

# Tower Hamlets

Claire Phillips and Scott Lothian. March 2023



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# Diversified Growth



# Diversified Growth Fund: Review and outlook



## Backdrop

2022 was a difficult year for investment markets

- Rising inflation
- War in Ukraine
- Ongoing covid restrictions

We would not normally expect to see such deep losses across the portfolio at the same time



## What have we done?

We have examined the portfolio in depth, selling investments where necessary

The case for those we have retained is, in many cases, more compelling. This is due to:

- Better valuations
- Positive fundamentals
- Attractive opportunities



## Outlook

Confident of making high returns across many asset classes

Short term volatility is likely to persist

Genuinely lots that we are excited about

# Diversified Growth Fund: Portfolio

## Market environment

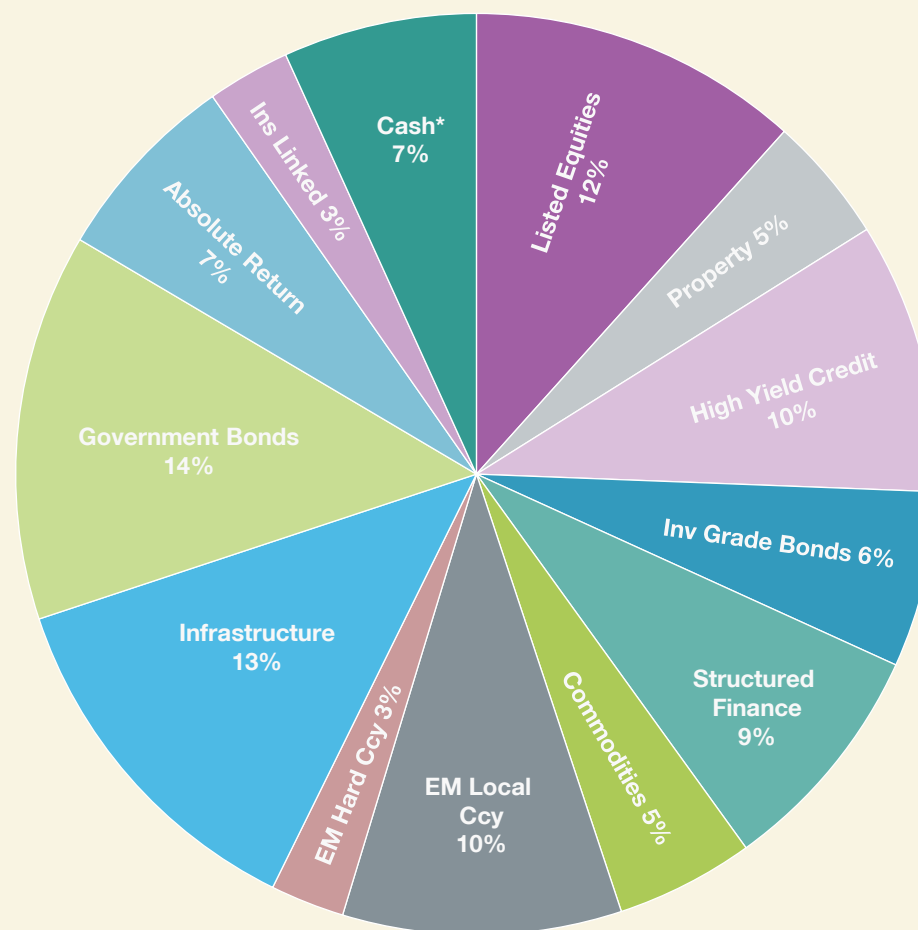
- Interest rates remain high
- Likelihood of global recession

## Attractive opportunities

- Government and corporate bonds
- Decarbonisation
- Technological innovation
- The rise of Asia

## Recent changes

- Added to fixed income commodities
- Reduced listed equities and infrastructure



Diversified Growth Fund as at 31 January 2023.

Special Opportunities 0.3%.

Futures positions are included at their net exposure weight and cash includes collateral held to back all long and short futures positions, therefore total portfolio exposure may not sum to 100%.

\*Includes net active currency position.

