# Global Stewardship

Climate Policy. March 2021

Baillie Gifford | Global Stewardship

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk.

# Important information

# Introduction

*Global Stewardship has a role to play in mitigating climate damage by consciously allocating capital to low carbon products and processes, and by using our influence as investors to encourage best practice with respect to emissions reduction and climate-related reporting.*

# Our climate purpose

*There are three core tenets of Global Stewardship which, combined, add up to a sustainable approach to delivering long-term growth. Our approach to climate is a natural extension of these elements:*

### To back exceptional companies that help the world to thrive

Identify and invest in companies for which the energy transition is a tailwind for growth, or those demonstrating leadership in climate-related mitigation.

### Integrate ESG and investment with an unashamedly optimistic mindset

Seek to understand our carbon exposures and climate risks using portfolio-level data supplemented by individual company analysis.

### Act as good stewards of our clients' capital by engaging for a better future

Commit to climate-related engagement to shape strategic awareness, improve governance, promote disclosures, and encourage corporate leadership.

# How do we achieve this?

*Our investment research process is centred on the **Positive Inclusion Factors,** a three-question framework which seeks to balance the pertinent investment and ESG issues. The same Positive Inclusion Factors also provide a clear and helpful framework for the consideration of climate issues:*

### Will the company add value for society in the long run?

We expect the products and services provided by portfolio holdings to make a clearly supportive contribution to the necessary shift to a low-carbon economy. For those companies for which this is not a material issue, we still expect management to demonstrate leadership in climate-related reporting and mitigation.

### Does it balance the needs of all stakeholders?

The environment is the silent stakeholder, yet its long-term health supports all others. For almost all companies, we look for strategic awareness of their climate responsibilities and of the implications of the energy transition. A thoughtful and constructive approach to the treatment of customers, staff and suppliers is a potential source of competitive advantage – the consideration of climate is no different.

### Does the company exhibit a culture of responsible business?

We encourage leadership in climate-related awareness and reporting, and advocate for the use of industry standards such as the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and Carbon Disclosure Project (CDP)-style disclosures. We expect transparency and accountability in lobbying, political donations and the membership of trade associations. Most importantly, we expect climate-related ambitions and targets which reflect an appropriate, material contribution from each company.

# Commitments and benchmarking

*It is our responsibility to lead by example. In addition to supporting Baillie Gifford's firmwide environmental policy, Global Stewardship commits to the following specific actions:*

## Engagement on disclosures and beyond

We expect all portfolio holdings to disclose Scope 1 and 2 emissions[1]. A programme of engagement to encourage all 'non-reporting' holdings to do so is already underway. Furthermore, we will be encouraging selected holdings to consider a wider assessment of their Scope 3 footprints.

## Transparency

In addition to our fundamental, qualitative research, our intention is to provide clients with climate metrics as more accurate reporting and industry-wide tools become available. In our 2021 ESG Report, we will report portfolio-level carbon emissions in the form of weighted average greenhouse gas intensities covering both direct and estimated indirect emissions. We will also provide physical risk assessments.

## Targets and benchmarking

Global Stewardship excludes companies which are involved to any significant degree in fossil fuel extraction and production. More widely, we aim to manage portfolios that have a relatively low carbon footprint and include companies actively managing their climate impact. The strategy is already consistent with EU-defined 'Paris-aligned' carbon benchmarks (meaning that its portfolio-level weighted average greenhouse gas intensity is less than half of that of a traditional equity index) and would typically expect to remain so. We will develop our measurable commitments as more accurate and meaningful data allows.

[1]Scope 1 measures the direct emissions produced by the company in question, such as on-site fuel combustion in furnaces or by fleet vehicles. Scope 2 relates to the emissions related to the generation of electricity purchased and consumed by the company in the course of its activities. Scope 3 then covers other indirect emissions which are not directly produced by the company, but which result from its activities. For example, this includes emissions embedded in purchased raw materials and goods, or those generated by the subsequent use of a product or service.

# Task Force on Climate-related Financial Disclosures

*The TCFD recommendations remain a relatively new and untested approach to assessing and addressing climate risks. Our use of them will evolve as we learn more about their benefits and limitations. As a starting point, Global Stewardship's approach will implement the TCFD recommendations as described below:*

## Governance

Responsibility for climate-related analysis is shared across the Global Stewardship team, with formal oversight by Caroline Cook as Senior Governance and Sustainability Analyst.

## Strategy

Global Stewardship is a sustainable growth fund. We consider climate risk and opportunity for all potential holdings, and formally exclude investments in companies involved to a significant degree in fossil fuel extraction and production. Moreover, businesses which show leadership in managing their climate impact and supporting the transition to a low carbon economy are more likely to meet our criteria and this will be a factor in buy/sell and position-sizing decisions.

## Risk management

The portfolio will be assessed for climate risk and opportunity using a variety of metrics, for example company-level carbon footprints, potential exposure to physical damage, reporting, targets, business mix and corporate strategy. Detailed analysis and engagement will then follow as a result of this work, as well as our wider aim to promote best practice.

## Metrics and targets

Global Stewardship monitors and reports its emissions, physical exposures, transition alignment and engagement priorities. Global Stewardship portfolios are already consistent with EU-defined 'Paris-aligned' carbon benchmarks and would typically expect to remain so.

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