPSC which is the formal channel for such communications. Secondly, to respect the customers' wishes of privacy, Peloton did not share certain customer materials detailing injuries – leading the company to be criticised for being uncooperative. Both missteps started with good intentions, however, being at odds with the CPSC is not a viable position. Peloton worked rapidly to restore relations, leading to a public apology and a voluntary product recall. They will also redesign the treadmill. Woodworth describes this episode as a 'massive wake-up call'.

The company realises it must take a leadership role in raising product safety standards (the treadmill had met all the CPSC safety standards, but clearly those were insufficient for home fitness). From an investment perspective, we think the product recall is largely immaterial to our long-term thesis, but more importantly we are encouraged by what we have learned about Peloton's corporate character: a customer-centric approach, willingness to recognise and learn from errors, proactive engagement with regulators and stakeholders, and an ambition to raise the bar on product safety across the home fitness industry.

Proxy voting activity

As a key component of our stewardship activities, our engagement activities allow us to communicate support for, and provide constructive feedback to, the investments held in our Multi Asset portfolios. Proxy voting is intrinsically linked to this, and our focus is on making voting decisions that are well-considered, pragmatic and aligned with the long-term best interests of our clients.

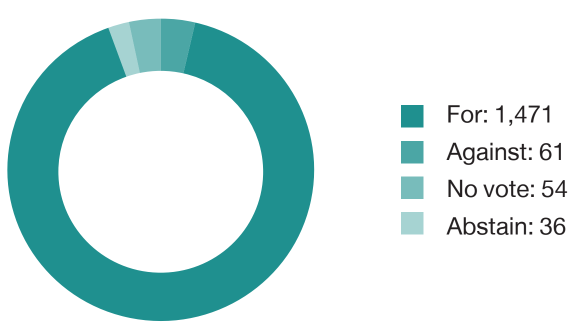
Baillie Gifford's ESG Team has primary responsibility for coordinating proxy voting across all of the firm's holdings. ESG analysts work closely with the Multi Asset investors to manage the proxy voting across the Multi Asset portfolios. To further complement our investment research, our dedicated analysts also provide bespoke ESG analysis for relevant holdings and issues.

We endeavour to vote all holdings globally and, over the 12 months to June 2021, we voted on 1,622 resolutions at 161 company meetings that related to our Multi Asset portfolios. We did not vote at 11 company meetings; four of these meetings were for internally managed funds where we did not vote due to adherence to our conflicts of interest policy; we missed two meetings due to selling our position; and five meetings were due to market restrictions that would have prevented us from selling during the period between the votes being cast and the date of the meeting.

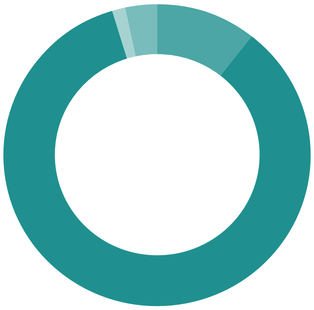
The following chart is a summary of the Multi Asset Team's proxy voting activities over the 12 months to June 2021 across all portfolios. The data shows that we have supported the majority of management resolutions. We are, after all, investing in a range of companies and externally managed funds where we have great respect for the management teams and our support for their proposals is tied to our support for their leadership and vision.

Any vote against a management resolution represents the combined view of our dedicated governance specialist and the Multi Asset investors and typically follows engagement with company management. A decision to oppose a management resolution is always communicated to the management team in advance and often initiates further conversations.

All votes



Remuneration



- For: 128
- Against: 16
- No vote: 5
- Abstain: 2

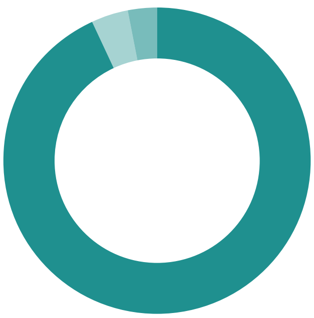
Dufry

A worldwide travel retailer

We opposed two resolutions on remuneration due to concerns with one-off bonuses granted to executives.

