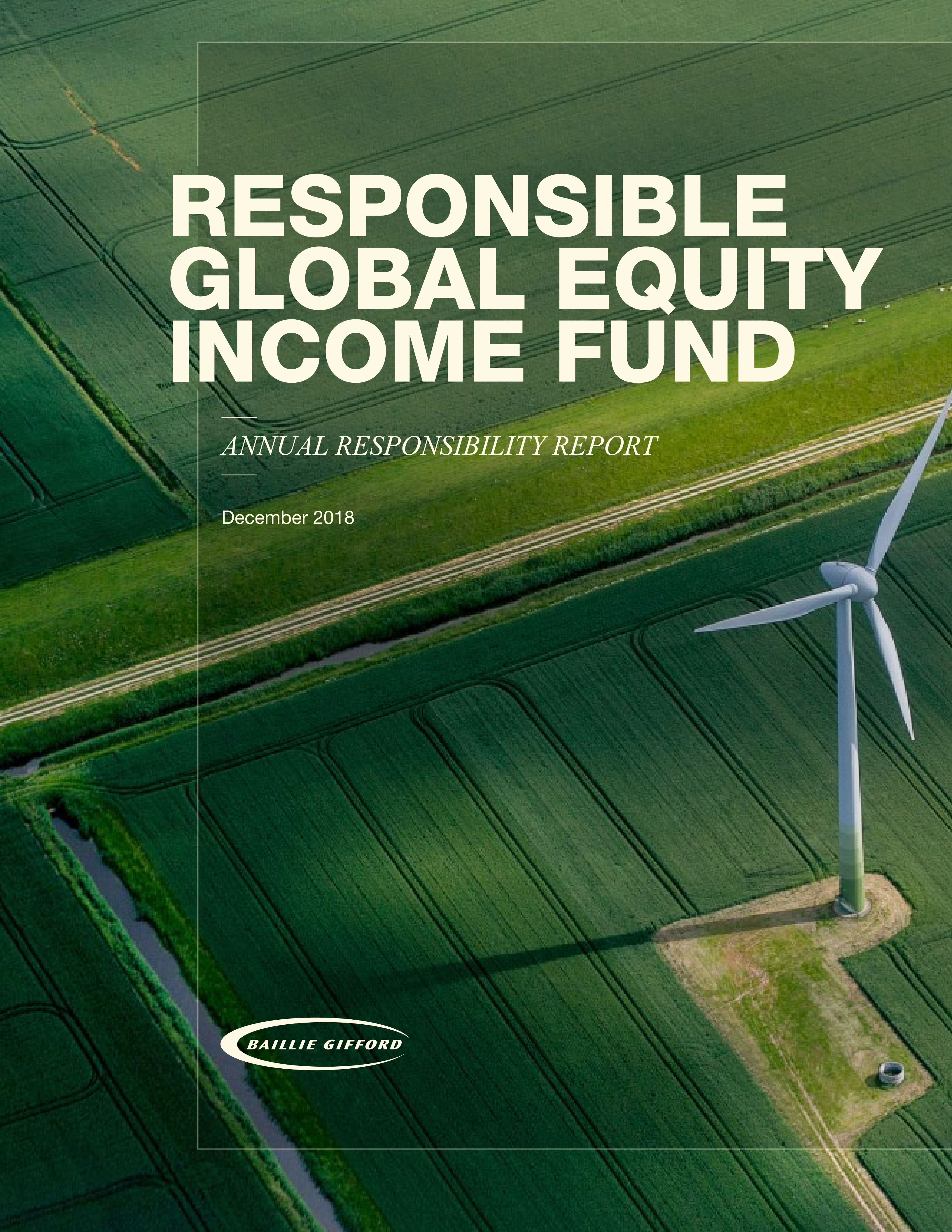


RESPONSIBLE GLOBAL EQUITY INCOME FUND

ANNUAL RESPONSIBILITY REPORT

December 2018

BAILLIE GIFFORD

REGULATORY INFORMATION

This document contains information on investments which does not constitute independent investment research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned. Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

Investment markets can go down as well as up and market conditions can change rapidly. The value of an investment in the fund, and any income from it, can fall as well as rise and investors may not get back the amount invested.

The fund has exposure to foreign currencies and changes in the rates of exchange will cause the value of any investment, and income from it, to fall as well as rise and you may not get back the amount invested.

