BAILLIE GIFFORD | *Positive Change*

Impact measurement methodology

June 2021

Risk factors

The views expressed in this article are those of the Positive Change team and should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect personal opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication was produced and approved in June 2021 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

Potential for profit and loss

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

Stock examples

Any stock examples and images used in this article are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style.

This article contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

This document details the methodology we use to analyse and report on the positive impact associated with the Positive Change strategy. The sections that follow explain how we analyse the potential impact of a company, how we report on this impact in our annual Positive Change Impact Report and how we collect and calculate headline impact data.

We continue to evolve our approach and to engage with the companies in the portfolio to encourage them to do the same.

Analysing and reporting on impact

The Positive Change team take a positive and proactive approach to impact investing with our two equally important objectives: to deliver attractive investment returns and to contribute towards a more sustainable and inclusive world. We aim to support companies making decisions and taking actions that will be beneficial for their business, society and the environment in coming years and decades.

We believe that reporting on impact is fundamental to Positive Change. We aim to be as robust and transparent as possible in our approach to reporting on our second objective 'To contribute towards a more sustainable and inclusive world'.

Analysing and reporting on positive impact is not easy: impact will not always be quantifiable (and nor should it be); different companies have different impacts, and there is currently little in the way of standardisation for how companies should report on how they impact people and the planet. To allow the reader to understand our approach to reporting on our second objective, we have explained below how we analyse the potential impact of a company.

Our approach to impact analysis is based on robust, bottom-up research that is independent from, but complementary to, the investment analysis. We only hold companies in the portfolio for the impact their core products and services can deliver, but we analyse all aspects of a business before making an investment. We have developed a qualitative framework to allow us to independently and consistently assess and compare how companies are driving change based around three components:

Products and services

All the companies in the portfolio are there because their products and/or services address a global environmental or social challenge and are improving the status quo. Our assessment of product impact considers the relationship between the product and the problem; the breadth and depth of the impact; and the materiality of the product or service, both in the context of the business and the challenge.

Intent

Understanding a company's intent towards delivering positive change can help us to understand how likely it is that the company will deliver on the expected impact. Here we consider a company's mission and how it is implemented; its strategy, actions, commitments and structures; and influence in the wider industry.

Business practices

Understanding a company's business practices helps us to determine whether it can achieve sustainable growth. Here we look at a company's actions across the full value chain and its relationship with all stakeholders.

Our impact analysis supports a holistic assessment of companies. We learnt in the very early stages of developing Positive Change that there is no perfect company. There is also no easy way to sum and 'net off' those different positive and negative impacts – they often occur across multiple timeframes, with different stakeholders and, where they are possible to measure (and many aren't), they are not always quantified consistently. Companies will make it into the portfolio where we believe, based on thorough fundamental analysis and professional judgement, that the overall impact is more positive than negative.

Companies in the portfolio are organised into four themes which represent key global challenges. These themes are: Social Inclusion and Education; Environment and Resource Needs; Healthcare and Quality of Life; and Base of the Pyramid. Our impact analysis drives our inclusion of a company in the Positive Change Fund, and the key outcomes and impacts are reported on an annual basis in the Positive Change Impact Report.

Positive change impact report

In our Positive Change Impact Report, the output of our impact analysis is summarised for each company in the portfolio individually (both positive and negative). Although we publish our Impact Report annually, we think impact can only truly be measured over the long term, which we define as five years and beyond.

Within the Impact Report we disclose impact at a company and portfolio level:

— The Positive Chains show how each company is delivering positive change through its products and services. We do not include positive or negative impacts from the business practices (how the companies operate) in the Impact Report as we report on this separately in our annual ESG report Positive Conversations. Further detail is provided in the 'Business Practices Reporting' section of this document.

— The Portfolio Snapshots: Headline Impact Data show aggregated data to illustrate how the portfolio holdings are contributing towards delivering positive change.