Remuneration report	For: 63.65%
Approve remuneration of executive committee	For: 88.74%

Director elections



- For: 628
- Against: 1
- No vote: 19
- Abstain: 27

Ares Capital Corporation

A global alternative investment manager

We voted in favour of the re-elections of three directors to the board. In our latest engagement, senior management confirmed the active search to add two diverse candidates to the board.

Michael K. Parks	For: 77:61%
Robert L. Rosen	For: 73.12%
Bennett Rosenthal	For: 76.42%

Amendment of share capital

- For: 122
- Against: 31
- No vote: 1

Adler Group

A German residential real estate company

We opposed the resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.

For:	68.6%

Share repurchase

- For: 64
- Against: 0

Case study: Saba Capital Income & Opportunities Fund

(formerly Voya Prime Rate Trust)

The July 2020 annual general meeting (AGM) was contested, which meant we could only vote for management's agenda or for the alternate agenda proposed by activist shareholder, Saba Capital Management (Saba). We decided to support those directors proposed by Saba and withhold support from the incumbent board as we believed the new directors would provide more effective oversight of the manager. To arrive at this decision, ahead of the meeting, we met the management of Voya Prime Rate Trust (Voya) to discuss the contested agenda proposed by Saba, a New York-based credit hedge fund, which believed that the fees charged by the trust's managers were too high, the discount remained too large, and that the manager had done little to rectify this. To enable change on the matter, at the 2020 AGM, Saba proposed a new slate of directors, a tender offer and the termination of Voya's contract as the manager. After discussions with all parties, we decided to support Saba's proposal as we sympathised with its views. Voya did not appear to have engaged constructively with Saba, and there was no concrete plan to address our concerns. We were also concerned that Voya was taking actions to entrench the current board and management, rather than considering what the best outcome for shareholders would be. The AGM resulted in Voya remaining as manager, but the Saba directors were appointed to the board and the tender offer approved. We viewed this outcome as positive.

At a special general meeting (SGM) held in May 2021, we opposed a resolution relating to a non-fundamental policy which would allow the board to change the investment objective without shareholder approval as we didn't think that was in the best interests of our clients. The resolution was, however, accepted by most shareholders.

Case study: John Laing Group plc

In May 2021, John Laing confirmed that it was in discussions with Aqueduct Bidco Limited (ABL), a newly formed company, about a potential cash acquisition of the entire John Laing Group (JLG) portfolio; the JLG board unanimously recommended ABL's offer to shareholders to take the firm private.

We met the CEO, CFO and Chairman of JLG in May 2021 to discuss their support for the proposed ABL offer. Our view following this engagement was that the board were not taking a genuinely long-term view in their suggestion that the offer price is a fair price. We felt that the proposal did not take into account the perspective of genuinely long-term shareholders like ourselves. Furthermore, we felt that it failed to acknowledge the value of the unique business model of JLG.

We opposed the takeover resolution in the July 2021 shareholder meeting because we felt that the bid undervalued the company and its opportunities. In addition, we believe our clients are best served by having the ability to invest in the company through public markets. The majority of shareholders, however, voted in favour of the acquisition which resulted in the company delisting.

Portfolio carbon footprint

This section provides representative details of the Strategy's carbon footprint, benchmark comparisons and data coverage as at 30 June 2021.

This carbon footprint has been calculated using the ISS-Ethix Climate Solutions carbon footprinting tool embedded within the yourSRI platform using a representative portfolio for the Multi Asset Strategy. The footprint has been assessed and compared against relevant performance benchmarks, at asset class level, to take into account the unique nature of multi asset investing. The result of our approach is to provide you with a dashboard of carbon footprints by asset class, rather than solely providing a single portfolio carbon footprint number based on an overarching and less appropriate benchmark; this ultimately results in a more tailored, detailed and meaningful analysis of our investments at a point in time. All information presented in this analysis relates to Scope one and Scope two emissions only as emissions within these scopes are reasonably under the control of a company and can be expected to be calculated by all companies.[5]

At the time of analysis, Listed Equity, Infrastructure, Property, High Yield Credit and Investment Grade Credit made up approximately 65.5 per cent of the portfolio. Asset classes that fall out with the scope of this analysis have either been excluded based on carbon data (un)availability and/or de minimis holding size. We expect data availability and portfolio coverage to improve over time.