The fund invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.

The fund invests according to responsible investment criteria and with reference to the ten principles of the United Nations Global Compact for business. This means the fund will not invest in certain sectors and companies and may experience a higher level of volatility than a fund which has no such restrictions.

This document is issued by Baillie Gifford & Co Limited, Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, a company which is authorised and regulated by the Financial Conduct Authority, Financial Services Register No. 119179, and is a member of The Investment Association. Baillie Gifford & Co Limited is wholly owned by Baillie Gifford & Co, which is authorised and regulated by the Financial Conduct Authority.

All information as at 30 September 2018 and source is Baillie Gifford & Co unless otherwise stated.

FTSE Data:

Responsible Global Eq Fund 36743 1018.indd
Ref: 36743 PRO MA 0130

CONTENTS

INVESTING RESPONSIBLY FOR INCOME

Many clients want a dependable income stream and real growth in income and capital. Some clients have an additional requirement: that these investment objectives are met responsibly, by a fund which has demonstrably higher standards than the norm and a process which ensures that such standards are met.

Baillie Gifford's Responsible Global Equity Income Fund aims to meet the exacting standards of such clients, which potentially include charities, universities, faith-based investors, and individuals who have a particular concern for the sustainability of their investments.

In managing the Responsible Global Equity Income Fund, our Global Income Growth team builds on the robust investment process they use to manage Baillie Gifford's Global Income Growth Fund. The fundamental philosophy is the same – a belief that the best way of delivering a dependable income stream and real growth in income and capital is to invest in companies which can themselves deliver both of these outcomes. Such companies can pay dependable dividends across the cycle; and also hold out the prospect of real growth in profits, which can in turn lead to growth in dividends and capital over the long term. In other words, they offer the prospect of sustainable and dependable growth.

This search for sustainable growth provides a firm foundation for a responsible global equity income fund, a foundation upon which we build in these ways:

Sustainable Growth

Investing in companies only where we believe that growth is sustainable over the long term.

Exclusion

Exclusion of stocks operating in certain industries which are intrinsically damaging to the planet or to society.

Principles

Following a thoughtful process to ensure we only invest in companies which meet the principles embodied in the United Nations Global Compact.

Engagement

Effectively engaging with companies to improve their behaviour and related outcomes.

This report sets out our approach in more detail, and also shows how it has shaped the portfolio. As part of our commitment to industry-leading reporting around the responsibility of our investments, we will be updating this report annually.

FIRM FOUNDATIONS

THE SEARCH FOR SUSTAINABLE GROWTH

Objectives

By investing responsibly, we aim to deliver two outcomes to our clients over the long term:

A dependable income stream

Real growth in income and capital

To help meet our objectives, the typical company we are lo*oking* for is cash-generative, its cash flow is resilient through cycles, and its growth is capital-light. This is how a company can both grow and pay a dependable dividend.

Our long-term focus requires us to think hard about the sustainability of the business models we choose to invest in. It forces us to be rigorous in making sure that the management teams we back are behaving in a responsible way that is consistent with our long-term ambitions for the business. This focus on sustainability is embedded in our stock selection framework, and so is embedded in the very heart of our research process.

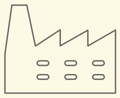
Many of the businesses we invest in are growing because they are leading in industries that we think will change society for the better.

Positive impact enabling long-term growth

Signify – LED Lighting Manufacturer

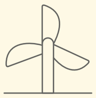
Sustainability at forefront of strategy

Innovative products and solutions

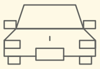


Products delivered between 2015–17 avoided more than 31,000 kilotonnes of CO_2 (equal to 30 mid-sized coal-fired power plants)

Greencoat UK Wind – Wind Energy Operator



Provider of clean energy to the UK grid



Approximately 425 kilotonnes of CO_2 equivalent avoided (equal to taking more than 80,000 cars off the road for a year)

At the portfolio level, we invite our Governance & Sustainability team to independently challenge the investment team on the major governance and sustainability factors that they see potentially affecting the portfolio over the coming years. We use this challenge to build an engagement plan for the coming year on the most pressing issues. Our first priority is always to engage constructively with the companies we invest in; we believe that seeking improvement from within is often where we can have the greatest value.

