

# **Baillie Gifford & Co Staff Pension Scheme**

## **Statement of Investment Principles**

### **1. Introduction**

- 1.1 This Statement has been prepared by the Trustee of the Baillie Gifford & Co Staff Pension Scheme (“the Scheme”). It sets out the principles that govern the Trustee’s decisions about the investment of the Scheme’s assets. The Trustee refers to this Statement when making investment decisions, to ensure that they are consistent with these principles.
- 1.2 This Statement is designed to meet the requirements of the Pensions Act 1995 as amended by the Pensions Act 2004 and the subsequent regulations, and the Occupational Pension Schemes (Investment) Regulations 2005, as amended from time to time. It has been prepared in accordance with applicable guidance from the Pensions Regulator.
- 1.3 In preparing this Statement, the Trustee has obtained written advice from the Scheme’s Investment Consultant. Where matters described in this Statement may affect the Scheme’s funding policy, input has also been obtained from the Scheme Actuary. The Trustee will obtain similar advice whenever the Statement is reviewed.
- 1.4 The Trustee’s investment powers are set out within the Scheme’s governing documentation and relevant legislation. If necessary, the Trustee will take legal advice regarding the interpretation of these. The Trustee notes that, according to the law, it has ultimate power and responsibility for the Scheme’s investment arrangements.
- 1.5 The Trustee seeks to maintain a good working relationship with the sponsoring employer, Baillie Gifford & Co (“the Employer”) and will discuss any proposed changes to this Statement with the Employer. However, the Trustee’s fiduciary obligations to Scheme members and beneficiaries will take precedence over the Employer’s wishes, should these ever conflict.
- 1.6 The Trustee believes that the Scheme’s investment policies and their implementation are appropriate for a Scheme of this type.
- 1.7 The Trustee does not expect to revise this Statement frequently because it covers broad principles rather than their implementation. However, the Trustee will review the Statement at least annually, and without delay if there are relevant, material changes to the Scheme and/or the Employer.

## **2. Scheme Governance**

- 2.1 The Trustee regularly sets aside time as appropriate at meetings to focus on investment matters, as well as taking advice as appropriate from the Scheme Actuary, its Investment Consultant and other professional advisers. The Investment Committee monitors the majority of investment matters, consistent with its Terms of Reference.
- 2.2 The Trustee is accountable for the investment of the Scheme's assets. It delegates some aspects of the Scheme's investment arrangements to third party service providers, in order to manage the Scheme's affairs effectively.
- 2.3 Insight Investment Management (Global) Limited ("Insight Investment") ("the Fund Manager") is the Fund Manager of the Scheme's assets ("the Fund"). The whole Fund is managed by Insight Investment and consists of liability matching assets held on a buy and maintain basis ("the Matching Portfolio"). The Trustee believes that Insight Investment has the skill required to manage the Matching Portfolio which consists of unleveraged gilt funds which are expected to hedge a proportion of the Scheme's exposure to changes in interest rates and inflation. The Matching Portfolio also holds a liquidity fund which is reserved for the ongoing cashflow requirements of the Scheme.
- 2.4 The Fund Manager will manage the Fund for the Trustee within specified investment guidelines and restrictions set out in the underlying IMA and in accordance with this Statement of Investment Principles.
- 2.5 Insight Investment has some discretion to buy, sell, retain, exchange or otherwise deal in investments. Insight Investment may acquire or dispose of shares/units in collective investment schemes operated or advised by Insight Investment or by an associate of Insight Investment.
- 2.6 The Trustee retains direct responsibility for setting investment objectives, establishing risk and return targets and setting the Scheme's asset allocation benchmark and investment manager selection. It makes these decisions after considering recommendations from its Investment Consultant and/or Scheme Actuary on the interaction of the Scheme's assets and liabilities and the implication this may have for the investment strategy.
- 2.7 The Trustee regularly monitors the investment returns from the Scheme's Fund Manager.
- 2.8 The Trustee has appointed Northern Trust as custodian for the Matching Portfolio managed by Insight Investment.
- 2.9 The Scheme's current investment arrangements are described in more detail in the Appendix.

## **3. Investment Objectives**

- 3.1 The Trustee's primary investment objective is to invest the Scheme's assets in such a manner that members' and beneficiaries' benefit entitlements can be paid as and when they fall due.

