

# 3D Fund Profile:

## Baillie Gifford Positive Change Fund

2021



POWERED BY SQUARE MILE 

## OUR VIEW



Baillie Gifford has a pedigree dating back to 1908 and is a champion of long-term, engaged investing. The Positive Change Fund builds on this heritage, with a high conviction, concentrated portfolio and thoughtful and detailed impact reporting that goes beyond outputs to look at outcomes and impact.

The fund lives up to its name with clear documentation of how it is achieving Positive Change with reference to the UN Sustainable Development Goals and justifies its status as a AAA fund.

RI DIMENSION	RATING
<b>PROCESS</b>	
RI Capability	3D Gold
RI Strategy	3D Gold
RI Reporting	3D Gold
<b>OUTCOMES</b>	
Investment in SDG Solutions	3D Gold
Controversy Avoidance	3D Silver
Leading Change	3D Gold

See below for an explanation of the ratings. Full details can be downloaded at [www.squaremileresearch.com](http://www.squaremileresearch.com)

## APPROACH

Ethical Screening  Responsibility  Engagement  Sustainability  Impact

### Key Approach: Impact Investing

*Impact investors want to use their money to make a wider positive social or environmental impact as well as meeting their financial needs and wants to see evidence of the social and environmental impact.*

The Baillie Gifford Positive Change Fund is a global equities strategy which aims to “deliver a positive change by contributing towards a more sustainable and inclusive world.” This objective is specifically stated by Baillie Gifford to be as “equally important” as generating attractive returns for investors.

The fund is invested in companies for which “solving a social or environmental challenge is core to their business,” with the managers stating that they “positively and proactively aim to invest in exceptional companies whose products or services represent a significant improvement to the status quo.”

These high-level philosophical objectives are further underpinned by the belief that “purpose complements profits.” This is to say that businesses addressing social and environmental challenges will benefit by improving revenues and profitability from growing demand for their products and services, “more loyal customers and more motivated employees.”

The impact reporting for this fund is impressive and backs up the philosophy, with material evidence being a key component. Every holding is reviewed from the perspective of contributing to a UN Sustainable Development Goal (SDGs), as well as citing audited source data to verify the effectiveness of any stated corporate claims.

From high-level objectives through to stock selection and governance, this fund is constructed to maximise exposure to meaningful and quantifiable solutions to the world’s pressing environmental and social problems.

## RI CAPABILITY

### Rating:



Baillie Gifford has built up an impressive responsible investment capability, driven by a genuine desire to maintain the initiative in this space and the leadership of the organisation's commitment to embedding sustainability firm wide. This ambition is reflected in the highly talented staff and the impressive external and proprietary research tools and systems.

### RI Staff:

The fund is managed by four "key decision makers". These are led by partner, Kate Fox, who joined Ballie Gifford in 2002 and Lee Qian who joined in 2012. They are supported by Michelle O'Keefe (a senior analyst who brings considerable experience in the field of climate change) and Ed Whitten (a senior analyst with a background in sustainable development).

Additionally, at Baillie Gifford, there are 24 ESG staff and three dedicated impact analysts. Ballie Gifford's Governance and Sustainability Guidelines (which underpin this fund) come under the remit of the firm's Investment Management Group which consists of the senior partners.

### Advisory Committee:

There is no external advisory committee involved in the fund process.

### External Data Sources:

MSCI Sustainalytics, RepRisk. Your SRI.

### Certifications/Validations:

Signatory of the UN PRI (A+ rated as of 2020).

### Memberships:

Baillie Gifford is a member of the following: UK Stewardship Code, Japan Stewardship Code, CDP, Global Impact Investing Network, Impact Management Project Advisory Board, Asian Corporate Governance Association, International Corporate Governance Network, Council of Institutional Investors, The Investor Forum, The UK Sustainable Investment and Finance Association, Pensions for Purpose and Institutional Investors Group on Climate Change.