EXCLUSION

REINFORCING AND DEMONSTRATING RESPONSIBILITY BY AVOIDING HARM

Whilst we strongly believe that a focus on sustainability is intrinsically linked to consideration of the good that companies can do, it is clear the avoidance of harm is a legitimate concern for those who wish to invest responsibly. In managing our Responsible Global Equity Income Fund we have therefore taken the decision to exclude companies that derive more than 10% of their annual revenues from:

- Production or Sale of Alcohol
- Thermal Coal
- Production or Sale of Tobacco
- Tar Sands
- Production or Sale of Armaments
- Gambling and Adult Entertainment

These sector exclusions are both widely recognised and used across the investment industry and provide clarity and reassurance to clients who require additional certainty on responsible investment.

Two stocks excluded on these grounds are detailed on page 14.

A PRINCIPLED APPROACH

APPLYING THE UNITED NATIONS GLOBAL COMPACT IN A THOUGHTFUL MANNER

Another key feature of our approach is that we use the United Nations (UN) Global Compact's Ten Principles in selecting investments for the Responsible Global Equity Income Fund. The principles set out to ensure that companies are operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption.

Ten Principles of the UN Global Compact

Human Rights

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. Make sure that they are not complicit in human rights abuses.

Labour

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. The elimination of all forms of forced and compulsory labour;
5. The effective abolition of child labour; and
6. The elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges;
8. Undertake initiatives to promote greater environmental responsibility; and
9. Encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

Process in Action

The Ten Principles of the UN Global Compact serve as a framework to assess the responsibility of a company's business practices. However whilst we use third party research, including an external screening service (Sustainalytics), our thoughtful approach requires the exercise of judgement and close collaboration between our investment and our Governance & Sustainability teams.

Any potential investment that is deemed to breach or not meet the spirit of the principles is excluded from the portfolio following discussion between the Investment Managers and an Analyst in the Governance & Sustainability team. The Governance & Sustainability Analyst has the right of veto with respect to which companies are excluded. The decision to exclude a company based on assessment against these principles does not mean the company's area of operations is intrinsically harmful, but rather that it is operating in a manner which does not meet the legitimate expectations and aspirations of responsible investors.

A THOUGHTFUL APPROACH TO THE ENVIRONMENT

TWO FOSSIL FUEL RELATED CASE STUDIES

Climate change is a fundamental risk facing the world. The scale of change needed in the way we consume energy to achieve a 2°C cap on global warming requires us all to work together. Due to their size and scale, fossil fuel companies can be some of the best placed to facilitate the transition to more sustainable energy sources. We therefore believe some of those businesses may still deserve a place in the Responsible Global Equity Income Fund.

Total

Total is a global energy company which explores for, develops, and produces natural gas, crude oil, and natural gas liquids. The company also develops renewable energies with a focus on solar, and grid-scale batteries to support the roll-out of renewable energy. We engaged with the company to better understand how they think about climate change and sustainability.

We were impressed with the level of consideration that is given to the issue of climate change, with the company taking climate impact into account when thinking about both long-term strategy and specific investment decisions. The company recognises the need to take carbon risk seriously if they want to continue to grow in the future. The company is positioning its portfolio to be less carbon intensive in the future with a target to reduce the carbon intensity of production by 15% by 2030. We believe the company is undertaking initiatives to promote greater environmental responsibility (Principle 8), and encouraging the development and diffusion of environmentally friendly technologies (Principle 9).

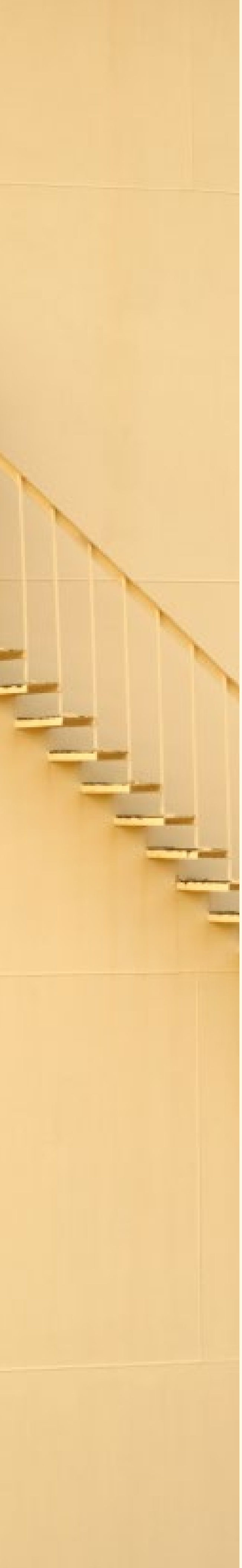
We therefore decided that Total was a suitable investment for the portfolio.

