

BAILLIE GIFFORD

Climate Change and Fossil Fuels

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What Do We Think About Climate Change?

We agree with the IPCC view that we are already experiencing a period of significant climate change

Anthropogenic greenhouse gas emissions are causing, or at the very least, significantly contributing to these changes

These changes will almost certainly continue in the decades ahead regardless of any further efforts to limit greenhouse gas emissions

Without a coordinated global effort to limit and in time reduce GHG emissions, the speed, scale and impact of climate change will increase in the coming decades

What Are The Probable Effects of Climate Change on Companies?

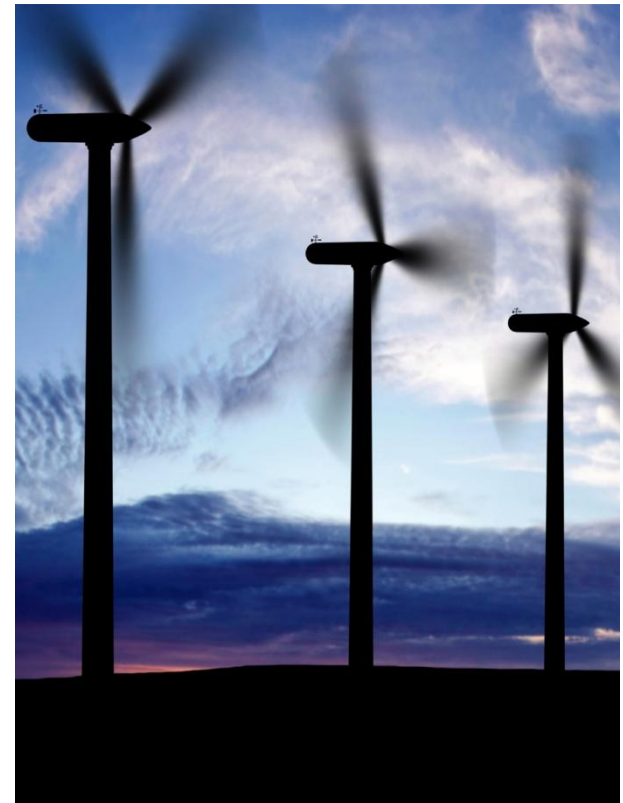
It will change the operating conditions for most companies

It will act as a risk multiplier

It will accelerate the pressure on companies to minimise costs and inputs

Impacts will vary strongly between countries, sectors, sub-sectors and business models

There will be opportunities as well as risks



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What Are Stranded Assets?

Assets that suffer from unanticipated or premature write downs, devaluations or become liabilities

Fossil fuel context

— Reserves will not be able to be burnt or will be uneconomic to exploit

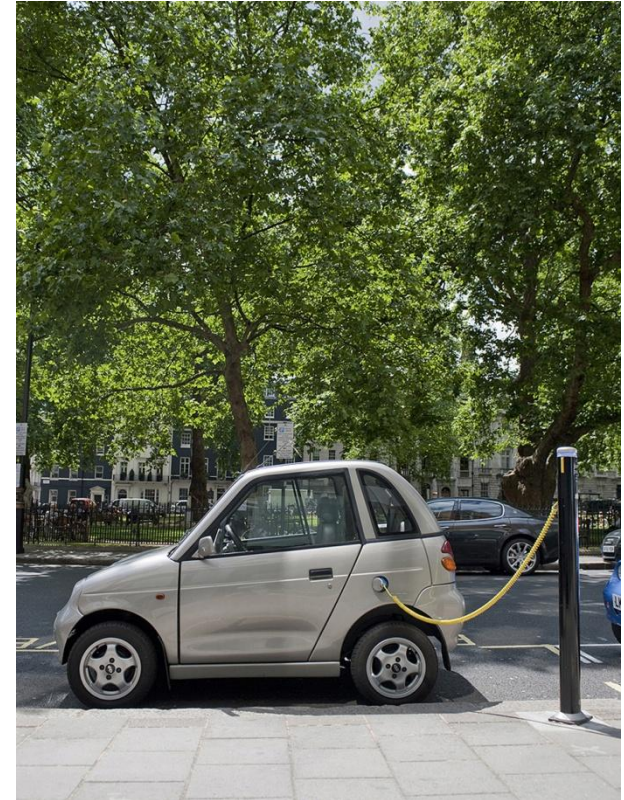
Driven by

— Emissions targets

— Clean energy targets

— Energy system transition

Highest risk where extraction costs and carbon intensity are high



Source: Baillie Gifford

What Do We Expect?