— The Portfolio Snapshots: Significant SDG Contributions show which companies contribute to the UN SDGs. Our explicit aim is to identify and hold companies for their positive contributions. Accordingly, the number of holdings we found to be making a significant negative contribution to the SDGs through their products and services is less than those holdings making positive contributions.

The methodology we use to report on the above is detailed below.

Demonstrating company level impact through the positive chain

We demonstrate how companies in the portfolio are addressing the themes through a Positive Chain. Our Positive Chains are based on the Theory of Change, a methodology where identified change is mapped out with outcomes shown in relation to each other chronologically. Our Positive Chains show how each company is delivering change through its product and services and have five components to help illustrate how the holdings are delivering positive change:

— Inputs (the resources used by the company, e.g. financial capital, human capital);

— Activities (the use of inputs or other actions to produce outputs);

— Outputs (the production or delivery of products or services to beneficiaries);

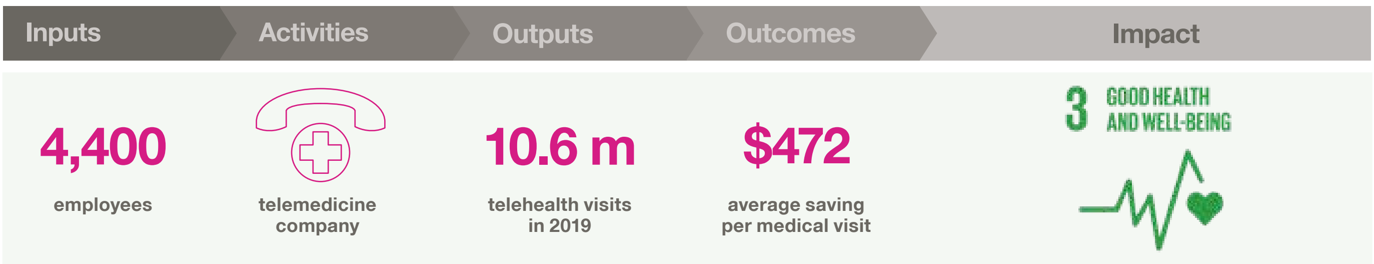
— Outcomes (short-term changes as a result of those activities and outputs); and

— Impacts (system-level changes expected to happen owing to the company's activities and outputs).

Further information on how we collect our company data contained within the Positive Chains can be found below in the 'collecting company data' section.

Under the impact column we highlight the U.N. Sustainable Development Goals that each company is contributing towards through its products and services. Further detail is provided in the 'Significant SDG Contributions' section of this document.

A simplified example of a Positive Chain based on Teladoc which is owned in the portfolio:



As at 31 December 2020. Teladoc Annual Report and Financial Statements.