- 3.2 In doing so, the Trustee will take into consideration the level and variability of the contributions from the sponsoring Employer.
- 3.3 The Trustee also recognises that now the Scheme is closed to future accrual, it will mature over time. With this in mind, the Trustee has set an objective to reduce the Scheme's reliance on the Employer. To this end, the Trustee agreed on a suitable asset allocation and discount rate measured on a self-sufficient basis<sup>1</sup>.
- 3.4 As at January 2022, the Scheme achieved the final de-risking trigger and moved to the previously agreed self-sufficiency basis. Although risk had been greatly reduced, the Trustee continued to monitor this closely as the ultimate aim was to reach a fully funded position, as measured on a self-sufficient basis<sup>1</sup>. Therefore, following an improvement in market conditions, which led to a significant improvement in the Scheme's funding position, the Trustee agreed to further de-risk the Scheme in September 2022. In March 2024, the Trustee agreed to further de-risk the Scheme following additional funding level improvements and removed all growth assets.

#### 4. **Risk and Return Targets**

- 4.1 In assessing the amount of risk to take relative to the liabilities, the Trustee has received advice from the Investment Consultant and Scheme Actuary, and held discussions with the Employer. In particular, it considered carefully the following possible consequences:
- The assets might not achieve the return relative to the liabilities anticipated over the longer term. This would result in deterioration in the Scheme's financial position and consequently higher contributions from the Employer than are currently expected.
  - The relative value of the assets and liabilities would be more volatile over the short term if investment risk had been taken through the holding of growth assets. This would increase the likelihood of there being a shortfall of assets relative to the liabilities in the event of discontinuance of the Scheme. This consequence is particularly serious if it coincides with the Employer being unable to make good the shortfall. The Trustee recognises that this risk is mitigated to some extent by the de-risking step taken in March 2024, and the escrow arrangements agreed between it and the Employer which provide some benefit security for the Scheme.
  - This volatility in the relative value of assets and liabilities may also increase the short-term volatility of the Employer contribution rate set at successive actuarial valuations, depending on the approach to funding adopted.
- 4.2 The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Employer and its willingness to contribute appropriately to the Scheme as

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<sup>1</sup> By "self-sufficient" the Trustee means that the basis relies on a return from a low risk portfolio that closely matches the liabilities.

well as the funding level of the Scheme at any point in time. The Employer's covenant and its perceived commitment to the Scheme is monitored and the Trustee will consider reducing investment risk relative to the liabilities should either of these significantly deteriorate.

- 4.3 The degree of investment risk the Trustee is willing to take also depends on the financial health of the Scheme and the Scheme's liability profile. The Trustee will monitor these with a view to altering the investment objectives, risk tolerance and/or return target should there be a significant change in either.

## 5. **Diversification of Risks**

- 5.1 In addition to targeting an appropriate overall level of investment risk, the Trustee seeks to spread risks across a range of different sources as appropriate. The Trustee aims to take on those risks for which it expects to be rewarded over time, in the form of excess returns if required. While the Trustee believes that diversification limits the impact of any single risk, it must also be considered in the current context of the Scheme and its progression through its de-risking journey plan which has been completed.

- 5.2 The asset class that the Trustee has considered for the Scheme's investments is as follows:

### 5.2.1 UK Government bonds – with exposure to interest rate risk and inflation risk

The Trustee has considered other asset classes historically which were appropriate at that time in the Scheme's context, particularly its maturity and funding level, and informed by the strength of the Employer's covenant.

- 5.3 Across all of the Scheme's investments, the Trustee is aware of the potential for regulatory and political risks as well as those risks arising from environmental, social and corporate governance issues (see Section 7 for more details).
- 5.4 The Trustee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable and it is also aware of concentration risk which arises when a high proportion of the Scheme's assets are invested in securities, of the same or related issuers.

## 6. **Strategic Investment Benchmark and Investment Manager Selection**

- 6.1 The Trustee has in place a strategic investment benchmark for the Scheme. This is a high-level asset allocation for the Scheme's investments (see appendix). The Trustee has also considered advice from the Investment Consultant and Scheme Actuary and is satisfied that the investment strategy followed is suitable given the nature of the Scheme's liabilities.

