Multi Asset Stewardship Report

Summary of the Multi Asset Team's Stewardship Activities for 2021/22

BAILLIE GIFFORD | *Investment managers*

Risk Factors

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

This communication was produced and approved in November 2022 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

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

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

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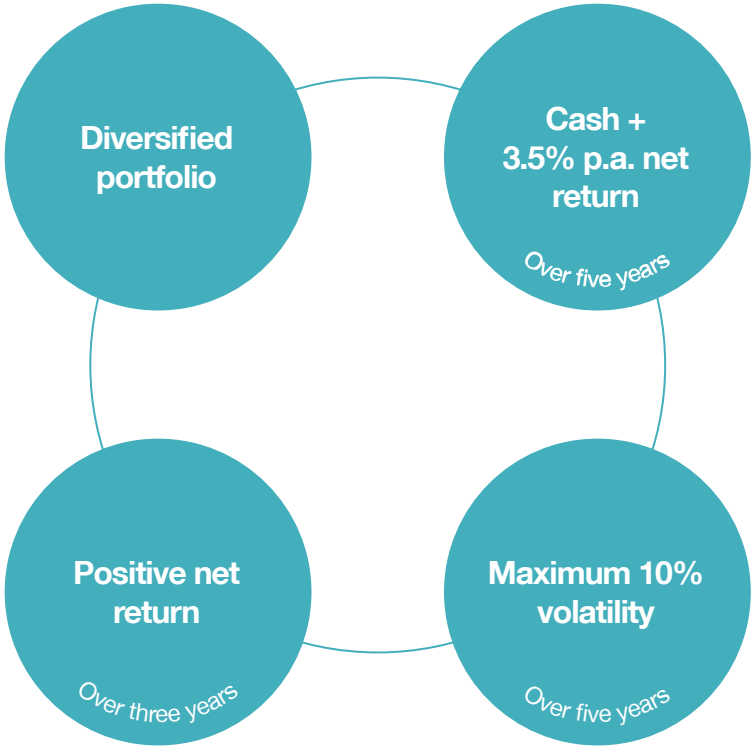
Introduction

We know our clients want us to achieve strong investment returns, however, 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 invested on our clients' behalf, we continue our research and monitoring of the investment thesis, meet with key stakeholders regularly and vote thoughtfully at company meetings.

Our Multi Asset portfolios have dual objectives focusing on return and risk. Therefore, we actively consider all potential opportunities and vulnerabilities associated with each position throughout the investment process. As long-term investors who take a top-down view of the world, we are clearly aligned with investing sustainably.



This report focuses on how the Multi Asset portfolios fulfil their stewardship responsibilities. Using case studies and engagement examples, we seek to demonstrate the breadth and depth of the integration of environmental, social and governance ('ESG') issues throughout our investment process. We also provide 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 during 2023, and beyond.

We are pleased to announce the launch of the new Sustainable Multi Asset Fund[1]. This fund has the same return and risk objectives as the Multi Asset Growth Strategy. In addition, it has a climate-focused objective, where we commit to having a portfolio weighted average carbon intensity[2] maintained below an absolute carbon budget, designed to align with the aims of the Paris Agreement. This strategy is managed by the same team as our other multi-asset growth strategies[3].

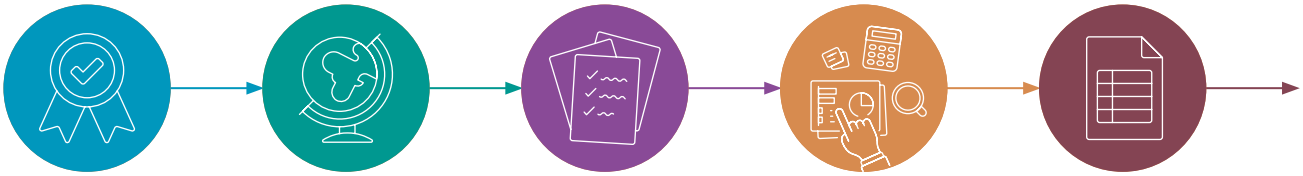
[1] Fund only available in UK.

[2] tCO2e/USD million Enterprise Value Including Cash.