Apache

Apache is an independent energy company, which explores for, develops, and produces natural gas, crude oil, and natural gas liquids. The company has operations in the United States, Egypt and the United Kingdom and increasingly focuses on shale operations. We believe that they are a highly responsible operator, who lead the industry when it comes to issues such as water management, pollution and employee safety.

However, it is evident from our discussions with management that they do not have a plan to reduce the carbon intensity of their operations over time, or to develop more environmentally friendly technologies such as renewables. There is also little evidence that carbon issues are a key input into strategic decision-making. While this reflects a pragmatic approach in the regulatory environment Apache currently faces, we believe that it is inconsistent with Principles 7 (adopting a precautionary approach), and 9 (diffusing environmentally friendly technologies).

Because of this, we decided to exclude Apache from the Responsible Global Equity Income Fund.



LOW CARBON FOOTPRINT

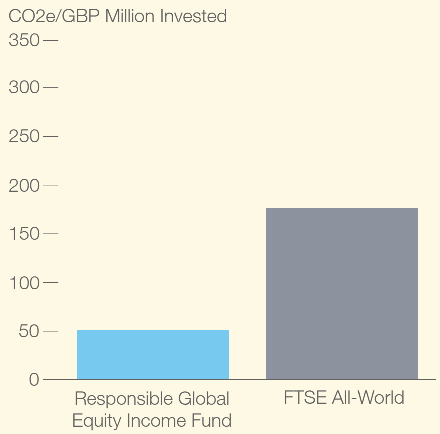
The Responsible Global Equity Income Fund has a carbon footprint and level of carbon intensity which is materially lower than that of the global equity index.

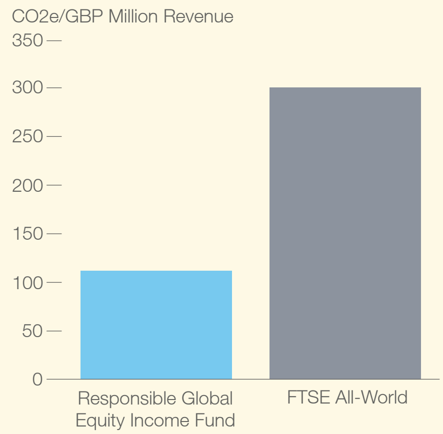
Relative carbon footprint

The portfolio's relative carbon footprint is expressed as the total carbon emissions per £1 million invested. It effectively tells us what the carbon footprint would be if we invested £1 million in the fund versus £1 million invested in the index.

Carbon intensity

The portfolio's carbon intensity is the total carbon emissions per £1 million of revenue generated; this allows comparison with the global equity index as a measure of the efficiency of the portfolio with regard to emissions per unit of financial output.





Source: YourSRI/Baillie Gifford.
Estimates based on Global Income Growth Fund as at 30 September 2018, adjusted to remove stocks not held in the Responsible Global Equity Income Fund.

As explained on page 11, in the coming year one of our engagement priorities will continue to be around the carbon policies of the companies in which we invest.

CROSSING THE LINE

THE UN GLOBAL COMPACT IN PRACTICE

China Mobile

China Mobile is one of the largest Chinese telecoms businesses, with a large stake owned by the Chinese government. We reviewed the investment case in May 2018. One concern raised by our Governance & Sustainability team was allegations of involvement by companies such as China Mobile in large-scale monitoring of the civilian population in China, particularly in areas such as Xinjiang. We believe that China Mobile has little discretion over how it might respond to demands for such surveillance. Our Governance & Sustainability analysts felt that the business's operations were likely to make it very difficult for them not to be complicit in human rights abuses, running against the spirit of Principle 2. We therefore *decided to exclude China Mobile from the portfolio* as a precaution, though we will continue to engage with management to better understand how they seek to manage this risk.

ONGOING MONITORING

We continue to review and monitor the stocks in the portfolio to ensure they remain consistent with the objectives of the fund. We undertake three main types of engagement.