## 7. **Responsible Investment**

- 7.1 The Trustee believes that environmental, social and corporate governance ("ESG") issues can have a material impact on the performance of investment portfolios and should therefore be considered as part of the Scheme's investment process. Good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks

and opportunities that increasingly require explicit consideration. Therefore, the Trustee takes these issues into account during its periodic reviews of the Scheme's strategy, in the context of its broader risk management framework and with respect to its funding time horizon.

7.2 The Trustee has intimated this SIP to the Fund Manager. In monitoring how the Fund Manager exercises its discretion when:

- evaluating ESG issues within the collective investment schemes selected for the Fund; and
- exercising rights (particularly voting rights where applicable) and stewardship obligations relating to the investments held within those collective investment schemes,

the Trustee will consider the alignment and consistency of the Fund Manager's actions with the Trustee's perspective on such matters, as intimated, and engage with the Fund Manager, as appropriate.

The Trustee recognises that the assets are subject to the Fund Manager's policies on corporate governance.

The Trustee also recognises that ESG considerations do not form part of the investment process for the selection of UK Government bonds within the Matching Portfolio but it encourages Insight Investment to integrate responsible investment considerations into the wider investment process where applicable.

7.3 The Trustee considers how ESG is integrated within the Fund Manager's investment processes. The Trustee monitors the Fund Manager's reporting, activities and policies on a regular basis (meeting the Fund Manager every six months as well as undertaking a formal annual review in this respect) to ensure it remains satisfied that the Fund Manager's approach corresponds with the Trustee's own responsibilities to the members and beneficiaries of the Scheme. The Trustee also makes use of the Investment Consultant's ESG ratings and will engage with the Fund Manager on the key findings, as necessary, particularly if the strategy is judged to be lagging its peers. The Trustee uses this ongoing monitoring as part of its decision making around selection, retention and realisation of manager relationships.

7.4 The Trustee believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Scheme's members and beneficiaries and aligned with its fiduciary duties. The Trustee therefore expects Insight Investment to comply with the principles underlying the 2020 UK Stewardship Code published by the Financial Reporting Council. The Trustee formally reviews the Fund Manager's stewardship activities, including voting and engagement (where applicable), on an annual basis. The Trustee also engages with the Fund Manager to understand any potential areas of deviation or apparent inactivity and reports to the Scheme's members and beneficiaries accordingly, via the Trustee's Engagement Policy Implementation Statement.

7.5 The Trustee is open to engaging directly through written communication with debt issuers on a range of issues including, but not limited to, performance, strategy, risks,

ESG and sustainability factors. This might take place if the Fund Manager requests the engagement and if the Trustee believes that this would add weight to the Fund Manager's stewardship engagement activity.

- 7.6 The Trustee supports the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) as a best-practice framework to manage and report on the actions being taken to identify climate change related risks and incorporate climate change risk management into investment processes. As such the Fund Manager is expected to report in line with the framework.
- 7.7 The Trustee does not currently have a policy for taking into account "non-financial matters" when considering the selection, retention and realisation of assets. For this purpose, "non-financial matters" means the views of the members and beneficiaries, including their ethical views and views in relation to social and environmental impact and their present and future quality of life.

## **8. Engagement with Investment Manager**

The policy in relation to the Trustee's arrangements with the Fund Manager is set out below.

- 8.1 The Fund Manager is selected based on its capabilities and, therefore, its perceived likelihood of achieving the expected return required for the asset class and the attendant risk characteristics which it has been selected to manage.
- 8.2 The Trustee looks to its Investment Consultant for its forward looking assessment of the Fund Manager's ability to outperform over a full market cycle. The Investment Consultant's manager research ratings assist with due diligence and questioning the Fund Manager during presentations to the Trustee and are used in decisions around selection, retention and realisation of manager relationships.
- 8.3 If the investment objective for any of the Fund Manager's funds changes materially, the Trustee will review the fund selection to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.
- 8.4 As the Trustee invests in collective investment schemes, it accepts that it has no ability to specify the risk profile and return targets of the Fund Manager, but appropriate mandates can be selected to align with its overall investment strategy.
- 8.5 The Trustee considers the Investment Consultant's assessment of how the Fund Manager embeds ESG into its investment process and how the Fund Manager's responsible investment philosophies continue to align with the Trustee's own beliefs. This includes the Fund Manager's policies on voting and engagement. The Trustee uses this assessment as part of its decision making process around selection, retention and realisation of manager relationships.
- 8.6 The Trustee reviews the decisions made by its Fund Manager, including, where relevant, engagement activity, and, where necessary, challenges such decisions to try to ensure the best long-term performance.

