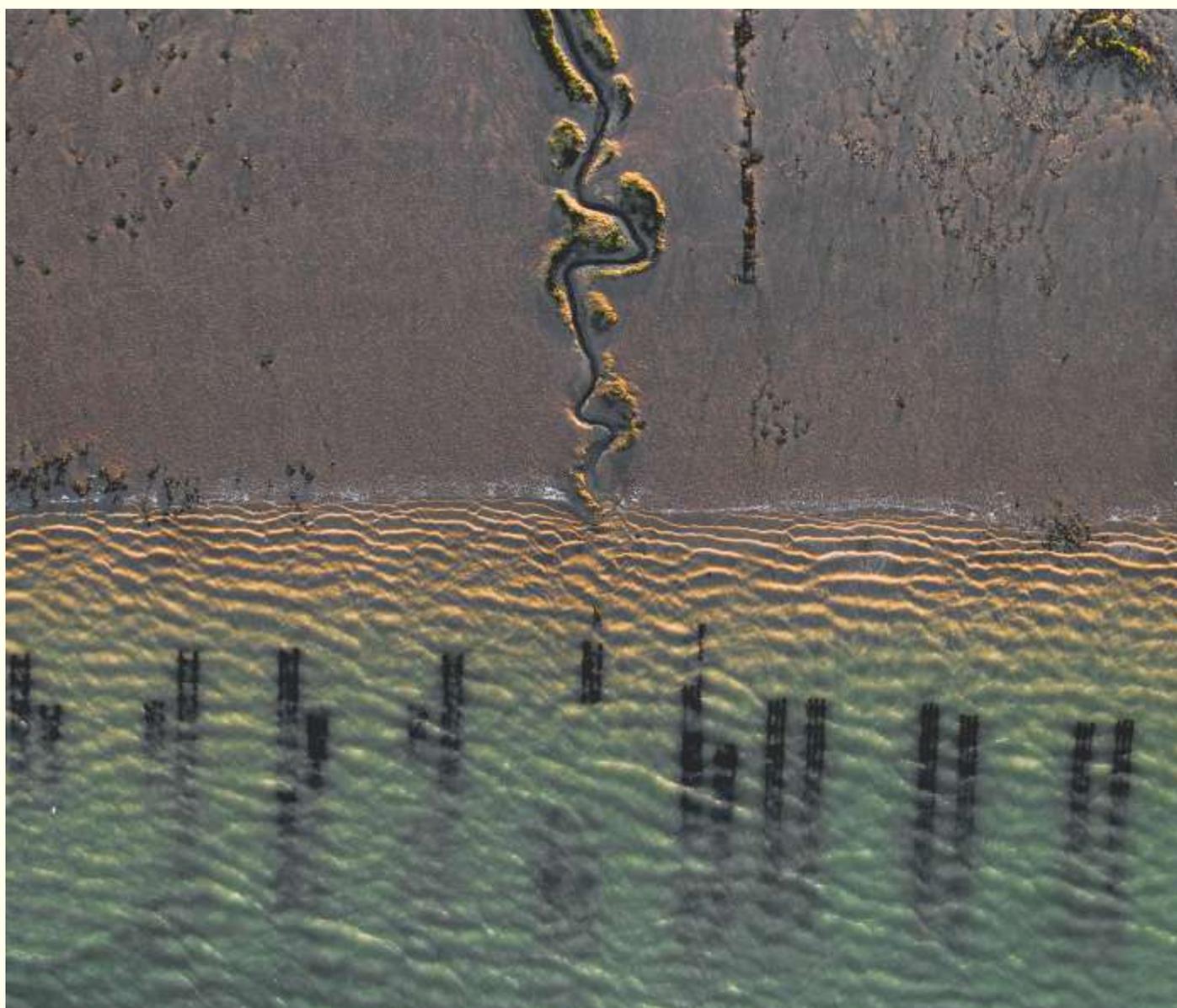


BAILLIE GIFFORD & CO

BCSSS BG Long-Term Global Growth Equity

Report for the quarter ended
30 June 2020



The ‘S’ in ESG is complicated

In our efforts to make sense of complexity there is a very understandable human desire to classify and conclude. We innately prefer clear, binary outcomes to the sense of unresolved business that comes from a finely balanced set of trade-offs or the uncomfortable uncertainty of not having enough data or insight to reach a clear-cut conclusion. We have been reminded of these complexities by recent events, as well as the tension between the safety of lockdown policies and the need to reopen more of the economy to rebuild livelihoods and generate taxes.