How we collect and calculate our headline impact data

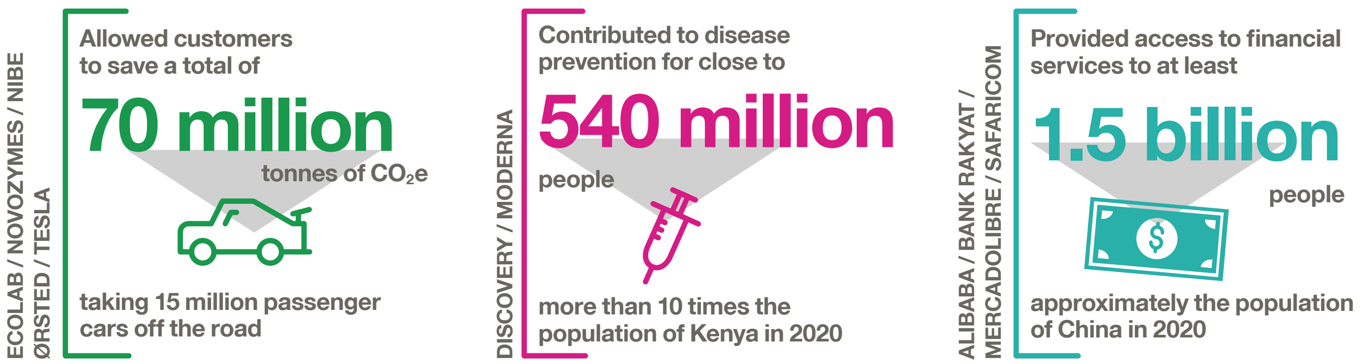
Collecting company data

- We collect data from each of the companies held in the Positive Change strategy on what their impact is at the end of their fiscal year[1]. For those holdings that have been in the portfolio for less than the full year, no attempt has been made to pro- rate and therefore we include the full year of impact.
- We try to pick just one or two of the most relevant metrics for each company and this data varies. Metrics are guided the four impact themes which represent key global challenges. For example, we would report on CO2 emissions saved for a green energy provider in the Environment and Resource Needs theme, or patients treated for a healthcare company in the Healthcare and Quality of Life theme.
- We only include data that relates to positive impacts from the products and services of the companies held in the portfolio (so what they do or sell). We do this to be rigorous and conservative with our reporting. We do not include positive or negative impacts from the business practices (so how the companies operate) in the Impact Report as we report on this separately in an annual ESG report Positive Conversations. Further detail is provided in the 'Business Practices Reporting' section of this document.
- The way in which companies measure and report is not always uniform so as well as obtaining this data from company reports we also engage with companies to understand how they have compiled the data.
- Where information is not available to calculate impact, we do not estimate a company's contribution and so we believe our impact figures are conservatively calculated. Through proactive engagement we hope the gaps in this data will diminish and consistency in reporting will increase over time.
- In some instances, we use the most recent company reported data to calculate outcomes, for example with Tesla. Our estimate for GHG emissions from cars is based on lifecycle emissions saving of 285gCO2e/mile x 12000 miles per annum driven x 499647 cars delivered. Average lifecycle emissions for a Model 3 in the US (personal use, grid charged) is about 175gCO2e/mile compared with a ICE at about 460gCO2e/mile. This suggests a saving of about 285gCO2e/mile (460gCO2e – 175gCO2e). Note these figures are taken from a graph on p8 of the Tesla 2019 Impact report. 12,000 miles per annum taken from p.8 of Tesla's 2019 impact report. Car deliveries from p.31 of 2020 10K.
- Data for CO2 emissions saved is based on company reporting, which is either in CO2 or CO2e; the aggregate data is presented as CO2e as this is the most conservative approach.
- Data in the report is based on companies' publicly reported data for the financial year 2020 (if reported before 11 June 2021) or through company engagement, unless indicated otherwise.
- Healthcare companies tend to report cumulative data, and therefore data related to healthcare services is presented to date, covering multiple years.
- It is important to note that this data is for the overall companies. We are not trying to factor in the specific ownership stake in the companies held by Positive Change clients.

Calculating the headline impact data

- Where companies report on relevant data, we add this together to provide Headline Impact Data for Positive Change overall.
- As we note above, if a company does not report a figure that can be verified, we do not include any contribution in these headline statistics. We believe this provides a conservative estimate.

In 2020, through provision of products and services companies are estimated to have:



[1]Our impact report collects data from the full, prior fiscal year. Note that companies will pick slightly different fiscal year end points e.g. some companies have a December Fiscal Year end, whilst for others it is March.

How our impact indicator works

- We take the overall impact data we have collected for the companies in the portfolio. The data for each company is divided by its market capitalisation (the total value of the listed shares of a company) in US$. This figure is then multiplied by the percentage weighting of that company in the representative portfolio (all as at end December 2020).
- We aim to factor in ownership stakes using our Positive Change Impact Indicator.
- To calculate individual investments in our Impact Indicator, the figure is pro-rated again for the value entered and converted into the relevant currency. For example, owning US$1 million of the Positive Change strategy during 2020 was associated with:

