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# SUSTAINABLE GROWTH – MANAGER INSIGHTS

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Toby Ross and Katherine Davidson, managers of the Sustainable Growth Strategy, share details about the guiding principles of how they invest

*As with any investment, capital is at risk.*

*This communication was produced and approved in January 2023 and has not been updated subsequently. It represents views held at the time and may not reflect current thinking.*

**Toby Ross (TR):** Hello, I'm Toby Ross, and I'm here today with my colleague Katherine Davidson, and we're here speaking as managers of Baillie Gifford's Sustainable Growth Strategy.

Now, before going on to talk a little bit more about the strategy, I'd like to just start by saying a little bit about who we are. So, I joined Baillie Gifford in 2006, and I've spent most of the last ten years working on one of Baillie Gifford's other global equity strategies.

What drew me to take on the role leading the Sustainable Growth team is that I think there's a real challenge that many of our clients and many investors are grappling with today.

They need two things. On the one hand, they need broad, well-diversified portfolios that can help them meet their long-term needs, but they need them to be sustainable in both senses of the word.

So, able to deliver on their long-term needs for growth, but also helping to make the world a better place. I think that, given our time horizon, Baillie Gifford should be really well placed to deliver a strategy like that, and I'm very excited to be taking on the role.

**Katherine Davidson (KD):** And for my part, I joined Baillie Gifford in 2022 and the industry, slightly after Toby in 2008.

And what drew me to Baillie Gifford and, in fact, to Scotland, was the opportunity to build on my previous experience where I'd been developing and managing a strategy with a very similar ethos to Sustainable Growth, and to do it at a firm where the culture, the values, the long-term approach are really well aligned with sustainable investing.

So, I'm excited to be working with a passionate and committed team of people to build a strategy that we can all be proud of.

But now to why we're here today. Now, we've found in our research that the best companies we buy for clients are usually those that start with a strong sense of purpose.

So, that's what we're trying to do as well. We've written our Owner's Manual, which lays out our guiding principles for how we're going to run Sustainable Growth, and we'd like to share some details of that with you today.



**TR:** Now, there are many different definitions of sustainability, and it's very easy to get tangled up in jargon and acronyms about ESG, responsible investing and the like.

We try to take a step back, and we start with two core investment beliefs. Firstly, in our experience, the best investments tend to be in companies which are able to sustain high levels of growth for a genuinely long period of a decade or more.

Doing that's hard, but when you find them, they can be really fantastic investments.

Secondly, in our view, sustainability is about companies that make a difference to society. That make the world a better place. In our view, there are two ways that companies can do that.

They can do it through their products and services, so think of the company developing transformative medicines or helping customers to reduce their emissions in a really material way.

But equally, we think companies can also make a difference through their business practices, ie, through how they do it, through choices and behaviours that they make.

So, think of a company that's found a pioneering way to reduce the emissions from its supply chain and that helps show the path that others can follow to address that challenge in a meaningful way.

So, we've got two lenses. We're looking for companies that make a difference through what they do, or through how they do it. And we're trying to bring it back to those two core beliefs around finding really long-term growth companies that make a difference. Enduring growth that delivers enduring good.

**KD:** And at this point, I think it's really important to pause and explain why we think this delivers value for shareholders and our clients. Now, we often get asked whether there is a conflict or a trade-off between doing what's good for shareholders and what's good for society.

And we can see why, because things like investing in reducing your emissions or paying your workers more will inevitably eat into your short-term profitability.

But, and this is a really important and exciting point, we think, over the long term, these two objectives should be completely aligned.

So, when you think about business practices, for example, a company that has good relationships with its customers, its employees, its suppliers, that company, in the long term, will be able to attract and retain the best talent, command customer loyalty and build a really resilient supply chain.

All of that reinforces its competitive advantage and ability to grow and succeed over the long term. And it'll also be less likely to experience things like adverse regulation and other controversies that might destroy shareholder value.

And then, on the other side, as a company grows and becomes larger, it gains influence within its industry, and its ability to make a difference in wider society expands.

So, you can see, over a long enough time horizon, you get this virtuous circle emerging, whereby what's good for shareholders is what's good for society.

**TR:** Now, the challenge is that most investors don't stick around for long enough to see the benefits of that virtuous circle playing out in reality. Attention spans are getting shorter, and we know that holding



periods are often measured in months rather than years.

And I think that's where our long-term time horizon can really play to our and our clients' advantage. When we invest in a company, we do so in the expectation that we'll still be invested in five or ten years.

Our aim is to find those great companies and then get out the way and let the magic of compounding do its work. That long-term time horizon also leads to a different way of thinking about ESG.

The industry today is increasingly focused on minimum standards, on box-ticking, on disclosure. In our view, if what you're looking for is companies that are making a difference, then often they're going to be doing things differently.

So, what we're looking for in our sustainability research is to find those companies that are approaching a challenge in a different way. That requires a more imaginative and forward-looking approach to analysis.

**KD:** Admittedly, this is a road less travelled, but we think it'll make our journey more meaningful and more rewarding for clients. We're really excited by the work we've been doing and the insights that are coming out of our new framework, and we're looking forward to discussing that with you further.

So, please do check out our Owner's Manual on the Sustainable Growth website.

**TR:** And, please, look out for future updates from the Sustainable Growth team.

**KD:** Thank you.

**TR:** Thank you very much for watching today.

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