Firstly, we will engage with those companies where there is a potential question around whether their operations are consistent with the principles of the UN Global Compact. We will encourage them to provide better disclosure, and seek to form a rounded view of their operations.

Secondly, each year we develop an engagement plan. This seeks to highlight the most significant environmental, social or governance challenges across the portfolio, where we believe that constructive engagement and research can make the greatest difference. These engagements can be led by either the Governance & Sustainability team, or the Global Income Growth investment team. The engagement plan is best viewed as a programme of work to be built on over several years.

Thirdly, we are continually engaging with companies that we invest in to ensure that their corporate governance is as strong as possible, and that remuneration is appropriate and aligned with long-term investor's interests. We engage robustly with boards to ensure that remuneration structures do not incentivise short-term thinking by management teams. By providing constructive input early in the process, we are often able to help effect significant improvements over time.

Examples of this engagement are shown on page 12.

ENGAGEMENT PLAN

In 2018 and 2019, we are focusing on the engagement plan detailed below:

Climate Change

The Question

Where are the portfolio's biggest risks and opportunities from climate change, and how are these being managed?

The Plan

1. Use the 2017 Carbon Footprint to assess where carbon risks are greatest; engage with management teams on how they disclose and manage these
2. Assess how some portfolio holdings are helping to reduce emissions, to put the Carbon Footprint in context

The Focus

— Companies contributing 10% or more of the portfolio's carbon

— Businesses that help reduce emissions (e.g. Signify, Albemarle, Greencoat, SSE)

Tax Responsibility

The Question

How sustainable are the tax practices of our holdings, and could they affect the future earnings of the business?

The Plan

1. Review the 'tax gap' across our holdings (i.e. the difference between the tax they pay, and statutory tax rates) and seek to understand the rationale where there is a wide gap
2. Engage with management teams to emphasise the importance of sustainable tax practices for long-term investors

The Focus

— Companies with a large tax gap, where our engagement has the potential to make a difference

Healthy Consumption

The Question

How can our holdings make a positive contribution to the health and wellbeing of society?

The Plan

1. Engage with food and beverage companies to understand the opportunities they have to reduce sugar and salt from products on a 5–10 year view, and how aggressive they are being; back the most ambitious
2. Deepen understanding of longer-term treatment options around diabetes and obesity