### Rating:

**3D Gold**

This fund is a focused global equity portfolio which is invested in sustainable and responsibly managed companies. Companies held in the portfolio must be making a significant contribution to solving global challenges in one of four areas:

- Social inclusion and education
- Environment and resource needs
- Healthcare and quality of life
- “Base of the Pyramid” (addressing the needs of the poorest four billion people in the world)

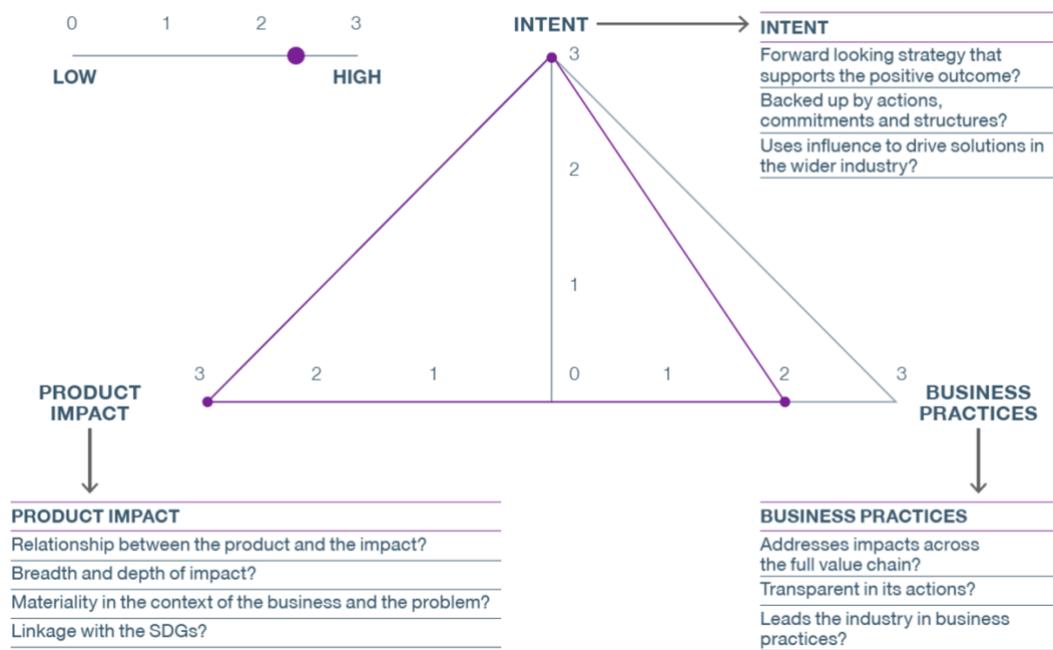


Source: Baillie Gifford.

As part of the research process applied to this portfolio, the team utilises traditional fundamental stock research as well as extensive impact analysis. The former is augmented by considerable ESG analysis which helps in identifying growth potential for a firm, as well as in identifying those companies which might pose a risk to generating durable returns.

The impact analysis, meanwhile, consists of looking for companies for whom “delivering a positive impact is core to their business; whose products and services represent a significant improvement to the status quo; and whose people conduct business with honesty and integrity”.

The framework for this impact analysis is underpinned by three components (intent, product impact, and business practices) and is illustrated as follows:



Source: Baillie Gifford

Key to this framework is that the team is trying to map the portfolio holdings back to a key structural sustainability framework: the UN Sustainable Development Goals (UN SDGs). Additionally, impact is further monitored through the "Positive Chain" which is a model illustrating how each company is contributing to positive outcomes and impacts through their inputs, activities, and outputs. A company which cannot provide meaningful metrics which illustrate these objectives will likely not be considered for the portfolio.

The team re-examines or reviews holdings on an ongoing basis, meeting regularly to discuss new ideas and the level of conviction in existing holdings at both the impact and investment level.

### Rating:



The internal and external reporting protocols for this fund are strong. Indeed, the claims made in the marketing literature are backed up with reports which illustrate the efficacy of the strategy with meaningful and comparable examples and data.