[3] Diversified Growth, Multi Asset Growth and the Diversified Return strategies (€, $ and ¥).

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.



1. Firmwide shared beliefs, principles and policies

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

2. Top down: ESG – risks and opportunities

- Thematic macro research
- Climate-informed Long Term Return Expectations
- ESG-related specific scenarios

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

- Inform position sizes
- In-house proxy voting
- Stewardship research and engagement

5. Reporting

- Engagement and proxy voting
- Firmwide TCFD report
- Annual Stewardship Report

Debate and discussion

In this report we will focus on steps 3,4 and 5.

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.

Sustainability assessment framework

The Multi Asset Team has developed a framework that allows for consistent assessment of our investments' sustainability features, objectively considering their relevance and materiality.

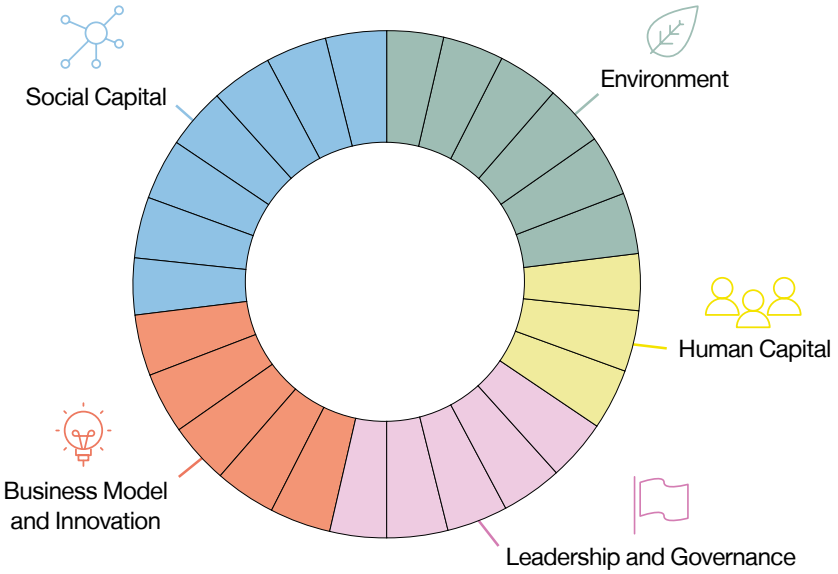
When researching an investment, we seek to answer the question: is the investment compatible with a sustainable economy? This assessment is integrated with our 8 Question ('8Q') investment research framework applied to all instruments held within multi-asset portfolios:

The Multi Asset 8 Question (8Q) Framework:

Q1	Which long-term fundamental trends and factors support this investment?
Q2	How strong is the return opportunity?
Q3	Can this investment improve the diversity of the portfolio?
Q4	Have key stakeholders demonstrated alignment?
Q5	Is this investment compatible with a sustainable economy?
Q6	How does our view differ from the market?
Q7	Why is this a good way to implement the investment idea?
Q8	What risks should we be aware of?

We use the Sustainability Accounting Standards Board's (SASB) five dimensions of materiality to help formalise our responses and maintain consistency across our analysis:

SASB Materiality Map



Investments are qualitatively assessed and categorised on each dimension and overall, as follows:

Enabler – Leading/enabler of a transition to a sustainable economy.

Leader – Actively neutralising ESG shortfalls and/or developing positive ESG feature(s).

Neutral – Minimal meaningful ESG features.

Adapting – Significant negative ESG feature(s) but clear commitment to disclose and improve.

Unsustainable – Significant negative ESG feature(s) with no commitment to improve.

This categorisation drives our ESG engagement and monitoring process, prioritising those investments identified as Unsustainable or Adapting. Here, we apply objective milestones to measure progress against each investment.

Additional instruments are also held within the portfolio for specific purposes such as hedging, risk management and/or liquidity, and are generally categorised as 'Neutral'.

This assessment informs our view of how the environment and society may affect an investment, as well as how the investment affects society and the environment. This assessment, plus the valuation and economic outlook, inform our portfolio decisions.

Sustainability Assessment Framework examples

Ørsted (Infrastructure) is a key renewable player. It has science-based targets and is at the forefront of investment in green hydrogen. It focuses its ongoing efforts to ensure the company remains relevant in the climate transition.