- 8.7 The Trustee delegates all engagement activities to the Fund Manager but reviews these formally on an annual basis.
- 8.8 The Fund Manager is aware that its retention is based on its success in delivering the mandate it has been chosen to manage.
- 8.9 The Trustee receives quarterly investment performance reports from the Fund Manager, which present performance information over short and long term periods. The Trustee reviews the performance of the Scheme's Liability Driven Investment ("LDI") mandate against the Liability Benchmark Portfolio ("LBP") for the Scheme. The Trustee's focus is on long term performance.
- 8.10 If the Fund Manager is not meeting long-term performance objectives, or the investment objectives for the mandate have changed, the Trustee may ask the Fund Manager to review its fees.
- 8.11 The Trustee receives MiFID II reporting from the Fund Manager but does not analyse the information.
- 8.12 The Trustee will review portfolio turnover costs as part of its annual review of the Fund Manager.
- 8.13 The Trustee is a long term investor and is not looking to change the investment arrangements on a frequent basis.
- 8.14 As the funds in which the Scheme invests are open-ended, there is no set duration for the retention of the Fund Manager. The Trustee will retain the Fund Manager unless:
- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or investment management style; or
  - The relevant Fund Manager has been reviewed and the Trustee has decided to terminate the relationship.

Signed: Gordon A Taylor Date: 30 July 2024

**For and on behalf of the Baillie Gifford & Co Staff Pension Scheme Trustee Limited as Trustee of the Baillie Gifford & Co Staff Pension Scheme**

<b>First amendment:</b>	<b>April 2007</b>
<b>Second amendment:</b>	<b>February 2008</b>
<b>Third Amendment:</b>	<b>December 2008</b>
<b>Fourth Amendment:</b>	<b>January 2009</b>
<b>Fifth Amendment</b>	<b>May 2011</b>
<b>Sixth Amendment</b>	<b>April 2013</b>
<b>Seventh Amendment</b>	<b>September 2014</b>
<b>Eighth Amendment</b>	<b>December 2016</b>
<b>Ninth Amendment</b>	<b>May 2018</b>
<b>Tenth Amendment</b>	<b>November 2018</b>

<b>Eleventh Amendment</b>	<b>June 2019</b>
<b>Twelfth Amendment</b>	<b>September 2020</b>
<b>Thirteenth Amendment</b>	<b>May 2021</b>
<b>Fourteenth Amendment:</b>	<b>March 2022</b>
<b>Fifteenth Amendment:</b>	<b>September 2022</b>
<b>Sixteenth Amendment:</b>	<b>December 2022</b>
<b>Seventeenth Amendment:</b>	<b>August 2023</b>
<b>Eighteenth Amendment:</b>	<b>July 2024</b>



## Appendix to SIP – Investment Arrangements

### Current Investment Strategy

In March 2024 the Trustee agreed to further de-risk the Scheme following additional funding level improvements and removed all growth assets. The Scheme has laid out the guidelines in which the Fund Manager may operate, as set out in the table below. The Trustee believes that these assets are appropriate for meeting the objectives set out in Section 3 and controlling the risks identified in Section 4.

Asset Class (Investment Manager)	Allocation (%)	Allocation at underlying Manager (%)	Control Ranges (%)	Benchmark	Target Return
Matching Assets (Insight)*	100	100	-	Aims to hedge 95% of the interest rate and inflation sensitivity of the Scheme's estimated liability profile.	N/A
<b>Total Matching Portfolio</b>	<b>100</b>	<b>100</b>	-	-	-
<b>Total</b>	<b>100.0</b>				<b>N/A</b>

\*Includes an allocation to the Insight Liquidity Fund.

**Rebalancing and Cashflow Policy:** The Trustee does not expect rebalancing activity to be required within Insight's mandate but will assess the LDI portfolio on a quarterly basis to ensure it remains fit for purpose. The Trustee retains a holding in the Insight Liquidity Fund which is reserved for ongoing cashflow purposes. The value of the Insight Liquidity Fund is reviewed regularly to ensure that sufficient funds are available.

**Target Return:** Following the March 2024 de-risking, the Scheme's assets are not seeking to outperform a benchmark.