# The rationale for owning high carbon emitting investments



Prioritisation of long-term value creation



A constructive and purposeful board



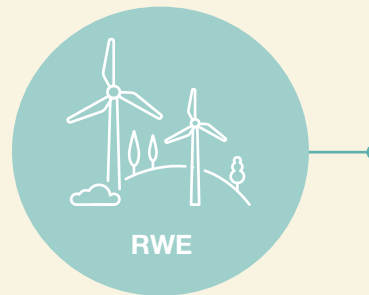
Long-term focused remuneration with stretching targets



Fair treatment of stakeholders



Sustainable business practices

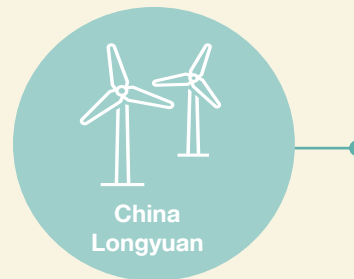


German-based generation, transmission and distribution utility

Going through a major transformation, moving from a big polluter to a renewables giant

Set to be a key part of the European renewable energy solution

Cutting GHG emissions by at least 50% by 2030 and carbon neutral by 2050<sup>1</sup>



Developer and operator of wind turbines, with a small allocation to coal

Massive investment in renewables required to meet domestic carbon targets

Scores well on our '5S Framework' alongside attractive base case returns

We accept engagement and reporting is less transparent than for Western counterparts

Source: <sup>1</sup><https://www.rwe.com/en/responsibility-and-sustainability/environmental-protection/climate-protection/>

# Appendices



# Diversified Growth portfolio listing (by exposure)

	Exposure %		Exposure %		Exposure %		Exposure %
<b>Listed Equities</b>	<b>9.3</b>	<b>High Yield Credit</b>	<b>9.8</b>	<b>EM Bonds - Local Currency</b>	<b>10.1</b>	<b>Absolute Return</b>	<b>7.7</b>
Baillie Gifford Global Income Growth Fund	4.1	Baillie Gifford Emerging Markets High Yield Credit	3.1	Baillie Gifford EM Bond Fund	10.1	Aspect Core UCITS Fund C GBP	3.2
Baillie Gifford LTGG Investment Fund	3.0	Ashmore Asian High Yield Bond Fund	2.7	<b>EM Bonds - Hard Currency</b>	<b>2.7</b>	CBOE VIX Futures	2.6
Baillie Gifford Global Alpha Growth Fund	2.9	Blackrock Asian High Yield Bond Fund	2.2	BG Worldwide Sustainable EM Bond	1.7	BAML Commodity Carry ETN	1.1
UBS CSI 500 NTR index + 7.05% ETN	2.4	Baillie Gifford High Yield Bond Fund	1.1	Ukraine 1.258% 31/05/2040 (USD)	1.0	SG Eureka ETN	0.7
Citigroup Volatility Carry ETN	2.0	Ares Capital Corp	0.6	<b>Infrastructure</b>	<b>13.7</b>	<b>Insurance Linked</b>	<b>4.0</b>
GS Strategic Dividend Fund - I-23	1.1	Other† (2 holdings)	0.1	Greencoat UK Wind	1.2	Sanders Re III 2022-1 B	0.7
GS Strategic Dividend Fund - I-24	0.8	<b>Investment Grade Bonds</b>	<b>6.4</b>	Renewables Infrastructure Group	1.1	Hestia Re 2022-1 A	0.5
Goldman Sachs Strategic Dividend Fund - I-25	0.2	BG Worldwide Global Strategic Bond Fund	4.4	Prysmian	1.1	Ursa Re II 2022 C (144A)	0.5
Euro Stoxx 50 Future Mar 23	-2.5	Baillie Gifford Inv Grade Long Bond	2.0	Orsted	1.0	Catahoula Re 2022-1 A (144A)	0.4
S&P 500 emini Index Future Mar 23	-4.7	<b>Structured Finance</b>	<b>8.5</b>	Nexans	1.0	Operational Re III 2020 D	0.3
<b>Private Equity</b>	<b>0.0</b>	Plutus CLO Fund	3.4	EDP Renovaveis	1.0	Operational Re III 2020 C	0.3
Other† (1 holding)	0.0	Fair Oaks Senior CLO Note	2.2	Octopus Renewables Infrastructure	0.9	Operational Re III 2020 B	0.3
<b>Property</b>	<b>4.6</b>	Galene Fund	2.1	China Yangtze Power - Stock Connect	0.8	Mystic Re IV 2022 A (144A)	0.3
Rexford Industrial Realty REIT	0.7	HSBC Global Asset Backed High Yield Bond Fund	0.6	Aquila European Renewables Income	0.6	Ursa Re II 2022 AA (144A)	0.3
Prologis Inc REIT	0.6	Other† (1 holding)	0.2	3i Infrastructure	0.6	Other† (6 holdings)	0.5
Segro Plc	0.6	<b>Commodities</b>	<b>3.8</b>	Other† (15 holdings)	4.4	<b>Special Opportunities</b>	<b>0.3</b>
First Industrial REIT	0.6	WisdomTree Aluminium ETC	1.8	<b>Government Bonds</b>	<b>12.6</b>	Other† (3 holdings)	0.3
Ctp N.V.	0.5	Lynas Corporation	1.3	US Ultra Long (CBT) Mar 23	4.9	<b>Active Currency††</b>	<b>0.1</b>
Tritax Big Box REIT	0.4	MP Materials	0.7	Australia 3% 21/03/2047	2.0	<b>Cash and Equivalents</b>	<b>6.9</b>
LondonMetric Property	0.4			Australia 1.75% 21/06/2051	1.9	<b>Total</b>	<b>100.3</b>
Warehouses De Pauw	0.3			US Treasury 2% 15/08/2051	0.6		
Life Science Reit Plc	0.3			US Treasury 2.25% 15/02/2052	0.6		
Other† (2 holdings)	0.3			US Treasury 3% 15/02/2048	0.6		
				US Treasury 3% 15/08/2052	0.6		
				US Treasury 2.875% 15/05/2052	0.6		
				US Treasury 1.875% 15/11/2051	0.6		
				Other† (1 holding)	0.1		