Dimensions of Materiality	Potentially Material ESG Factors for Consideration in the Electric Utilities and Power Generators Industry (per SASB)	ESG Assessment	Scoring
Environment	– Greenhouse gas emissions – Air quality – Water and wastewater management – Waste and hazardous materials management	Key renewable player, enabling avoided emissions, alignment with Sustainable Development Goals (SDG's). Science-based target, at the forefront of investment in green hydrogen; ongoing efforts to ensure the company remains relevant in the climate transition.	*Enabler*
Leadership and Governance	– Critical incident risk management – Systemic risk management	Independent and well-resourced board. Visionary management team, forward thinking policy on employees and major stakeholders. Benefits from a long-standing executive tenure of ~7 years. Transparent management team that has proven to be easy to contact and thoughtful in its answers to shareholders.	*Leader*
Business Model and Innovation	– Business model resilience	The business is including climate risk in its decisions.	*Neutral*
Human Capital	– Employee health and safety	Low incident rate, zero employee fatality rate, 30% female staff representation rate.	*Neutral*
Social Capital	– Access and affordability	Scores well on affordability and service reliability versus the industry.	*Leader*

ESG Overall Score: Enabler
Milestones required: No

Rexford Industrial Realty Inc is a US industrial property REIT focussed on Southern California, the United States' largest, most sought after industrial market. The business has the potential to be a leader in its sector given its credible decarbonisation strategy.

Dimensions of Materiality	Potentially Material ESG Factors for Consideration in the Electric Utilities and Power Generators Industry (per SASB)	ESG Assessment	Scoring
Environment	– Energy Management – Water and wastewater management	The business model focuses on redeveloping and modernising older buildings (including recycling existing building structures) and therefore is environmentally friendly. All properties comply with California's building efficiency standards. Rexford is in the process of working out a pathway to net zero emissions and have now committed to set science-based targets. All new developments or redevelopment to have LEED (Leadership in Energy and Environmental Design) Silver certification.	*Adapting*
Leadership and Governance		Entrepreneurial management with co-founders still in the business. Pay structure encourages long term thinking. The board is 63% independent and female representation is 37%.	*Neutral*
Business Model and Innovation	– Product Design and Lifecycle Management – Physical Impact of Climate Change	Business model fosters significant savings in embodied carbon, given the focus on brownfield development and the use of recycled materials. It has also started exploring the opportunities in rooftop solar and looking at options for a path to net zero. However, still in the early stages of addressing operational carbon in the standing portfolio.	*Neutral*
Human Capital		A small business of 148 people, with encouraging development on diversity and inclusion, not only along gender lines but a good mix of ethnicity as well. Less diversity at senior management level but this is mainly because of the small team of four. Across the entire firm, 55% of the workforce is female and there is a deliberate policy to promote from within.	*Leader*
Social Capital		Engages and supports local communities through initiatives such as supporting education/development of children from low income families, and setting a target to get 75% of employees to volunteer for community projects. The business model is akin to urban regeneration and so, it could be more impactful for the local community.	*Leader*

ESG Overall Score: Adapting

Milestones required: Yes

Reviewed after 12 months:

Do they demonstrate consideration of concentration risk in a high-risk area for the physical impacts of climate change?

Do they demonstrate consideration of and a strategy to mitigate the physical risk of climate change to its properties?

Public disclosure would be an improvement, including carbon disclosure, Scope 3 emissions and net zero ambitions.

Engagement in focus

Active engagement is a fundamental part of our stewardship role. We frequently engage with company boards and management where we see the opportunity for improved practice, contractual terms or enhanced disclosure. Our firmwide stewardship principles play a central role in our underlying engagements. They are highlighted below.

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

Our long-termism is not only central in our investment analysis, but also in how we engage with companies. Our approach goes beyond the typical 'tick box, one-off' exercise, focusing on ongoing communication and improvements. While third-party ESG data is informative, our independent qualitative research is the driving force behind our ESG activities and engagements.

Overleaf are two examples illustrating our engagement approach.