The annual Impact Report for this fund is particularly thorough. It outlines the portfolio composition within the fund's major themes and with each stock classified therein. Using the "Positive Chain" analysis every stock thesis is articulated and quantified within this framework. For example, within the "Environment and Resource Needs" objective, Ecolab's activities are stated (water treatment solutions), along with its outputs (articulated in terms of a client base e.g., clean water provided to 3 million customer locations), its outcomes (saving 780 billion gallons of water) and its impact (mapping to six UN SDGs).

Case studies are interposed throughout the Impact Report, providing further insight into the Baillie Gifford approach. These examples bring to life the working of the firm's stock selection process and emphasise the importance the impact thesis plays in the stock selection process.

An additional document, "Positive Conversations" is published as an adjunct to the Impact Report, which illustrates the engagement process outlining the results of Baillie Gifford's voting and advocacy activities in considerable detail. It also illustrates the carbon footprint of the fund via its individual holdings against the MSCI AC World Index.

Justification of Holdings:	Yes
ESG Report:	Yes
Engagement Report:	Yes – "Positive Conversations" document
Impact Report:	Yes
External Validation:	Yes - KPMG marked under assurance standard ISAE3000. KPMG has issued an unqualified opinion over the selected information in the impact report.

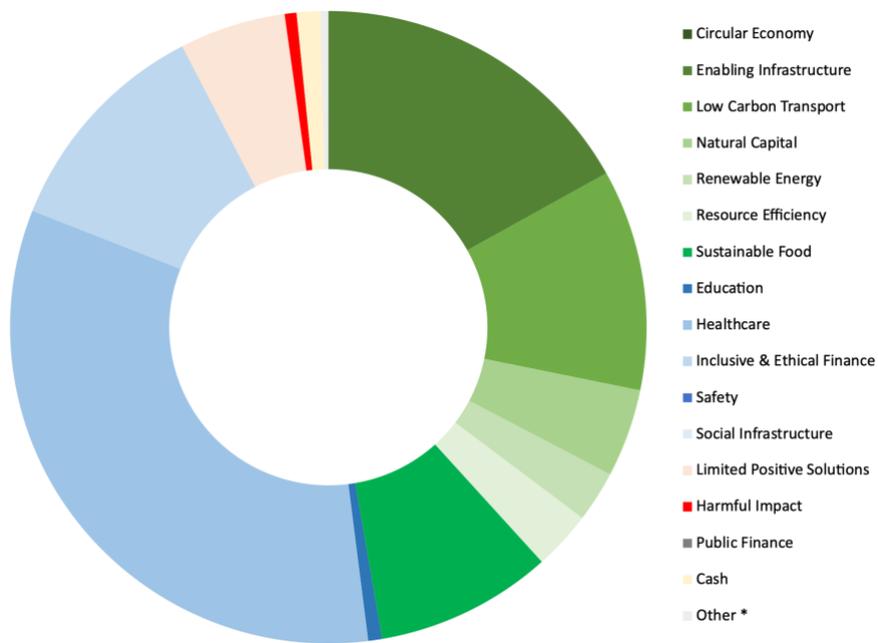
## INVESTMENT IN UN SDG SOLUTIONS

### Rating:

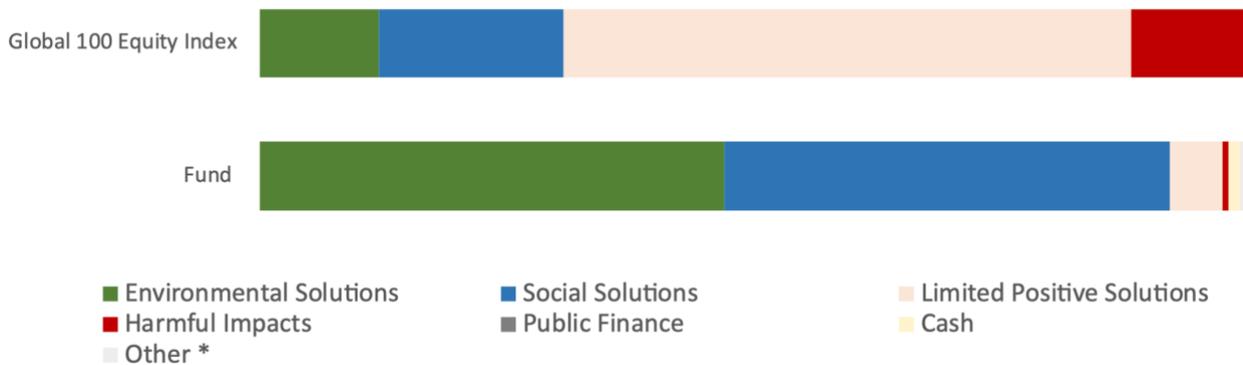
**3D Gold**

This is a portfolio with a stated objective of investing in companies which “challenge the status quo” in respect to social and environmental challenges. Given this and the fact that aligning the individual portfolio holdings to a specific UN SDG is incorporated into Baillie Gifford’s impact process, it should not be a surprise that we have mapped 94% of the portfolio to a specific positive solution.

The fund has a small amount of exposure to companies which represent “Limited Positive Solutions.” This exists for example, with some financials exposure. However, the managers are confident of the underlying thesis of each stock they hold.



Source: Baillie Gifford & Square Mile Research



Source: Baillie Gifford and Refinitiv