Based on the Baillie Gifford Diversified Growth Fund as at 31 December 2022. Totals may not sum due to rounding.

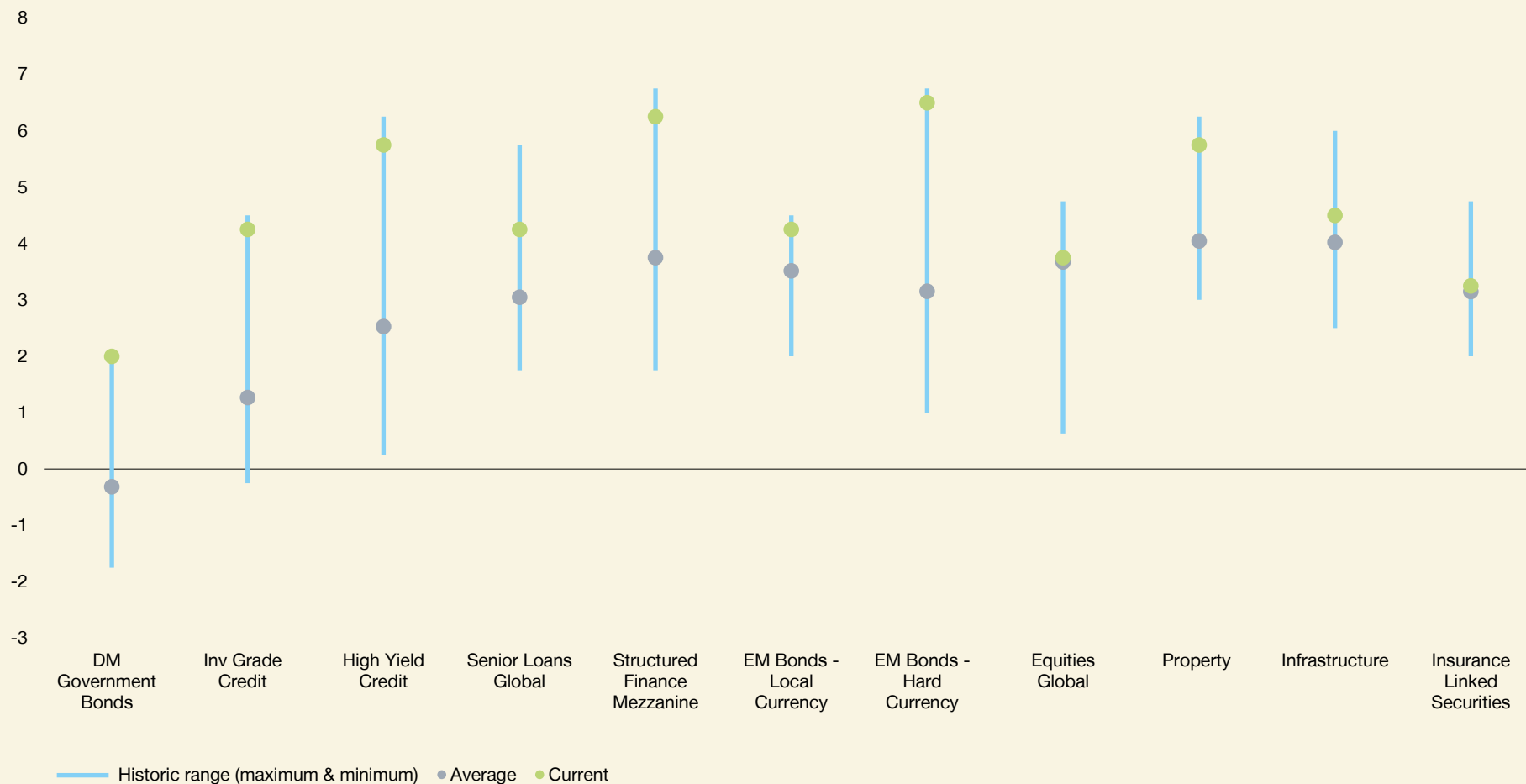
Futures positions are included at their net exposure weight, and cash includes collateral held to back all long futures positions. Therefore, total portfolio exposure may not sum to 100%.