Case Study 1: Siemens Gamesa Renewable Energy and Enel Spa (both directly held)

Background

Siemens Gamesa Renewable Energy (SGRE) is an international wind turbine manufacturer and servicer. In 2010 SGRE won the rights to develop a wind turbine project in Western Sahara (a disputed territory) for the Moroccan government. Sustainalytics[4] however, has flagged SGRE for not having consulted the local Saharawi people prior to developing these projects. To get a better understanding of these issues, we decided to engage with both SGRE and Sustainalytics and take appropriate actions if necessary.

In addition, we also talked to Enel, who were not flagged by Sustainalytics but built and now operate these facilities.

Engagement

On 7 September 2021, we engaged with SGRE's head of ESG. The company informed us that when it bid and won a group of projects for the Moroccan government in 2010, it sought independent legal advice on whether the projects would violate the human rights of the local Saharawi people. This legal advice concluded that when consent can not be obtained from local authorities, companies should consider whether local communities will benefit from projects. It was therefore concluded that these projects were not violating human rights.

Following ongoing analysis and conversations with Sustainalytics, we decided to follow up with senior management of SGRE on 17 December 2021. SGRE is a signatory and active member of the UN Global Compact[5] and the company confirmed its 'hire local first' policy should ensure the best interest of the communities in which it operates. We were reassured by the company's progress and believe the company is dealing with the UN Global Compact Watchlist flag in a considered manner.

Despite Enel SpA not being flagged by Sustainalytics, we felt it was necessary to speak to management and gain confidence in the company's indigenous group consultation policy.

On 8 September 2021 we engaged with senior management of Enel. The company confirmed that its operations do not break international law and follow UN resolutions. Furthermore, Enel put in place a due diligence process for human rights issues, which (among others) involved consulting with representatives of the Saharawi people in their local language. On the back of these discussions, the company set up a training and employment plan. As local people benefitted from these projects, we concluded that no further engagement was required on this topic.

Outcome

On the back of our engagements, we were satisfied that the Sustainalytics flag is not representative of SGRE's ongoing commitment to protecting human rights today. In addition, we do not share the view of Sustainalytics on the due diligence allegations. We have concluded that the flag does not affect our view of the forward-looking investment opportunity and remain confident in the business and its management. Nevertheless, we will continue to monitor that the UN Global Watchlist flag does not get downgraded to non-compliant.

[4] A company that rates the sustainability of listed companies based on their Environmental, Social and Corporate Governance performance https://www.sustainalytics.com/

[5] https://www.unglobalcompact.org/

Case Study 2: Lynas Rare Earths Ltd and MP Materials

(both directly held)

Background

Rare earths play an important role in the green energy revolution, particularly neodymium and praseodymium the two rare earths Lynas and MP Materials focus on. These metals are a key component of permanent magnets, which are integral to electric vehicle batteries and wind turbines. We are excited about the long-term growth opportunities they provide. We categorised Lynas and MP Materials in our ESG Materiality Assessment as 'Adapting'. They are priority engagements given the materiality of environmental and social factors of the mining industry, as well as their high carbon footprint.

Engagement

On 2 March 2022, we met Martin Sheehan Senior Vice President of Investor Relations from MP Materials. We arranged this meeting to learn about the company's approach to sustainability, given the little public environmental and social disclosures. Although early in its sustainability journey, the company is taking strides forward. The soon-to-be-released inaugural sustainability report, produced in cooperation with an external consultant, and its ongoing work with stakeholders are encouraging improvements.

On 11 March 2022, we spoke with Gaudenz Sturzenegger (Chief Financial Officer) and Daniel Havas (Vice President Strategy & Investor Relations) from Lynas. This engagement was focused on discussing environmental priorities and its net zero target. The company committed to the Science Based Targets initiative[6] in September 2021 and is working on a net zero target. Net zero target setting is a responsibility shared among the entire leadership of the company, and Lynas tries to avoid relying on carbon credits to meet its objectives.

We expressed the importance of not only reducing emissions in the operations of mines but also in the transportation of goods given the large product shipping footprint.

We re-engaged with Gaudenz Sturzenegger and Jennifer Parker (Vice President Corporate Affairs) from Lynas on 5 April 2022. This time, we wanted to explore how the company considers what impact its operations have on communities and its subsequent engagements with local stakeholders.