The direction of travel is clear, although the pace of change is uncertain

A price on carbon through taxes or other mechanisms

Energy demand can be expected to continue to increase globally

There is likely to be some demand for fossil fuels in the next 2-3 decades

There will be opportunities in the transition to a low carbon economy

The scale of mitigation commitments, technology development and technology adoption will determine the pace of change

What Is Our Approach?

We do not advocate blanket fossil fuel divestment

Instead, we take a nuanced, individual company level view

We believe that

- Many fossil fuel companies are diversified
- As committed long-term investors we have an opportunity to drive change
- There will be benefits in an orderly transition to the low carbon economy

We want to invest in companies that provide long-term *sustainable* growth

What Are We Doing?

Capacity building

- Recruiting with focus on particular areas
- Partner on the Mercer “Investing in a Time of Climate Change” report
- Climate change white paper

Strategic research

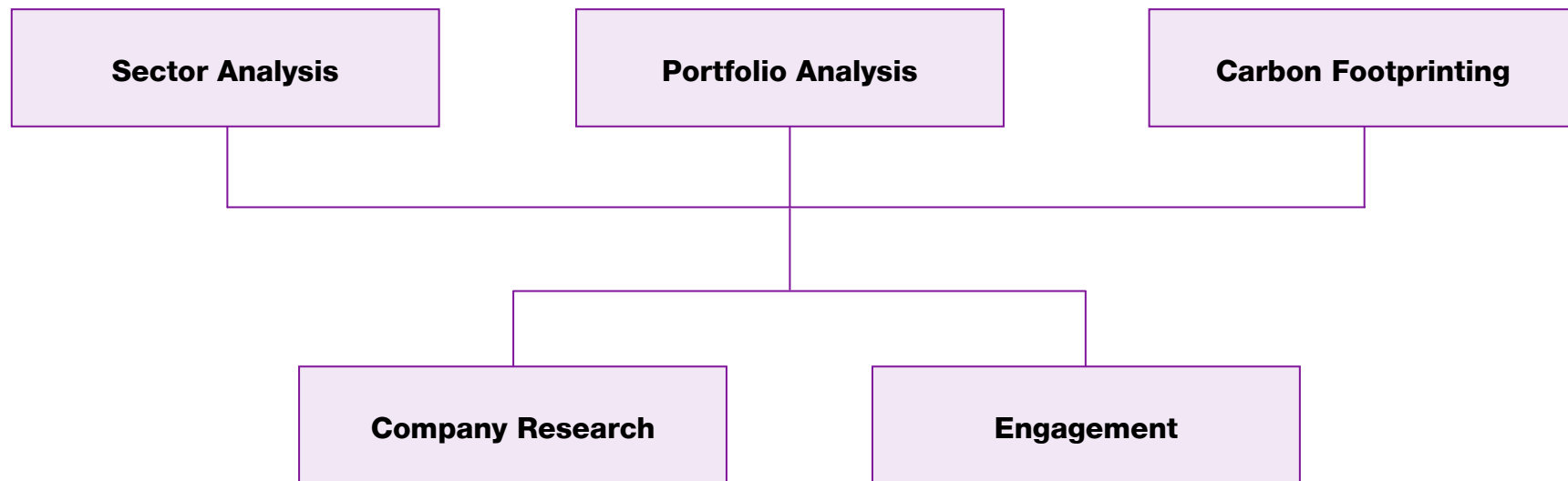
- Positive and negative aspects, policy framework
- Engaging with the policy debate



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What Are We Doing?

Company level research and engagement



What Is The Benefit?

Our approach allows us to

- Identify opportunities
- Consider demand as well as supply
- Maintain the broadest possible range of investment opportunities

This approach is consistent with our focus on long-term growth

This is a complex issue and we are looking at it from all angles

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