†Sum of all holdings <0.2% and, where applicable, any holdings outside the 10 largest shown.

††The number shown against active currency reflects the net unrealised profit or loss of open positions in the Fund.

# Diversified Growth: Our long-term return

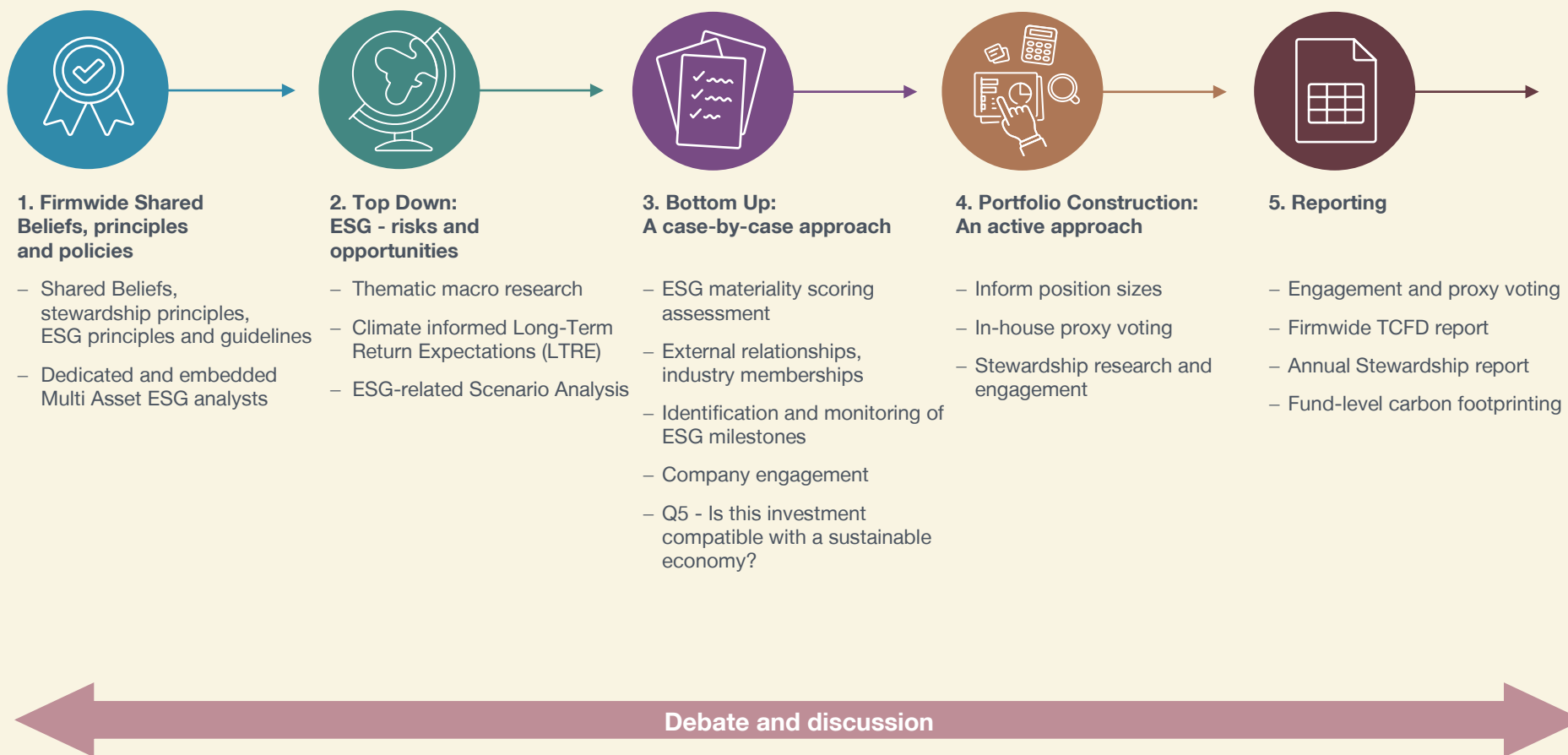
10 year expectations for asset class returns over cash (%)