Outcome

On the back of our engagements, we categorised both companies as 'Adapting'. Although the companies' journey to net zero is lengthy, their progress is encouraging as is their focus on local communities and involving stakeholders. Nevertheless, these holdings require ongoing engagements and monitoring to ensure they keep making progress. We have created a list of milestones, ranging from transparent reporting, stakeholder disclosure, materiality-based environmental target setting and others, and will follow up with management to ensure they are met.

[6] https://sciencebasedtargets.org/

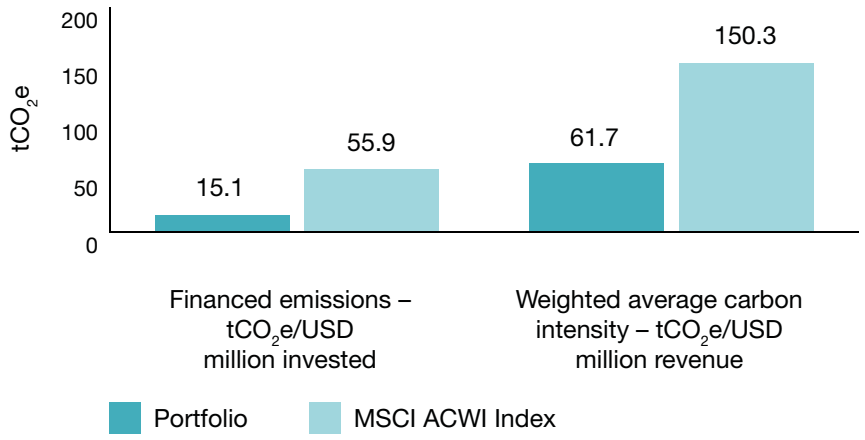
Portfolio carbon footprint

It is important that we 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. While we acknowledge the existence of data gaps across our diversified multi asset funds, ESG data adds a further quantitative lens to our sustainability assessments.

Over the last twelve months, we made several changes to our carbon footprint process. In the second half of 2021 we changed data provider, moving away from YourSRI to MSCI. More recently, we started using our own internal tool which pulls data from MSCI, this will give us greater consistency and control of reporting going forward.

Carbon metrics by asset class

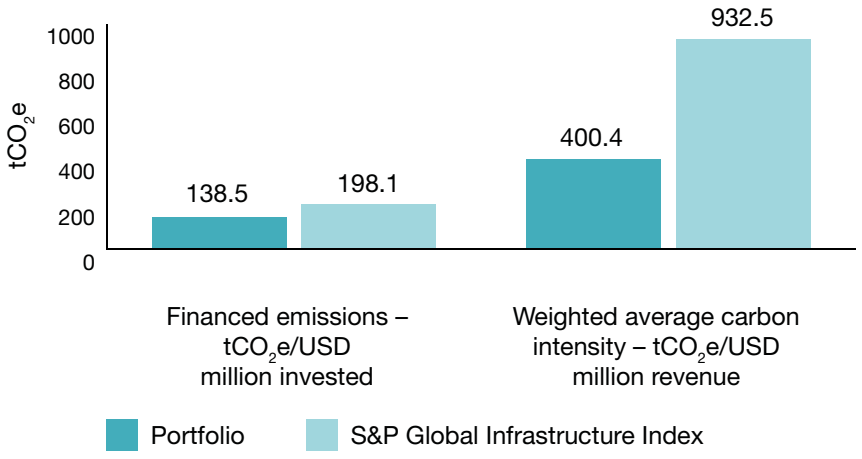
The below graphs show that our portfolio exposures to the following asset classes have a lower WACI than the respective indexes.

Asset class and coverage by weighting	Carbon metrics
Listed equity 14.5% portfolio; 94.2% data coverage by weighting	

Source: Baillie Gifford & Co and MSCI. Data as at 30 June 2022, based on a representative portfolio.