## AVOIDANCE OF CONTROVERSIES

### Rating:

**3D Silver**

Baillie Gifford states that ethical screening is part of the process within this fund but “not its primary focus”. The fund does employ high level exclusions, such as avoiding those companies that breach the UN Global Compact. However, as can be seen from the table below, this is not comprehensive. Nonetheless, by virtue of its impact objective and mandate, the fund is likely to avoid material levels of controversy.

It should be noted, however, that the fund does have exposure to some ethical controversies, several of which could be considered as critical. These include Alibaba which has exposure to gaming (it sells equipment used in lottery sales) and animal welfare (it sells fur products). Moreover, the fund’s largest holding, Tesla, has been involved in several high-level controversies around work conditions and supply chain issues. Another company Mercadolibre also has some exposure to animal testing.

### EXCLUSIONS

ADDICTION	Alcohol <input checked="" type="checkbox"/>	Gambling <input checked="" type="checkbox"/>	Tobacco <input checked="" type="checkbox"/>
ANIMAL WELFARE	Animal Testing (All) <input checked="" type="checkbox"/>	Animal Products <input checked="" type="checkbox"/>	Meat & Dairy Production <input checked="" type="checkbox"/>
ENVIRONMENT	Inorganic Fertilisers <input type="checkbox"/> Pesticides <input type="checkbox"/>	Mining <input type="checkbox"/> Tropical Forests <input type="checkbox"/>	Nuclear Power <input type="checkbox"/>
FOSSIL FUELS	Power Producers <input checked="" type="checkbox"/> Exploration & Production <input checked="" type="checkbox"/>	High Carbon Industries <input type="checkbox"/> Petrochemicals <input type="checkbox"/>	Distribution <input type="checkbox"/> Service Industries <input type="checkbox"/>
HUMAN WELFARE	Human Rights (Companies) <input checked="" type="checkbox"/>	Human Rights (Countries) <input type="checkbox"/>	Military Weapons <input checked="" type="checkbox"/>

## LEADING CHANGE – Engagement, Voting & Advocacy

Rating:



### Engagement

Baillie Gifford has a strong pedigree in engagement, stewardship, and advocacy in respect of RI. The Positive Conversations document outlines that in 2020 Baillie Gifford undertook 58 engagements with 28 companies held in the portfolio. It reports on all of these, and they ranged from preliminary discussions with management (“relationship building”) through to discussions with suppliers to better “understand” business operations as well as voting (“influencing”).

