
ESG

Head of ESG Catherine Flockhart on how we consider our ESG-focused portfolios and the importance of bottom-up analysis.

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Catherine Flockhart: ESG is an acronym that refers to the environmental, social and governance factors of the businesses we hold. If we break this down, it's fairly intuitive: environmental factors help to define how businesses impact the planet, social analysis aims to reveal how businesses impact people, and governance looks to understand how a business is run.

The long-term, active approach we take to investing at Baillie Gifford frames how we consider our ESG-focused portfolios. Because we are long-term investors, we can use ESG factors as another lens to help us understand the investments we make. Over the long term, we believe sustainability and returns can be complementary. As active investors, we're engaged in building relationships with the management teams of the companies we hold, helping them to remain focused on their long-term vision. We think this puts us in the best position to influence change when needed.

When considering ESG we ask, "What are the one or two material things that a business is doing which really matter?" We acknowledge that there's no such thing as the perfect company, and so understanding the ESG factors of the investments we make requires detailed research and, at times, an understanding of nuance. This is just as true for ESG as for traditional financial analysis.

We are not looking to excel at the box-ticking approach that is so often used because it looks good or is easy. There are no shortcuts or rules of thumb to truly understanding the sustainable credentials of an investment. We think this must be based on proper, good old-fashioned bottom-up analysis. It takes time and patience, but those are skills that we have.

We do this very simply because we believe it makes us better investors, and because it matters. We do this because we want to hand on the portfolios which we manage for our clients to the next generation of investors in good shape, and to leave the world in which we all live in better shape, too.



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