BAILLIE GIFFORD

The Schiehallion Fund Limited

TCFD Climate Report for the year ending December 31, 2022

Prepared using the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Introduction

The Schiehallion Fund invests primarily in private companies globally and can continue to hold and add to these investments in public markets. We invest in rapidly growing companies that we believe have enduring competitive advantages and strong management teams, identifying these through 'bottom up' stock selection based on business fundamentals. More information on our philosophy, process, performance and other insights can be found on the Baillie Gifford website.

This report explains The Schiehallion Fund's approach to addressing climate-related risks and opportunities through our investment process and describes a current view of how they may impact the portfolio. It also includes data and metrics, where available, to provide useful additional information. We produced the report using the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and we expect the content, format and data to evolve in future versions.

Governance of climate-related risks and opportunities

Details of Baillie Gifford's oversight and management of climate-related risks and opportunities across the firm can be found in our entity-level TCFD-aligned Climate Report on the Baillie Gifford website. At the portfolio level, the assessment and management of such risks and opportunities is the responsibility of the Private Companies investment team.

Implications of climate change for strategy

Global efforts to address the emissions responsible for climate change and its physical impacts pose potential 'transitional' and 'physical' risks and opportunities for every portfolio company. Transitional factors include the introduction of new policies, regulations or technologies, while physical factors stem from chronic changes to climate patterns, sea level rise, or more acute severe weather events. The Schiehallion Fund does not seek specific climate outcomes as part of its investment objectives. But we factor climate change into our investment strategy as part of our belief that considering broader environmental, social and governance factors is integral to our active, long-term investment style.

We believe climate change could materially influence the returns we generate for clients. However, assessing the significance and scale of this influence versus other factors over different timeframes is challenging. We expect our views to evolve as we gain better insight and understanding.

Below we share a current assessment of the climate-related risks and opportunities the portfolio may face over the short, medium and long term under different climate scenarios. This assessment is based on Baillie Gifford's qualitative analysis of the Network for Greening the Financial System's (NGFS) 'orderly', 'disorderly' and 'hothouse world' scenarios.

'Orderly transition' scenarios assume climate policies are introduced early and become gradually more stringent, reaching global net zero emissions around 2050 and likely limiting global warming to below 1.5-2 degrees Celsius on pre-industrial averages. 'Disorderly transition' scenarios assume climate policies are delayed or divergent, requiring sharper emissions reductions achieved at a higher cost in order to limit temperature rise to below 1.5-2 degrees Celsius on pre-industrial averages. 'Hothouse world' scenarios assume only currently implemented policies are preserved, current commitments are not met and emissions continue to rise, with high physical risks and severe social and economic disruption and failure to limit temperature rise.

Short-term risks and opportunities (0-3 years)

Over the next few years, climate-related risks for most portfolio holdings are more likely to be transitional than physical. Although evidence shows climate change is already making weather events more erratic and severe, it is unlikely this will reach a systemic level of impact across the portfolio within a three-year timeframe, even under a hothouse world scenario. That said, direct impacts could be significant for some companies.

However, this timeframe is much more significant for the trends in technology, policy and markets shaping the transition. Under both orderly and disorderly transition scenarios, we expect significant opportunities for holdings that are directly helping to drive the decarbonisation of the economy through their core products or services (for example, Northvolt and Solugen). Companies in the portfolio showing other forms of climate leadership (such as Allbirds and Stripe) should also benefit. They may avoid regulatory penalties, gain access to advantaged technologies and reinforce their brands.

Conversely, both orderly and disorderly scenarios increase the transitional risks for holdings that have significant direct or indirect emissions, although the timing may vary in different markets. These include holdings such as SpaceX and Workrise, which may face higher costs to operate or other restrictions as emissions regulations tighten and the costs of carbon increase.

Under hothouse world scenarios the risks and opportunities noted above may not accrue over this time horizon. Indeed, there may be comparative cost penalties to climate leadership. That might allow high emitters and those with carbon-intensive value chains to defer investment or diversification and benefit from near-term cashflows and returns.

Medium-term risks and opportunities (3-10 years)

Over the medium term, which overlaps the typical period that we expect to hold new portfolio additions (5-10 years), the impact of an orderly versus disorderly transition may become more divergent. Under an orderly transition, there are likely to be significant opportunities for companies providing climate solutions and those that can reduce their emissions substantially this decade. However, under a more disorderly transition, these opportunities may be more muted as regional diversity in climate policy introduces additional complexity.

Over this timeframe, the physical impacts of climate change are expected to become more systemic. The geographical and sectorial diversity of holdings across the portfolio may provide some resilience to regional climate impacts. However, the portfolio holds some businesses with higher levels of potentially significant geographic concentration (such as Genki Forest, Jiangxiaobai and Pet Circle) and others reliant on complex international supply chains (such as Northvolt).

Long-term risks and opportunities (10+ years)

Assessing risks and opportunities to the portfolio over these timeframes becomes particularly challenging due to the increased uncertainties involved. However, under a hothouse world scenario, it is anticipated that the influence of physical climate impacts becomes the chief climate-related risk to returns. Under this scenario, the impact on policy, populations and overall economic activity - and thus shareholder returns - is likely to be portfolio-wide and systemic, with very few holdings unaffected.