### Advocacy

Baillie Gifford is active in several high-profile organisations and collaborative institutions. Baillie Gifford also publishes thought leadership collateral as well as maintaining one of the most comprehensive impact reports in the marketplace.

### Voting

Baillie Gifford has a strong voting record and aims to participate in every voting opportunity. It generally tries to support company management when voting, but also maintains an open dialogue, as part of which the fund manager will raise any concerns and has on a small number of occasions voted against management (5% of votes in 2020). Each resolution is outlined in the Positive Conversations document.

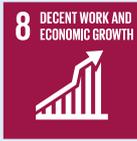
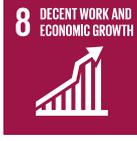
## Key Facts as of 31 December 2020

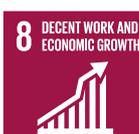
Manager	Kate Fox & Lee Qian
Launch Date	3/01/2017
Structure	NURS
Domicile	UK
ISIN Code	GB00BYVGKV59
Currency	£
Size	£ 1,989 million
Sector	IA Global
Benchmark	MSCI ACWI
Number of holdings	33
Ongoing Charges	1.0%

## IMPORTANT NOTES

### Avoiding Harm

Each stock in the portfolio undergoes a check against a comprehensive range of ethical issues that are considered to hinder the SDGs. The following are identified as controversial activities:

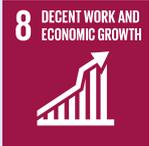
Controversy	Description	SDG Impact	Negative Contribution to SDGs
<b>Alcohol</b>	Production of alcoholic beverages	 3 GOOD HEALTH AND WELL-BEING	Low – as the product is widely used without addiction
<b>Animal Welfare</b>	Animal testing for pharmaceuticals, healthcare or cosmetics products; meat production	 3 GOOD HEALTH AND WELL-BEING	Low – this is an important issue for many people, but views are mixed and this is not directly addressed in the SDGs
<b>Armaments</b>	Weapons related contracts	 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	High – weapons directly lead to loss of life
<b>Business Ethics</b>	Breach of marketing codes; Aggressive business practice; Tax avoidance	 8 DECENT WORK AND ECONOMIC GROWTH	Low to High – depends on extent of issue and importance to the company
<b>Employment</b>	Zero hours contracts; child labour; Bad safety record	 8 DECENT WORK AND ECONOMIC GROWTH	Low to High – depends on extent of issue and importance to the company
<b>Finance</b>	Banks, insurers and investment companies with no exclusion policies on lending/investment beyond adherence to international norms and very limited issues.	 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Low (direct impact) – impact is indirect and impacts can be mixed with both positive and negative outcomes.
<b>Fossil Fuels</b>	Exploration and production of oil and coal; Exploration and production of gas	 13 CLIMATE ACTION	High- direct and major contribution to climate change.

Controversy	Description	SDG Impact	Negative Contribution to SDGs
<b>Gambling</b>	Gambling providers		High – gambling is highly addictive and detrimental to health and well-being
<b>High Carbon Users</b>	Carbon intensive industries including air transport, cement production, non-electric vehicle production and sale		High – these industries make a major contribution to climate change
<b>Intensive Farming</b>	Production of non-renewable agricultural inputs; Production of food involving intensive methods; Use of genetically modified organisms		Debatable – the definition of sustainable agriculture is flexible. Products that can be shown to harm wildlife have a high impact as do products based on non-renewable resources
<b>Mining</b>	Mining operations		Debatable but potentially high – Mining almost inevitably involves environmental degradation and there are also major human rights issues.
<b>Nuclear Power</b>	Production of nuclear power		Low – opinion is divided on nuclear power and it is seen as a positive in some quarters
<b>Power production and distribution</b>	Generation, wholesaling or distribution of power from fossil fuels		Low- impact is indirect and the companies can also have positive impacts
<b>Tobacco</b>	Manufacture of tobacco products		High – tobacco is a very addictive product and has very negative health impacts