Note: Baillie Gifford estimates for asset class returns as at December 2022. Expected returns are passive and do not take account of potential alpha. We view these return estimates as broadly sensible indications of likely returns. They should not be interpreted as high precision forecasts nor are they likely to bear much resemblance to returns over shorter time horizons.



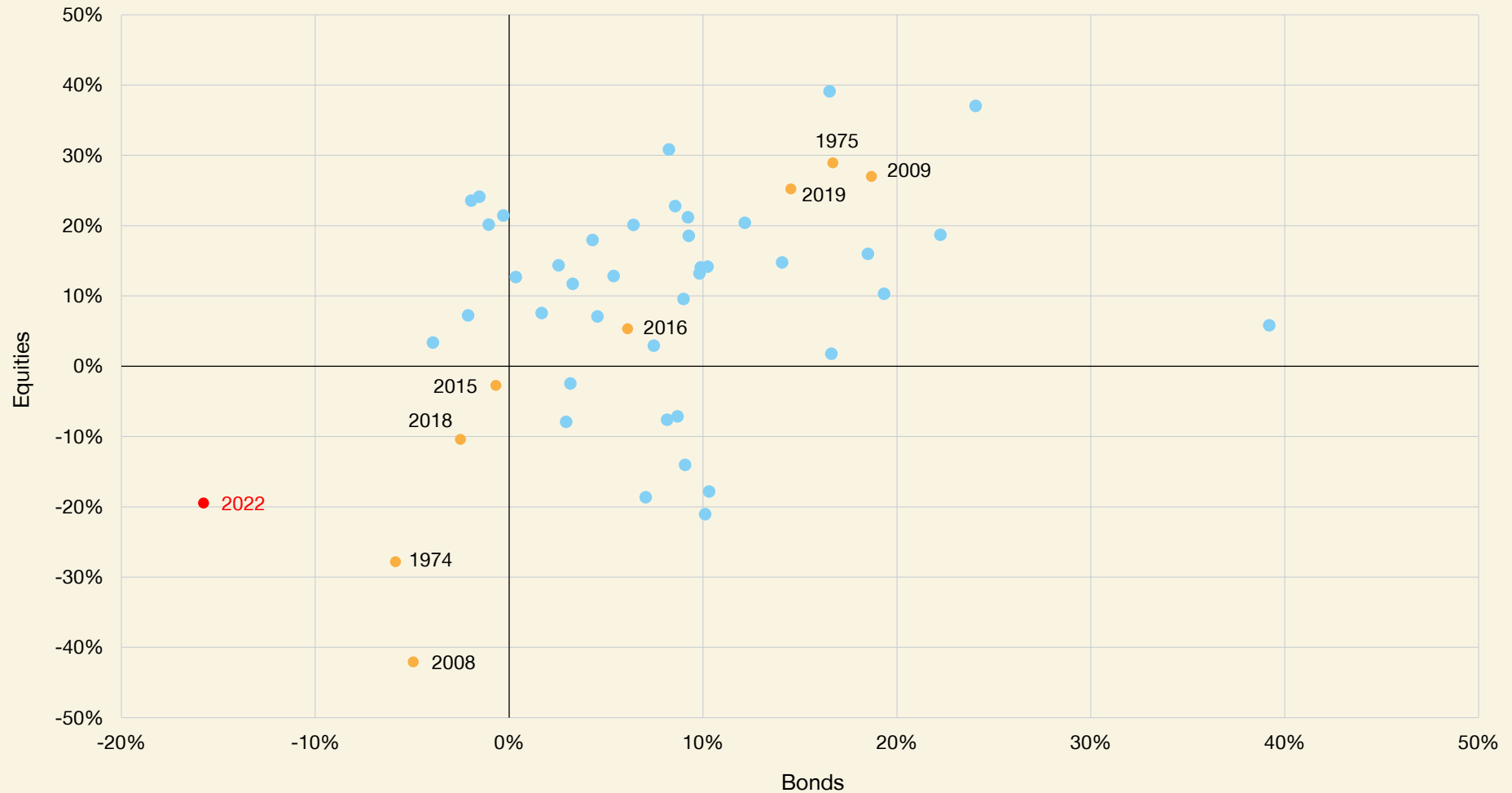
# Diversified Growth Fund: How is ESG incorporated into the investment



# Putting 2022 into context

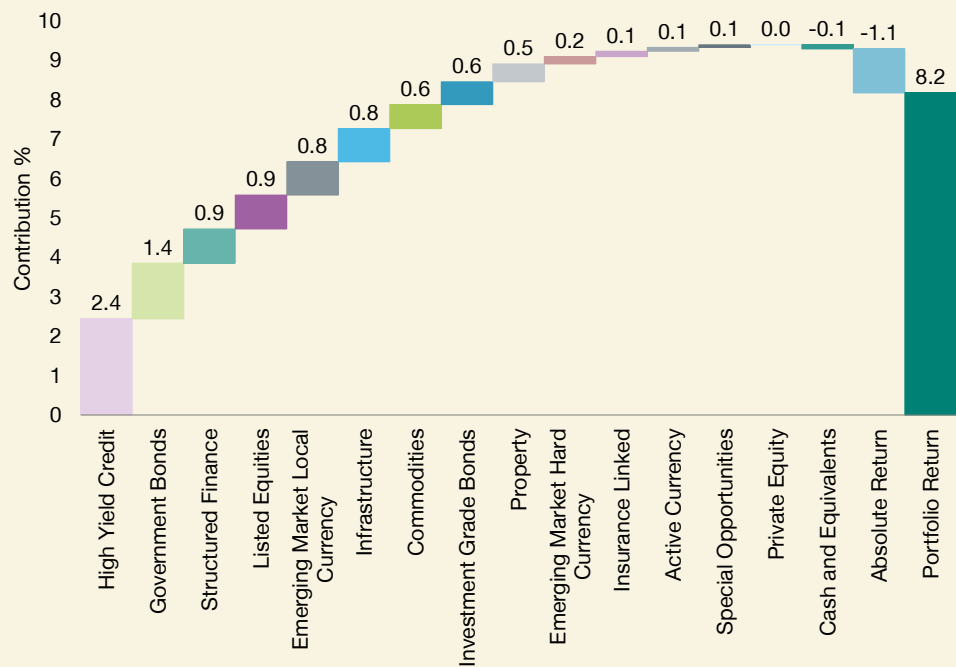
2022 was a very difficult year for both global equity and bond markets