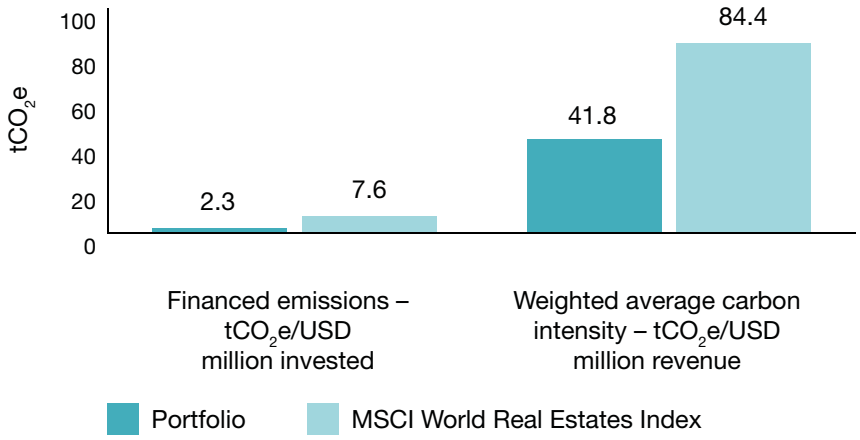
Infrastructure

20.4% portfolio; 75.2% data coverage by weighting



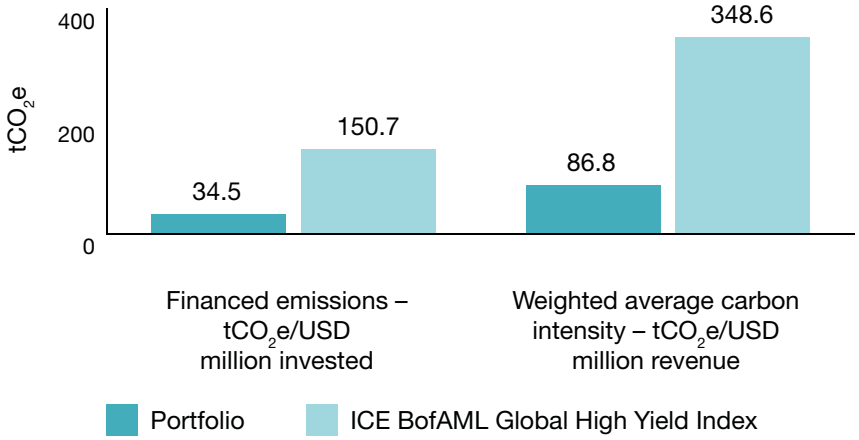
Real estate

7.5% portfolio; 95.4% data coverage by weighting



High yield credit

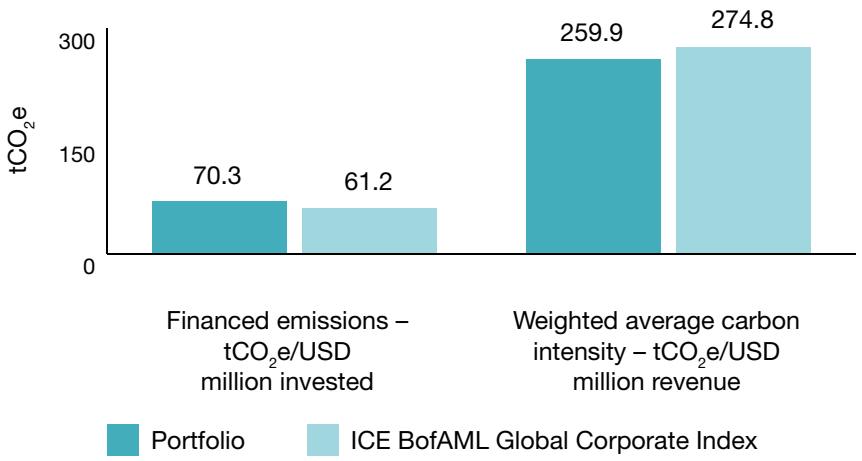
1.0% portfolio; 72.8% data coverage by weighting



Source: Baillie Gifford & Co and MSCI. Data as at 30 June 2022, based on a representative portfolio.