## Investment in SDG Solutions

Each investment is assessed as to how its core product or service contributes to the SDGs. A threshold of 50% of revenues is applied, whereby a company is only considered to provide a solution to a social or environmental challenge if more than 50% of its revenues are derived from one or more of the listed solutions. The whole weighting of an investment is attributed to the solution from which the most revenues are derived. For example, if 2.45% of a fund is invested in Company A and Company A derives 45% of its revenues from healthcare and 20% from resource efficiency,

then 2.45% of the fund is regarded as contributing to healthcare. Each solution is mapped to the most appropriate SDG with solutions including the following:

Solution	Description	SDG alignment	
Circular Economy	Waste management and recycling, environmental consultancy, product manufacture with high recycled content		
Education, jobs and learning	Educational publishing, educational establishments, training		
Enabling infrastructure	Platforms and technologies that are key parts of moving to a sustainable world – e.g. electrical transmission networks, cloud infrastructure		
Healthcare	Medical Equipment, Pharmaceuticals, Health Services		
Inclusive and ethical finance	Microfinance, Sustainable Investment & Ethical Banking, Peer to peer lending, Municipal finance, inclusive payment systems		
Low carbon transport	Train & Tram operators, Bus & Coach operators, Bicycle manufacture, Electric Vehicles, Rail Infrastructure		
Natural capital	Water Supply & Sanitation, Water Filtration, Air Filtration, Forests		
Renewable energy	Solar, Wind, Biomass, Hydro		

Solution	Description	SDG alignment	
Resource efficiency	Energy Efficiency, Natural Resource Efficiency		
Safety & Security	Cyber security, building and automotive safety, food safety		
Social infrastructure	Social & affordable housing, Care Homes, Hospitals, Dental & GP Surgeries, Schools, Libraries & Universities, Police stations, law courts		
Sustainable food	Food storage, food safety, non-intensive farming, wholefoods, organic & high welfare food manufacture, precision agriculture		

## 3D Impact Ratings \*

The 3D Impact Rating can be thought of as an informed opinion based on detailed analysis of objective data. A holistic view is taken of the fund to arrive at an overall conclusion based on consideration of multiple factors, with funds of the same rating having different strengths and weaknesses. The rating is an expression of confidence in the social and environmental impact of the fund, with typical attributes (one factor may be partly compensated by another) including the following:

	<b>Avoid Harm</b> <i>Negative contribution to SDGs</i>	<b>Do Good</b> <i>Direct positive contribution to SDGs</i>	<b>Lead Change</b> <i>Indirect influence</i>
	No exposure to stocks that make a high negative contribution to SDGs	> 50% of fund invested in companies that make a positive contribution to SDGs through their core products and services	Some evidence of positive influence on investee companies
	No exposure to stocks that make a high negative contribution to SDGs	> 66% of fund invested in companies that make a positive contribution to SDGs through their core products and services	Some measurement of impacts and influence + evidence of engagement to raise standards on RI issues
	No exposure to companies which make a high negative contribution to SDGs. Any negative contributions to SDGs are minimised	> 90% of fund invested in companies that make a positive contribution to SDGs through their core products and services	Systematic measurement of impacts and influence + comprehensive engagement to raise standards on RI issues + participation in collaborative initiatives

\* For more details of the 3D process and methodology please visit <https://www.squaremileresearch.com/Our-services/Research/3D-Investing>