[5] Scope one (direct emissions from owned or controlled sources eg fuel combustion, company vehicles, fugitive emissions); and Scope two emissions (indirect emissions from the generation of purchased energy eg purchased electricity, heat and steam).

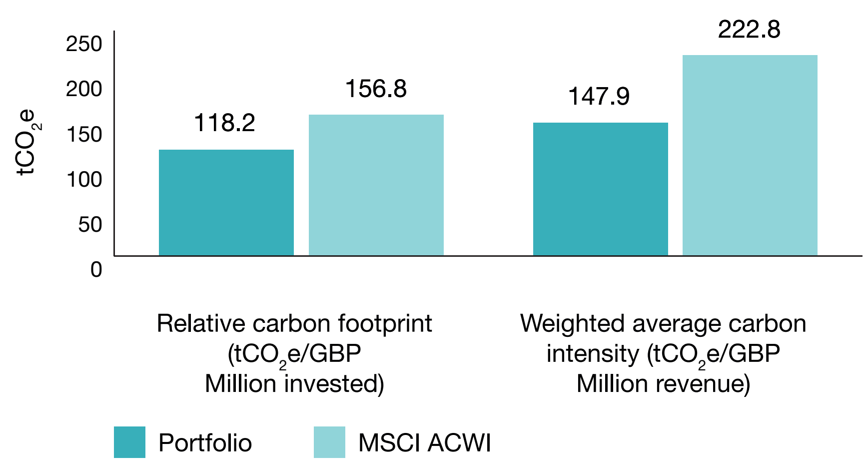
Carbon metrics by asset class

Asset class and coverage by weighting

Carbon metrics

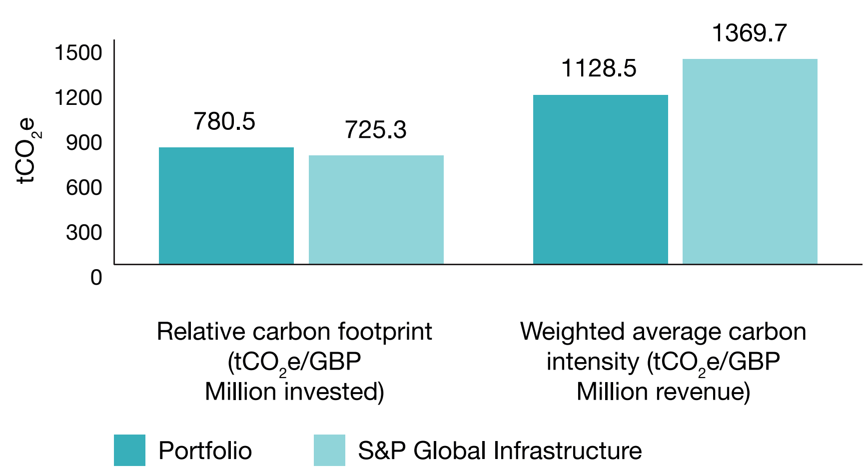
Listed equity

29.5% portfolio; 88.7% data coverage by weighting



Infrastructure

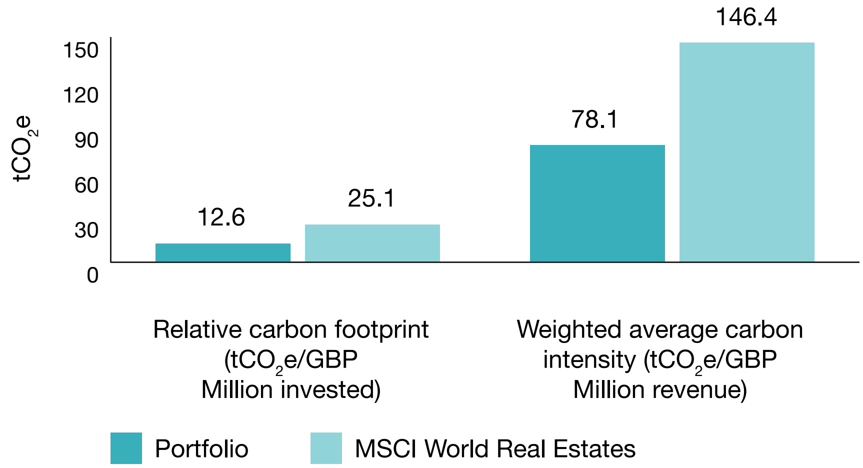
19.8% portfolio; 69.7% data coverage by weighting



Data as at 30 June 2021, based on a representative portfolio.

