

3D Fund Profile:

Baillie Gifford Positive Change

December 2021



3D Rating:



3D Fund Classification: Impact

The managers of this fund demonstrate a clear intent to make a wider positive social or environmental impact, substantiated by investment in companies providing solutions to social and environmental challenges through their core products and services, with evidence provided of the social and environmental impact.

Fund Summary

Baillie Gifford has a history dating back to 1908 and is a champion of long-term, engaged investing. The Positive Change Fund builds on this strong heritage and is a high conviction, concentrated portfolio, with its credentials further supported through thoughtful and detailed impact reporting that goes beyond outputs to look at outcomes and impact. We believe 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 therefore justifies its status as a Gold-rated fund.



Key Facts as at 31/12/2021	
Manager	Kate Fox & Lee Qian
Fund's objective	To outperform (after deduction of costs) the MSCI ACWI Index, as stated in sterling, by at least 2% per annum over rolling five-year periods.
Launch date	03/01/2017
Structure	OEIC
ISIN code	GB00BYVGKV59
Currency	£
Size	£3.24 billion
Sector	Global
The fund's official benchmark	MSCI ACWI Index
3D benchmark	Global 100 Equity Index
Number of holdings	33
Ongoing charges	0.53%

Source: Baillie Gifford & Square Mile Research

RI Approaches Employed:

Ethical Exclusions



Avoids industries and company practices that cause harm to people or the planet.

Responsible Practices



Considers the operational practices of investee companies and supports 'best practice' in their respective industries, and may encourage them to improve their environmental and social performance.

Sustainable Solutions



Seeks to invest in companies that are providing solutions to social and environmental challenges through their core products and services in the belief that this will realise long-term financial benefits.

Impact



Clear intent to make a wider positive social or environmental impact, substantiated by investment in companies providing solutions to social and environmental challenges through their core products and services, with evidence provided of the social and environmental impact.

Engagement



The fund manager seeks to raise standards on environmental, social and governance issues through dialogue with investee companies; or by participating in collaborative initiatives with other stakeholders.

The Baillie Gifford Positive Change Fund is a global equity strategy which aims to “deliver a positive change by contributing towards a more sustainable and inclusive world”.

The fund is invested in companies that provide demonstrable solutions to a social or environmental challenge as a core part of their businesses, 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 objectives are further underpinned by the belief that “purpose complements profits”. What this ultimately means is that businesses addressing social and environmental challenges will benefit from improving revenues and profitability driven by growing demand for their products and services. Therefore, this fund is constructed to maximise exposure to meaningful and quantifiable solutions to the world's pressing environmental and social problems.

In defining the fund's investable universe, the managers select from a pool of roughly 9,000 globally listed equities with a minimum market capitalisation of US\$1 billion. Companies must also demonstrate a potential to grow their underlying businesses, as well as making a significant contribution to one of four key thematic challenges that the managers have identified:

- 1- Social inclusion and education: relating to fixing income and wealth inequality
- 2- Environmental and resource needs: relating to mitigating the damaging effect of human activities on the environment
- 3- Healthcare and quality of life: relating to healthcare inequalities
- 4- Base of the Pyramid: creating equal opportunities for the economically disadvantaged

Eligible companies are assigned to one of these four themes based on the outcome of extensive analysis in the form of company meetings, proprietary and third-party research and the input of internal investment teams, as well as the Governance and Sustainability team.

Indeed, each prospective company is subject to what the team refer to as fundamental company analysis and impact analysis. The former focuses on identifying the quality of the business using traditional equity analysis, such as focusing on the quality of the business in question in terms of competitive advantage, financial characteristics and management approach.

In contrast, the Impact Analysis seeks to determine the impact that the company's product or service has, the intentionality of any positive outcomes and the quality of the business' practices from a Responsible Investment (RI) perspective.

The output of this process is a refined universe from which the managers construct their portfolio. Decisions around portfolio construction lie jointly with the two managers, supported by two senior impact analysts. Each investee company will be subject to continuous monitoring and engagement in order to mitigate RI risk and drive impact.

Each company is assigned a bespoke metric whereby its impact is modelled within Baillie Gifford's proprietary Positive Chain framework, which illustrates how each company is contributing to positive outcomes and impacts through their inputs, activities, and outputs. These activities are reported in the fund's Annual Impact Report, alongside information detailing how the fund maps to the UN Sustainable Development Goals, footprinting and impact outcome data and engagement data.

An additional document, “Positive Conversations” is published as an adjunct to the Impact Report. This document illustrates the engagement process and outlines the results of Baillie Gifford's voting and advocacy activities in considerable detail. It also illustrates the fund's carbon footprint at the individual level against the MSCI AC World Index.