The Focus

— Food and beverage manufacturers

— Novo Nordisk, who lead research and treatment of obesity/diabetes

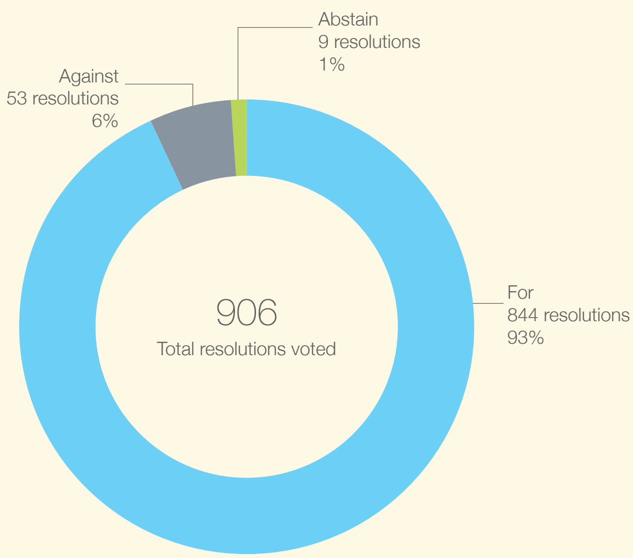
ENGAGEMENT IN PRACTICE

Company	Engagement Report
Brambles Limited UN Global Compact: Principle 9, Promoting Greater Environmental Responsibility	We met the head of sustainability at Brambles to discuss the company's approach to sustainability, and how they seek to promote greater environmental responsibility. Brambles provides supply-chain logistics solutions with reusable pallets, crates, and containers for shared use by participants in the supply chain. Given the reusable nature of its products, Brambles is an inherently sustainable business and the company believes this provides an advantage in attracting clients who are increasingly looking to improve their own sustainability performance. Brambles has ambitious sustainability goals, for example targeting 100% of timber being sourced from sustainable sources, which it is on track to achieve, and has embedded the UN Sustainable Development Goals into its strategy. The meeting provided an insight into how a company can integrate sustainability into its core business model.
Rio Tinto plc Engagement Plan: Climate Change	Rio Tinto is a mining and metals company that operates worldwide. We had a call with the head of environment to discuss the company's approach to climate risk. We spoke about its focus on the efficiency of existing assets and the adaptability of new assets for emerging energy technologies. We also discussed the company's progress on environmental disclosure, which has improved in recent years, but still has room for improvement. We highlighted the importance of disclosure in this area and will continue to monitor it. The call provided us with confidence that Rio's management understand the importance of considering climate change in long-term strategy and are making good progress in this area.
Edenred SA Corporate Governance and Remuneration	A member of the Governance & Sustainability team and one of our investment managers had a call with the Chair of the Compensation Committee to discuss our concerns regarding remuneration. Previous discussions have been with management but this was an opportunity to relay our concerns over the current structure directly to the board, having continued to oppose executive remuneration at the 2017 AGM. We were able to explain our reservations that the metrics used in the remuneration policy are not sufficiently aligned with the company's long-term strategy and shareholders. We were pleased to hear the Chair say that some changes are being made to metrics. We feel more changes are needed to provide better alignment with shareholders, and we urged the Chairman to encourage the committee to consider going further.

VOTING

Part of being a responsible steward of your capital is exercising voting rights responsibly. We endeavour to vote all holdings globally and in 2018 voted on 906 resolutions at 65 company meetings relating to the companies now held in your fund. We did not vote at two company meetings due to market restrictions that prevent us from trading if we execute our voting rights. The chart adjacent is a summary of the proxy voting activities in respect of the fund's holdings in 2018. The data shows that we support the majority of management resolutions. We are, after all, investing in a concentrated portfolio of companies where we know and respect the management team, and our support for their leadership is connected with our support for their vision for these companies. Any vote against a management resolution represents the combined view of governance specialists and portfolio managers and typically follows engagement with company management. A decision to oppose a management resolution is always communicated to the management team and often initiates further conversations.

Proxy Voting Statistics



Notable Votes Cast Against

Company	Meeting details	Voting Rationale
Edenred	AGM (May 2018)	We have opposed five resolutions regarding remuneration due to continued concerns about the stringency of the remuneration policy and its alignment with shareholders. At the same meeting, we opposed four resolutions which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.
SAP	AGM (May 2018)	We opposed remuneration as we continue to have concerns regarding the alignment between pay and performance.
WPP	AGM (June 2018)	We opposed the remuneration report and the re-election of three directors who sit on the remuneration committee as we have concerns over the package granted to the outgoing CEO which led us to question the ability of the remuneration committee to challenge the executive board members.
Alphabet	AGM (June 2018)	We supported two shareholder resolutions to remove supermajority voting requirements from the company's bylaws and to request a gender pay gap report.
TJX Companies	AGM (June 2018)	We supported a shareholder resolution to amend the company's clawback policy as we believed it was a sensible enhancement to the board's current policy.

WHAT'S THE DIFFERENCE?

Due to the shared philosophy, research process and management team there is a very high overlap between the Global Income Growth Fund and the Responsible Global Equity Income Fund.

The current overlap is 95%. The stocks which are held in the Global Income Growth Fund but not in the Responsible Global Equity Income Fund are detailed below:

Stock	Reason for not holding	%
British American Tobacco	Tobacco exclusion	1.7
Ambev	Alcohol exclusion	0.8
Apache	Application of UN Principles 7 and 9	1.0
China Mobile	Application of UN Principle 2	1.5
Total		**5.0**

Based on a model portfolio at 30 September 2018.

FUND INFORMATION

The Responsible Global Equity Income Fund

Fund Size: £52m*	OCF: 0.63%**	Yield: 2.8%†	Vehicle Type: OEIC	Invests in: Global Equities

*After initial funding complete, on 11 December 2018.
**Estimate based on initial funding size as at 10 December 2018.
†Source: IBES/Bloomberg/Baillie Gifford. Estimated 12 month forward yield as at 30 November 2018, net of taxes.

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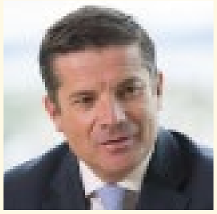

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