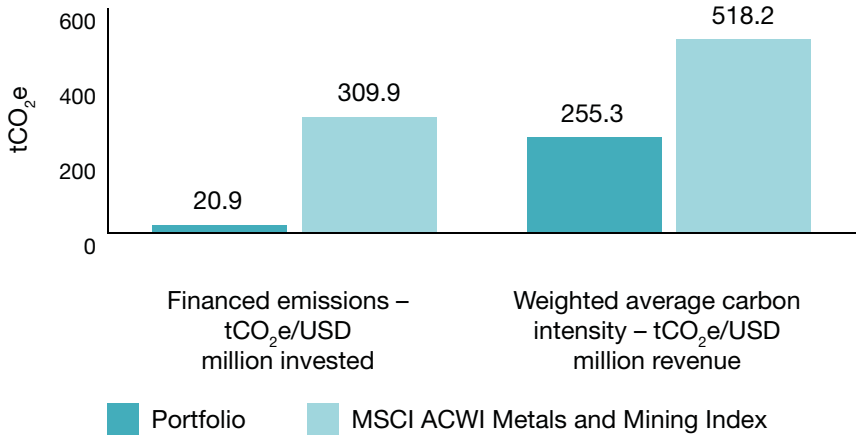
Investment grade credit

1.0% portfolio; 79.8% data coverage by weighting



Corporate Commodities

2.1% portfolio; 100% data coverage by weighting



Source: Baillie Gifford & Co and MSCI. Data as at 30 June 2022, based on a representative portfolio.

Top carbon emitters

The pie chart below shows the top percentage contributors to carbon in the portfolio. These are calculated as a function of holding size and emissions.

RWE AG	53%
Other	23%
China Longyuan Power Group 'H'	12%
Iberdrola SA	5%
NextEra Energy	4%
Consolidated Edison	3%

Source: Baillie Gifford & Co, as at 30 June 2022. Based on a representative portfolio.

Financed emissions
(tonnes of carbon dioxide equivalent (CO_2e)/USD million invested)

The financed emissions metric displays the total carbon emissions of the portfolio per million USD invested. It tells us what the carbon footprint would be if USD 1 million were invested in the fund's asset class portions, as compared to USD 1 million in the respective illustrative benchmarks.

Weighted Average Carbon Intensity (WACI)
(tCO_2e/USD 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.

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 linked intrinsically 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 Services Team has primary responsibility for coordinating proxy voting across all the firm's holdings. ESG analysts work closely with the Multi Asset investors to manage the proxy voting across the Multi Asset portfolios. Complementing 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 2022, we voted on 1,438 resolutions at 136 company meetings relating to our Multi Asset portfolios. We did not vote at 15 meetings due to various technical and regulatory factors.

The 'no vote' percentage over the period is higher than usual. This is not driven by us choosing not to vote at these meetings, but instead comes from reasons out of our control. For example, the 'no votes' that come on the back of (1) electronic processing errors and (2) restrictions of voting rights for non-EU holders account for more than two-thirds of the total 'no votes'.

The following charts summarise the Multi Asset Team's proxy voting activities over the 12 months to June 2022 across all portfolios. The data shows that we have supported most 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. Our support for their proposals is tied to our belief in 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. We always advise management in advance where we intend to oppose a management resolution, which often initiates further conversations.

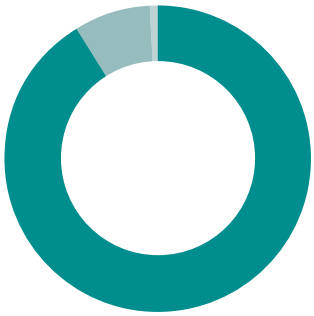
All Votes

For: 1,197
Against: 39
No vote: 191
Abstain: 11

Remuneration

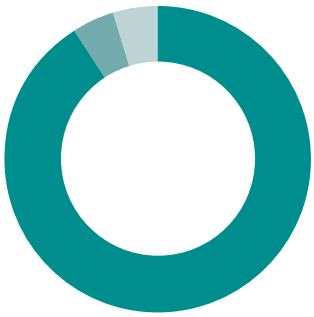
- For: 81
- Against: 19
- No vote: 7
- Abstain: 3

Director Elections



- For: 529
- Against: 1
- No vote: 46
- Abstain: 4

Amendment Of Share Capital



- For: 101
- Against: 5
- No vote: 5

Share Repurchase

- For: 50
- No vote: 1

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