The managers of this fund select companies which are leaders in their delivery of positive solutions across a myriad of sectors and industries. The close-to-equal split between the overarching environmental and social solutions themes seen in the bar chart below can be viewed as evidence of this balanced approach taken by the managers. Our analysis reveals a large allocation towards high impact positive solutions such as, amongst others, healthcare, which will include companies delivering healthcare services or the manufacturing of medical equipment, and low carbon transport, which will include companies involved in the production or proliferation of mass transit solutions or the reduction of greenhouse gas output. Given the managers' ambition for this fund is to "deliver a positive change by contributing towards a more sustainable and inclusive world", large allocations towards themes such as these can be seen as a true vindication of the managers delivering on their stated RI objectives.

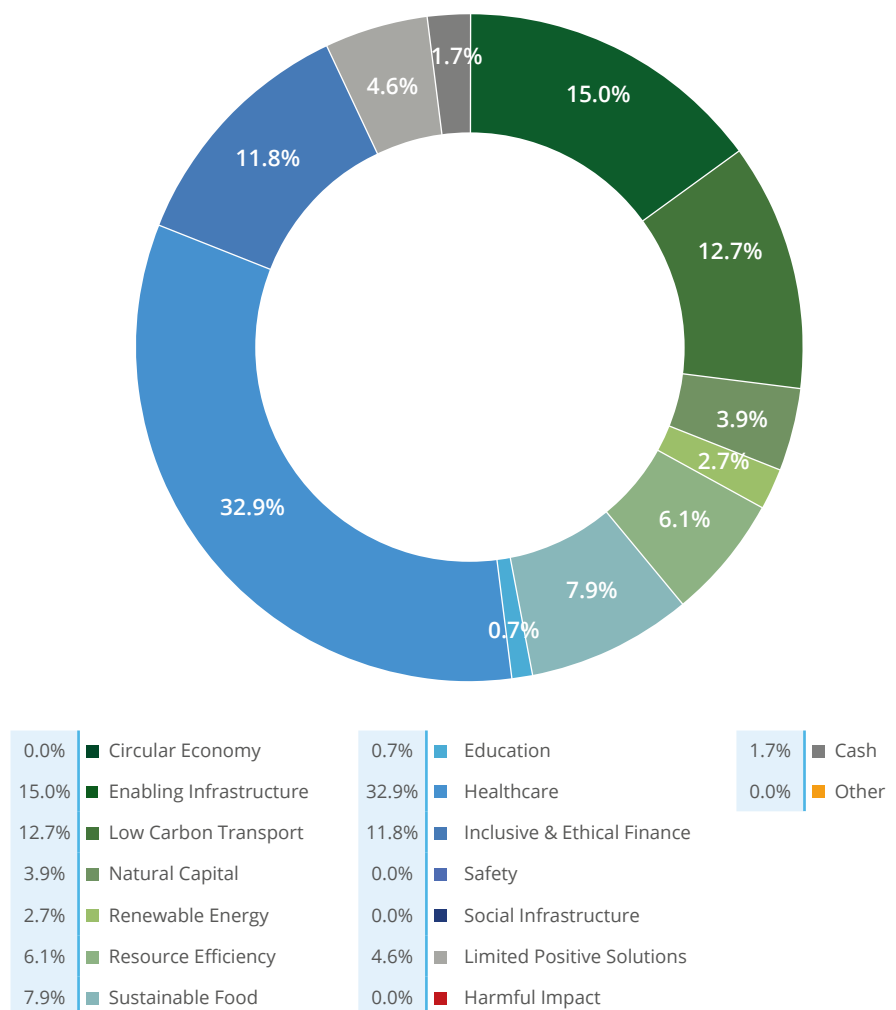
Baillie Gifford Positive Change

Global 100 Equity Index

UN SDG	Impact Outcomes per £1m invested
6 CLEAN WATER AND SANITATION	Saved a total of 1.2 trillion litres of water
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Delivered mobile and digital services to at least 1 billion people Provided online marketplace access for over 13 million merchants Provided access to financial services for 1.5 billion people Processed financial transaction worth over \$237 billion
11 SUSTAINABLE CITIES AND COMMUNITIES	Saved 260,000 tonnes of waste
15 LIFE ON LAND	Supported the adoption of sustainable farming practices of 233 million hectares of land
13 CLIMATE ACTION	Saved 70 million tonnes of carbon dioxide
3 GOOD HEALTH AND WELL-BEING	Contributed to disease prevention for 540 million people Enabled 4.8 million people access to healthcare Provided disease management solutions to 1.7 million people Facilitated 10.9 million telehealth visits