ECOLAB / NOVOZYMES / NIBE
ØRSTED / TESLA

Avoided a total of
71
tonnes of CO_2e

DISCOVERY / MODERNA

Contributed to disease prevention for close to
611
people

ALIBABA / BANK RAKYAT /
MERCADOLIBRE / SAFARICOM

Provided access to financial services to at least
168
people

- To illustrate, Safaricom, a company in the portfolio, enabled 4.8 million people to send, save and spend money on healthcare services Using the impact formula, we can establish the impact associated with a particular ownership stake in that company through investing in Positive Change:

$$\left(\frac{\text{Impact Reported}}{\text{Market capitalisation (US\$)}} \times \text{\% of fund weighting}\right) \times \text{value entered} = \text{associated impact}$$

$$\left(\frac{\text{4.8 million}}{\text{12,572 million (US\$)}} \times 0.61\%\right) \times \text{1 million} = \text{enabled 2 people to send, save and spend on healthcare service}$$

A few important notes:

- The impact is generated by the companies rather than individual investments. As long-term providers of capital, the Positive Change strategy aims to support these companies to improve their product(s) or service(s) as well as their business practices, to create a more sustainable world for future generations. However, while increasing an investment in the strategy increases your stake in the companies, it does not actually lead to an increase in the overall impact the company would have delivered last year. For more information on this, please see The Capital Chain section below.
- Our reporting year is dated from 1 January 2020 to 31 December 2020, and we report on all companies held as at 31 December 2020.
- For those holdings that have been in the portfolio for less than the full year, no attempt has been made to pro-rate the contribution and therefore we include the full year of impact. However, as we have a long-time horizon and aim to invest in our holdings for 5–10 years on average, portfolio turnover is low.
- Where we have divested a holding in the reporting year, we do not include the impact of that business.
- Headline Impact Data, while providing an indication of the impact of the portfolio, is vulnerable to inconsistencies. These can be caused by underlying assumptions. How companies measure and report is not always uniform and, in some cases, requires conversion to allow for aggregation across the portfolio. For example, converting Ecolab's reported energy saved from BTU (British Thermal Unit) to Co2e.
- If a company does not report a figure that can be verified, we do not include any contribution within the Headline Impact Data snapshot; as such, we believe this provides a conservative estimate.

Significant SDG contributions

All companies in the Positive Change portfolio contribute to the U.N. Sustainable Development Goals (SDGs). We take a rigorous approach to SDG mapping, identifying the SDGs that companies contribute to through the delivery of their products and services, at the target level (the SDGs have 169 underlying targets). This ensures that companies are genuinely addressing the changes needed to deliver the goals, rather than merely aligning with one of our four themes at a superficial level.

We do not consider alignment to the Goals through business practises as this is not the reason companies are held within the portfolio. For robustness and consistency we undertake the SDG mapping independently of company reporting. The linkage between each company's impact and the SDGs is shown in the Positive Chains, and at aggregate level across the whole portfolio in the Portfolio Snapshots, as both detailed earlier.

Our explicit aim is to identify and hold companies for their positive contributions. Accordingly, the number of holdings we found to be making a significant negative contribution to the SDGs through their products and services is less than those holdings making positive contributions.

✔ Addressed by companies in the Positive Change portfolio as at end Dec 2020.

Images: © United Nations Department of Public Information. Based on the Positive Change team's views.

Independent verification – positive change impact report

The Positive Change team seek independent limited assurance over aspects of the Positive Change Impact Report. We engage KPMG LLP annually seek Limited Assurance over Selected Information contained within the Positive Change Impact Report under International Standards on Assurance Engagements (UK) 3000 - 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' ('ISAE (UK) 3000'). Please see the most recent Positive Change Impact Report for the full opinion on the most recent reporting year.

We hope that the limited assurance provided by KPMG LLP provides clients and prospective clients with comfort that way in which we report impact, and the underlying data we use, are robust.

Business practices reporting (covering ESG issues)

We publish Positive Conversations, which is an accompaniment to our annual Impact Report using a different, but equally important, lens to look at the contribution of the Positive Change portfolio to society. The Impact Report focuses on the impact of the products and services of the companies in the portfolio, whereas Positive Conversations looks at the business practices (ESG) of these companies, essentially how they operate and behave. It also details our engagement, or positive conversations, with management teams as we seek to support and influence companies over the long term.