Under orderly or disorderly transition scenarios, the impacts on the portfolio observed in the medium term may become further extended and entrenched. Risks and opportunities associated with technologies and markets may become even more significant as the winning forces of the transition emerge, causing the old to fall away. Under a disorderly scenario, regions of the world that were delayed in their transition might be expected to play ‘catch up’, offering new opportunities for transition-aligned companies. However, the sheer rapidity of the transition may result in greater policy dislocation and abrupt asset retirement that could transcend individual companies to pose systemic risks to the portfolio.

Approach to climate risk management

The Schiehallion Fund aims to assess all holdings in the portfolio at least annually as part of Baillie Gifford’s ‘climate audit’ process, noting that there are some issues with the availability of data in private companies which we continue to monitor. This helps inform our view of climate-related risks and opportunities across the portfolio. The results are shown in the metrics section of this report. Holdings are assessed on two main criteria:

• Their emissions reduction goals and performance. Holdings are categorised as ‘leading’, ‘preparing’, or ‘lagging’ based on an assessment of their ambition and related strategies to reach net zero emissions by 2050 or before.

• Their potential transition role. Holdings are categorised as ‘solutions innovators’, ‘carbon-light potential influencers’, ‘potential evolvers’ or ‘materially challenged’ based on an assessment of their strategic positioning relative to the net zero transition.

In addition to the climate audit process, we conduct more in-depth research into specific holdings where we feel climate-related risks could be particularly material. This research utilises a variety of information sources and is led by our Private Companies investment team and supported by Baillie Gifford’s central climate team. The insights can be discussed at stock discussions or at Portfolio Review meetings and are shared among the investment team and colleagues across Baillie Gifford through our research library.

To help manage and mitigate any material risks identified, we will undertake direct engagement with some holdings where we seek to understand their approach. We will encourage steps to minimise risks and maximise opportunities where we believe it is material to the success of the company.

From 2023 onwards, as part of the integration of climate-related risks into Baillie Gifford’s overall risk management framework, the climate metrics used in this report, and others as they become available, will be incorporated into the existing Investment Risk Reports that are provided to the portfolio managers by Baillie Gifford’s Investment Risk team. To help provide additional oversight, core metrics will also be reported to Baillie Gifford’s ESG Regulatory Sub-Group and either the Equity or Multi Asset and Fixed Income Investment Risk Committees.

Key metrics (as at end December 2022)

This section does not contain the normal suite of carbon-related data and metrics that can be expected for portfolios with publicly listed equity holdings. Many private companies are yet to report their emissions. In addition, MSCI, which provides the manager with a range of reported and estimated climate-related data, has yet to extend full coverage to the private company universe.

The manager can, however, include metrics generated by their assessment of each holding's progress towards net zero alignment and its strategic business positioning relative to the climate transitions. As noted within the section on risk management, these assessments form part of their proprietary 'climate audit' and reflect the outcome of fundamental research produced through collaboration between the portfolio's investment analysts and Baillie Gifford's central climate team. This bottom-up approach informs their investment perspective and engagements with the companies, and enables them to communicate the overall climate positioning of the portfolio. The Schiehallion Fund contains a number of companies which, despite their comparative youth, are already showing leadership in climate-related disclosure and strategies for emissions reduction. It is currently not unusual for unlisted companies to be lagging in this regard, but where that is the case, we assess and prioritise our engagement and support relative to investment materiality.

Metrics providing insights into net zero alignment of holdings

Our assessment of holdings' net zero targets[1]	Portfolio
% of total AUM with targets assessed as 'leading'	12
% of total AUM with targets assessed as 'preparing'	0
% of total AUM with targets assessed as 'lagging'	88
% of total AUM with targets not assessed	0

Source: Assessed according to Baillie Gifford's internal assessment framework.

Our assessment of holdings' transition role[2]	Portfolio
% of total AUM assessed as 'solutions innovators'	17
% of total AUM assessed as 'potential influencers'	59
% of total AUM assessed as 'potential evolvers'	24
% of total AUM assessed as 'materially challenged'	0
% of total AUM not assessed	0

Source: Assessed according to Baillie Gifford's internal assessment framework.

[1] In some cases, portfolios with higher proportions of unlisted or smaller companies may contain a greater proportion of holdings assessed as 'lagging'. This may be due to the relative immaturity of some of these companies' disclosure and net zero alignment strategies, when compared to more established listed and larger companies. More details of this assessment process can be found in the Baillie Gifford & Co TCFD Climate Report

[2] More details of this assessment process can be found in the Baillie Gifford & Co TCFD Climate Report

Legal Notices

Baillie Gifford uses a combination of internal research and analysis and third-party data sources when preparing ESG-related disclosures.

Prior to using data sourced from a third-party provider, Baillie Gifford conducts appropriate due diligence on the third-party provider including validation of their methodology and assessment of their coverage and then carries out spot checks of the data periodically, escalating issues to the third-party provider where necessary.

However, Baillie Gifford cannot guarantee that such data is complete, up-to-date and/or accurate. Furthermore, information disclosed is based on data established at a specific time which may be liable to change. More generally, the coverage, standardisation, and comparability of ESG data continues to change and develop over time.

This disclosure is not intended to be used for marketing purposes and nor does it constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

The figures in this report are aggregations and calculations which draw upon data from our external data providers, principally MSCI.

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