Subsequent year recoveries have typically been good



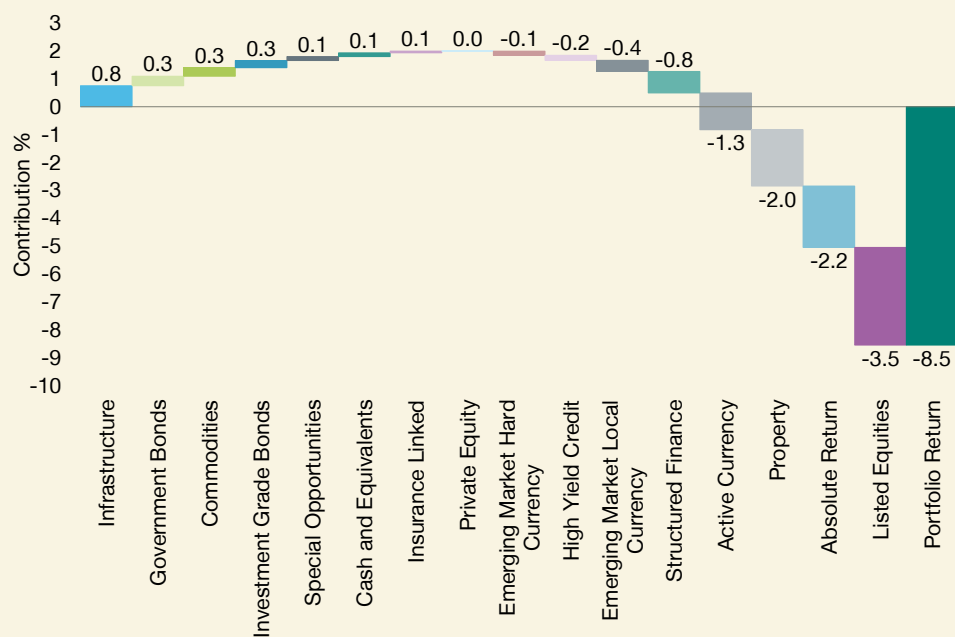
# Diversified Growth performance attribution

## 3 months to 31 January 2023



<b>% Ave. Exposure</b>	8.2	13.3	7.7	9.8	10.4	14.6	4.1	6.7	4.1	1.6	3.1	0.0	0.3	0.0	8.4	8.6
<b>% Return</b>	34.1	8.6	11.7	8.1	8.5	5.0	13.2	8.2	10.7	11.6	3.9	0.1	20.8	-50.0	0.8	-11.7

## 12 months to 31 January 2023



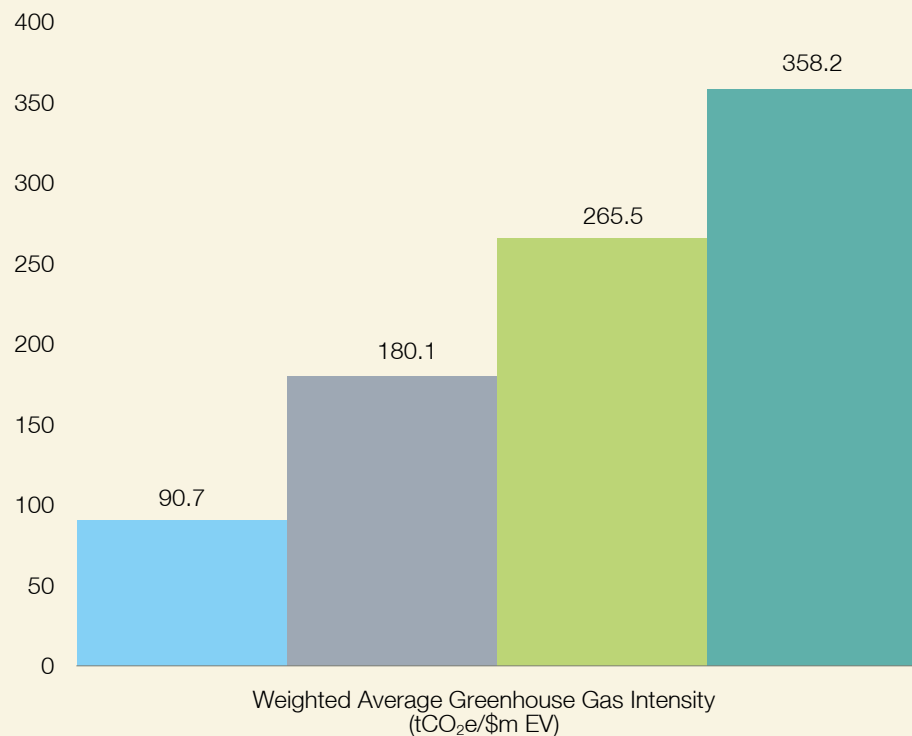
<b>% Ave. Exposure</b>	18.6	6.5	3.3	3.0	0.2	6.9	2.1	0.0	1.5	7.3	7.2	6.5	0.1	6.7	11.3	18.7
<b>% Return</b>	2.3	-13.4	-3.0	-8.8	71.8	1.7	5.7	-75.0	-11.8	-5.0	-7.8	-13.4	-1.3	-20.0	-18.3	-6.7