Source: Baillie Gifford & Refinitiv Holdings as at December 2021



Source: Baillie Gifford & Square Mile Research Holdings as at December 2021

Controversial Activities Exposure

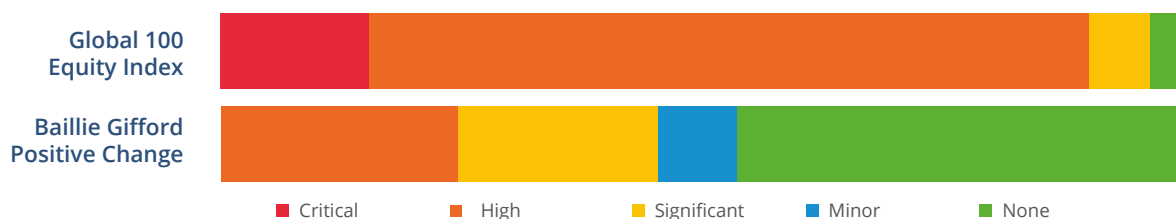
By virtue of the managers' strategy to pick stocks which most effectively deliver positive impact, the inclusion of a robust negative screen (which is quite typical of funds in this space), is less relevant. The investment team is mandated to conduct extensive due diligence on any company which derives more than 5% of its revenue from alcohol, gambling, tobacco, animal testing, fossil fuel exploration and power production as well as military weapons. However, the team does not specifically exclude such companies as it is highly unlikely that they would invest in businesses with these exposures unless the impact justification was outstanding. Companies must also comply with the International Labour Organisation Standards in respect to child labour.

Nevertheless, the portfolio has small exposures to clinical animal testing through companies such as DexCom Inc. and Ecolab Inc.; to animal welfare concerns through Mercadolibre Inc. at Alibaba Group Holding Ltd.

Controversial Practices Exposure

Controversial Practices analysis allows us to assess the strength of the fund manager's analysis towards mitigating ESG risks within a company's operations. If a fund is flagged as having exposure to more serious controversial practices, it indicates that there may be issues with how the companies are being managed. We would anticipate that RI funds would have less exposure to these types of companies. The managers of this fund have achieved this, notably in relation to the level of critical controversies versus the 3D benchmark and also the number of companies with no controversies associated with them at all. A clear indication that the team's Impact Analysis, which includes an assessment of the quality of a business's practices, is both effective and robust.

Controversial Practices Breakdown



Holdings as at December 2021, Source: Baillie Gifford.
Controversial Activities and Practices Data Source and classifications: Moody's ESG

Exclusion Criteria Applied by the Fund Manager

Addiction	Animal Welfare	Environment	Fossil Fuels	Human Welfare
Alcohol Gambling Tobacco	Animal Testing Animal Products Meat & Dairy Production	Inorganic Fertilisers Pesticides Mining Tropical Forests Nuclear Power	Power Producers Exploration & Production High Carbon Industries Petrochemicals Distribution Service Industries	Human Rights (Countries) Human Rights (Companies) Military Weapons

Source: Baillie Gifford.



Micro Engagement (Engagement with Investee Companies)

Across the year leading up to September 2021, the team engaged with 29 of the 33 companies then present in the portfolio, across 63 separate engagement opportunities. Of these, 33 engagements related to environmental and social factors, while 30 related to governance. These engagements are detailed in Baillie Gifford's Positive Conversations document, outlining the rationale and outcome of all engagements undertaken.

Macro Engagement (Advocacy)

Baillie Gifford are active in the proliferation and promotion of Responsible Investing principles. For example, in 2020, representatives of the group spoke at 28 separate events relating to impact investing and best practice. Moreover, the group is an active member of a variety of pan-industry initiatives, which aim to drive the adoption of better governance principles, better approaches to disclosure and the adoption of responsible investing principles, to name but a few. The complete list of memberships can be found below.

Affiliated Memberships and Initiatives

Pensions and Lifetime Savings Association, UK Corporate Governance Forum, International Corporate Governance Network, UK Sustainable Investment & Finance Association, Extractive Industries Transparency Initiative, Carbon Disclosure Project, Asian Corporate Governance Association, UN Global Compact, UN Principles for Responsible Investment, UK Stewardship Code, Japan Stewardship Code, Investor Forum, Council of Institutional Investors, Institutional Investors Group on Climate Change, Global Impact Investing Network, Investor Stewardship Group, Focusing Capital on the Long Term, European Fund and Asset Management Association Stewardship Code, Global International Governance Network, Task Force on Climate-related Financial Disclosures, Farm Animal Investment Risk and Return, UK Centre for Greening Finance and Investment, Task Force on Nature-related Financial Disclosures, Sustainability Accounting Standards Board

Voting

All shareholder votes undertaken relating to companies held within the portfolio, the rationale behind them, as well as a summary of the outcome (where applicable) is provided in the aforementioned Positive Conversations document.

In the 2020/2021 financial year, 341 votes were cast at 36 shareholder meetings. The team votes directly rather than through a proxy service, and due to the managers only picking what they perceive to be the best stocks from an impact perspective, it has only been necessary to vote against company management on one matter relating to environmental concerns, and none on matters pertaining to social issues. We are pleased with the transparency with which the voting is reported and with the fact that the team will notify company management vis a vis the reason behind any votes against them.

Important Information

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