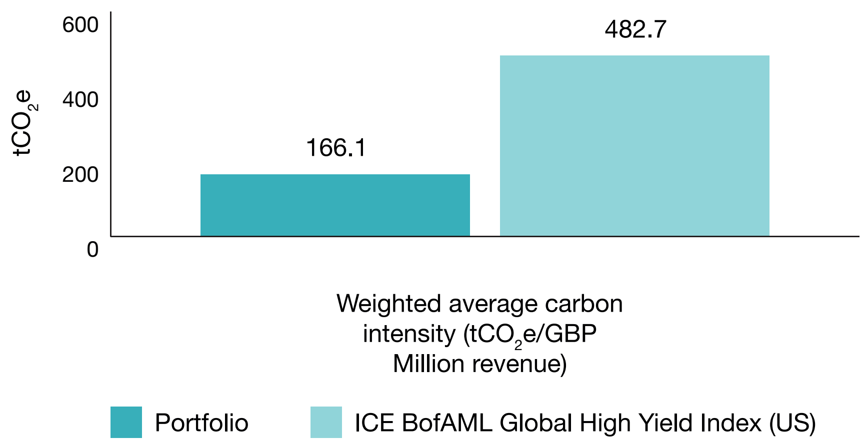
Real estate

8.9% portfolio; 85.1% data coverage by weighting



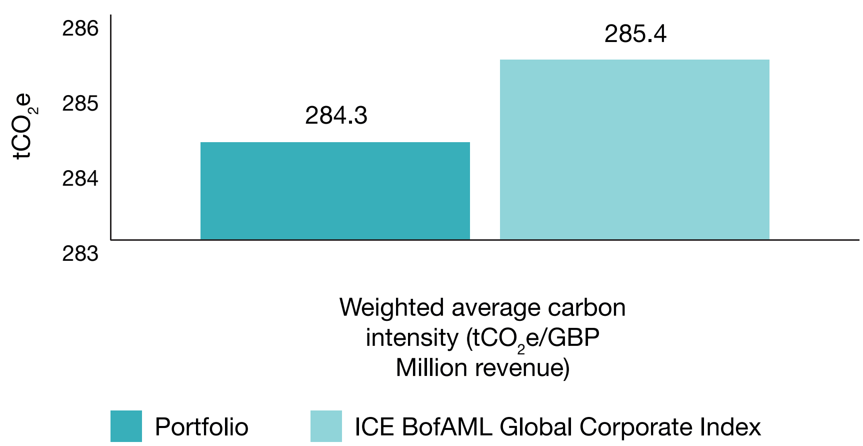
High yield credit

5.6% portfolio; 26.7% data coverage by weighting



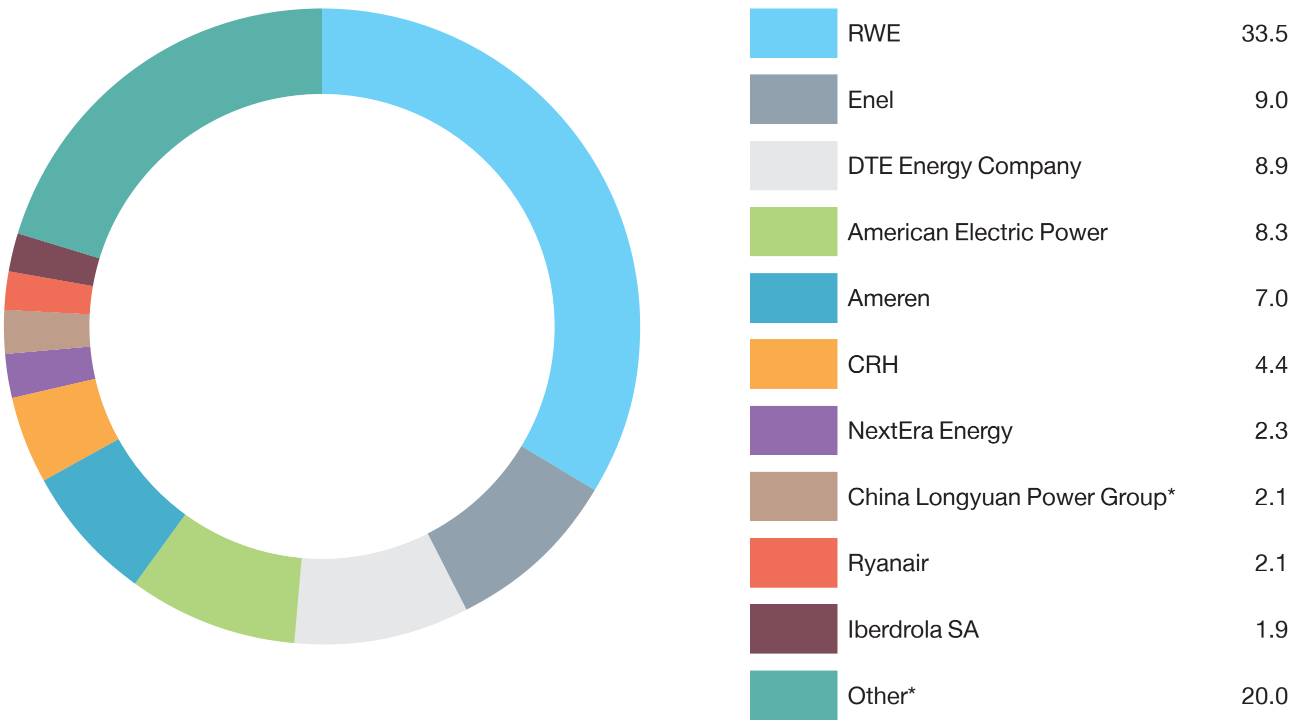
Investment grade credit

1.99% portfolio; 31.8% data coverage by weighting



Top contributors to carbon

The pie chart below shows the top percentage contributors to carbon to the portfolio which are calculated as a function of holding size and emissions and holding names with an asterisk (*) mean some of the underlying data is approximated, rather than being reported by the holding itself.



Source: Baillie Gifford & Co, as at 30 June 2021. Based on a representative portfolio.

Relative carbon footprint
(tCO_2e/GBP million invested)

The relative carbon footprint metric displays the total carbon emissions of the portfolio per million GBP invested. It tells us what the carbon footprint would be if £1m were invested, as compared to £1m in the benchmark. This metric is based on the principle of ownership so is only applicable to equity-like holdings; it is not considered for Investment Grade Credit or High Yield Credit.

Weighted average carbon intensity
(tCO_2e/GBP million revenue)

The weighted average carbon intensity metric considers portfolio exposure to carbon-intensive companies. Although absolute impact is not taken into account, this metric is applicable and comparable across asset classes as it does not require corresponding market cap information.

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