Positive Conversations includes information on key Environmental, Social and Governance issues such as carbon footprint, labour and human rights practices and board composition, as well as important information on company engagements and proxy voting. A copy of this document can be obtained on our website.

We produce separate reports because it is important to distinguish between business strategy (products and services) and business practices (ESG). While companies make it into our portfolio based on the impact from products and services, we aim to own shares in exceptional companies that operate with honesty and integrity, that treat their stakeholders well, and are leaders within their respective areas. We believe our bespoke approach will lead to more interesting and effective conversations and actions over time.

The Capital Chain

We hold shares in companies who have publicly listed shares. What does this mean for where your money goes?

You invest in Positive Change

If the company's shares have been listed for some time, we buy shares on an exchange from a third party (not from the company directly).

Or

If the company is listing its shares on an exchange for the first time via an Initial Public Offering (IPO) then we buy shares from the company directly.

For context, so far we have participated in 3 IPOs since the strategy's inception in 2017.

IN BOTH CASES

The Positive Change Strategy holds shares in the companies listed in the portfolio. These companies will have lots of shareholders. Together, shareholders are the owners of the business.

Part ownership of the business means that we, on your behalf, have the right and the responsibility to engage with management teams on important topics about how the business is run.

Supportive long-term shareholders can also perform other important functions:

- Not selling shares and supporting company management during periods of short-term pressure from other stock market participants can help them realise long-term strategy.
- At times companies may need to raise more money from their existing shareholder base. As long-term shareholders we can choose to support these capital raisings. In these cases we would be providing capital directly to companies.

IN TIME

We may choose to sell the shares in a company and relinquish our ownership stake. This could be because our investment and impact cases have played out as expected and we don't foresee future investment or impact potential, or because the investment did not work out as we expected.

We aim to hold the shares of the company in this portfolio for 5–10 years on average. This is backed up by our portfolio turnover. We feel this long holding period allows us to best fulfil our role as supportive long-term shareholders in helping the companies in the portfolio deliver both financial returns and impact.

Important Information

Baillie Gifford & Co and Baillie Gifford & Co Limited are Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/ Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

Europe

Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018 and is authorised by the Central Bank of Ireland. Through its MiFID passport, it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions ("FinIA"). It does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. It is the intention to ask for the authorisation by the Swiss Financial Market Supervisory Authority (FINMA) to maintain this representative office of a foreign asset manager of collective assets in Switzerland pursuant to the applicable transitional provisions of FinIA. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co.

Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 and a Type 2 license from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Telephone +852 3756 5700.

South Korea

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

Japan

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

Australia

This material is provided on the basis that you are a wholesale client as defined within s761G of the Corporations Act 2001 (Cth). Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth). It is exempt from the requirement to hold an Australian Financial Services License under the Corporations Act 2001 (Cth) in respect of these financial services provided to Australian wholesale clients. Baillie Gifford Overseas Limited is authorised and regulated by the Financial Conduct Authority under UK laws which differ from those applicable in Australia.

South Africa

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

North America

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International

Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

Oman

Baillie Gifford Overseas Limited ("BGO") neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently, BGO is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. No authorization, licence or approval has been received from the Capital Market Authority of Oman or any other regulatory authority in Oman, to provide such advice or service within Oman. BGO does not solicit business in Oman and does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. The recipient of this document represents that it is a financial institution or a sophisticated investor (as described in Article 139 of the Executive Regulations of the Capital Market Law) and that its officers/ employees have such experience in business and financial matters that they are capable of evaluating the merits and risks of investments.

Qatar

The materials contained herein are not intended to constitute an offer or provision of investment management, investment and advisory services or other financial services under the laws of Qatar. The services have not been and will not be authorised by the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or the Qatar Central Bank in accordance with their regulations or any other regulations in Qatar.

Israel

Baillie Gifford Overseas is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This document is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 bailliegifford.com

BAILLIE GIFFORD

CM15792 Impact Measurement Methodology WP 0621
53002 ALL AR 0207