Source: StatPro, in sterling. Totals may not sum due to rounding.  
 Based on the Baillie Gifford Diversified Growth Fund.  
 \*31 December 2008.

This performance attribution analysis gives an illustration of the contribution to portfolio return from each asset class. This differs to the calculation of the composite return.

# Global Alpha Paris-Aligned: carbon footprint

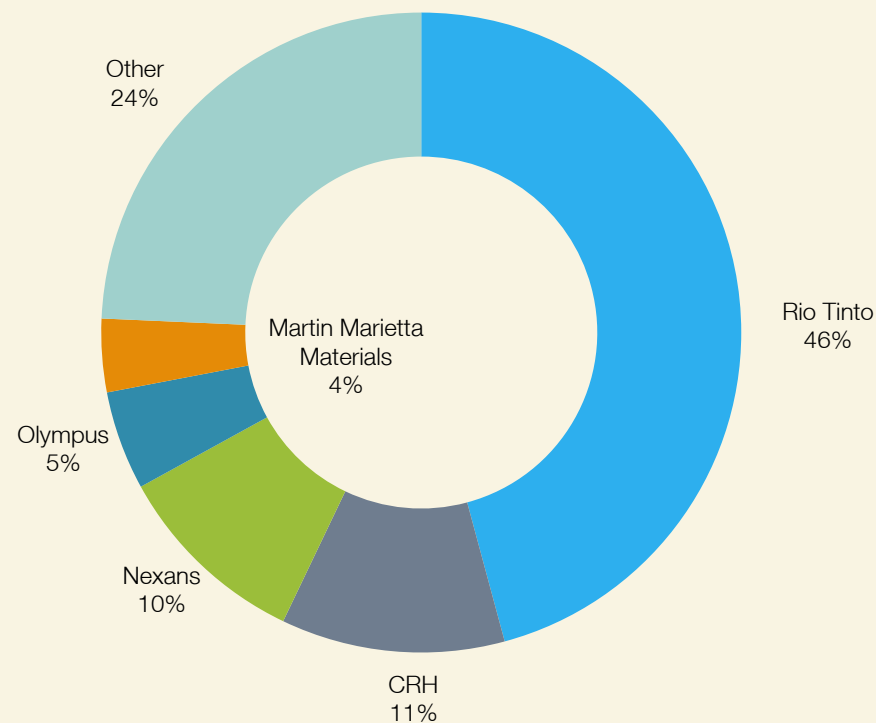
## Weighted Average Greenhouse Gas Intensity



- London LGPS CIV Global Alpha Paris Aligned
- MSCI ACWI EU Paris Aligned Requirements Index
- Global Alpha
- MSCI ACWI Index

## Largest contributors to the portfolio's

## Weighted Average Greenhouse Gas Intensity



Figures may not sum to 100 due to rounding.

Source: Baillie Gifford & Co, Barra, MSCI. As at 31 December 2022.  
Includes cash. These numbers have not been adjusted for an inflation in enterprise value.

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