## Certification Rating Guidelines

	Gold	Silver	Bronze	Standard Not Met
<b>RI Capability</b>	Major resource (proportionate to size of organisation) including internal RI specialists; ability to produce detailed, granular RI reports and to make qualitative judgements.	RI Resource is significant and includes internal RI specialists and proprietary RI systems	RI resource is sufficient for effective delivery	RI resource is limited with a lack of senior level commitment.
<b>RI Strategy</b>	Sophisticated RI strategy which considers both the impacts of products and services of investee companies and their operational impacts; a clear engagement strategy; and a theory of change.	Rounded strategy which considers RI impact in terms of the operational practices of investee companies and of their products and services.	Clearly articulated RI strategy.	No clear strategy beyond ESG integration.
<b>RI Reporting</b>	Excellent standard of RI reporting with a high level of evidence. Typically, this would include impact and engagement outcomes.	Good standard of RI reporting which may include detailed carbon reporting, annual RI Review, Engagement Report and Impact Report.	Some systematic RI reporting.	No systematic RI reporting.
<b>Doing Good - Investment in SDG Solutions</b>	Systematic reporting of positive impacts, with >66% of the portfolio invested in social and environmental solutions.	> 50% of the portfolio is invested in social and environmental solutions.	Clear evidence of above average positive impact (operational practices or core products & services) when compared with the benchmark index.	No clear evidence of positive impact (operational practices or core products & services) when compared with the benchmark index
<b>Avoiding Harm - Controversy Avoidance</b>	No exposure to companies which make a high negative contribution to SDGs. Limited exposure to different types of controversy with indirect, debatable or low negative contributions to SDGs.	Exposure to multiple types of controversy with an indirect, debatable or low negative contribution to SDGs; or isolated exposure to companies that make a high negative contribution to SDGs. Stocks meet any stated exclusion criteria.	Exposure to stocks that make a high negative contribution to SDGs, but meet stated exclusion criteria.	Stocks do not meet stated exclusion criteria and have significant exposure to stocks that make a high negative contribution to SDGs.
<b>Leading Change – Engagement, Advocacy &amp; Voting</b>	Clear targets and systematic reporting of success on engagements with significant E & S component; Rationale for voting published; companies informed of reasons for voting against or abstaining; Leadership in educative, promotional or collaborative RI initiatives	Systematic engagement with an Intention to influence for benefit of wider stakeholders; Some evidence of E & S in voting policy; Extensive participation in educative, promotional or collaborative RI initiatives	Systematic engagement with evidence of wider stakeholder benefits; Full disclosure of voting; Participation in educative, promotional or collaborative RI initiatives.	Engagement lacking evidence of wider stakeholder benefits or systematic reporting; Voting not undertaken for ALL shares, or incomplete reporting on voting; No promotion of RI or participation in collaborative initiatives.

### **Important Information**

This Fund Profile is aimed at professional advisers only and should only be relied upon by such persons. It is published by, and remains the copyright of, Ethical Money Limited ("EM") which operates under the trading name 3D Investing. Unless agreed by EM, this commentary is only for internal use by the permitted recipients and shall not be published or provided to any third parties. EM makes no warranties or representations regarding the accuracy or completeness of the information contained herein. This information represents the views of EM at the date of publication but may be subject to change without reference or notification to you.

The value of investments in funds can fall as well as rise, as can any income payment received from an investment. Any information relating to past performance is not a guide to future performance. If you are unsure of any investment decision you should seek professional financial advice.

EM does not offer investment advice or make recommendations regarding investments and nothing in this factsheet shall be deemed to constitute financial or investment advice in any way and shall not constitute a regulated activity for the purposes of the Financial Services and Markets Act 2000.

This fund profile shall not constitute or be deemed to constitute an invitation or inducement to any person to engage in investment activity. Should you undertake any investment activity based on information contained herein, you do so entirely at your own risk and EM shall have no liability whatsoever for any loss, damage, costs or expenses incurred or suffered by you as a result. The fund's prospectus provides a complete description of the risk factors. Unless indicated, all figures are sourced from FE fundinfo. EM does not accept any responsibility for errors, inaccuracies, omissions or any inconsistencies herein.

This fund profile has been approved by Square Mile Investment Services Limited, which is authorised and regulated by the Financial Conduct Authority under Firm Reference Number 625562.