Governance and sustainability issues are of course no different, and increasingly complicated societal quandaries are seemingly being delegated to companies and investors to attempt to resolve, rather than being addressed head on by primary legislation or regulation. Many of these issues fall under the broad pillar of ‘social’ in the somewhat reductionist acronym of ESG. The ‘S’ can cover many issues including: health and safety in oil and gas or mining companies, human capital management, employee

turnover stats, modern slavery, talent management, human rights, working conditions and fair pay, as well as diversity, equality and inclusion.

Having been the least understood and most overlooked of the three pillars, social issues have the potential to completely dominate the responsible investment debate in the years ahead because they are typically complex, qualitative and subjective in nature. Almost all countries agree that we urgently need to limit carbon emissions, for example, but there just isn’t the same global consensus on issues such as appropriate tax policies, workplace rights and diversity goals.

Even when there is widespread agreement on the compelling and urgent need to change, we may not be sure about how best to progress. To give an important and timely example, during this year’s AGM season (roughly speaking from March to July) there have been several shareholder resolutions calling for companies to extend their gender pay gap reporting to include racial pay gap reporting. While the former is increasingly well established and supported by legislation in several countries, the latter is more nascent and considerably



more complicated. There is an ongoing debate about the best way to collect and classify non-gender diversity data to ensure that disclosure is meaningful, and even the most progressive companies are somewhat wary of being pioneers in this area. In the absence of established best practice, it therefore feels like there are several important foundational steps to be taken before the disclosure of ethnicity pay gap data becomes widespread.

Most importantly, there needs to be heartfelt and honest recognition across both companies and the investment industry alike that there is much more to do to support racial equality in society and in business, and then there needs to be a step change in collaborative efforts to develop best practice in terms of culture, governance and disclosure. Another area of profound social complexity is that of privacy and surveillance in the technology industry. There is growing controversy over the use of artificial intelligence (AI) and surveillance for security, even when the latter is deemed to be a priority. The AI debate is particularly important just now because we know that the technology is susceptible to both conscious and unconscious bias, and therefore has the potential to reinforce prejudice on an industrial scale. Another dimension to the current technology quandary is that the preference for privacy with respect to our data and the desire to see more being done to identify and address criminality online are increasingly awkward companion priorities. As end-to-end encryption becomes more widespread across social media and messaging services, privacy seems to be winning out over public safety considerations, at least for now. A related 'social' debate (as if one was needed) consuming the technology industry right now in the run up to the US Presidential elections is the 'political free speech versus appropriate content' conundrum – why, when and how should a technology or media company step into the potential realm of politics by tagging or barring content? In the absence of clear guidelines, companies and investors alike are having to navigate these uncharted waters.

However, one thing is very clear – the traditional notion that business, politics and social debate can somehow be kept separate is rapidly evaporating. It was of course never true, in the sense that plenty of companies were never shy of quietly contributing to the political debate through lobbyists, donations and public affairs campaigns, and at times enlightened companies have taken the lead on progressive social issues when to do so was commercially risky and brave. What we are seeing now is very different, however. All companies are being pulled into the increasingly febrile public debate on a whole range of issues, and being expected to take a side, in the full glare of social media and laser sharp public scrutiny. Staying silent on important social justice issues is increasingly difficult and hard to justify. Whether you think this is a good thing or a bad thing (and there are many in both camps), most will agree that with respect to public relations and reputational risk we are entering an ever more complicated and contested stage of corporate Darwinism, where the most adept will thrive. In all of our stewardship work, just as in our investment research, we aim to embrace complexity and understand the key issues and different viewpoints so that we can be progressive and supportive long-term owners of good companies. Sometimes this will mean having the confidence to say we aren't sure of all the answers right now, but we are very committed to the challenge of finding the way forward.

Voting Activity

| Votes Cast in Favour | | Votes Cast Against | | Votes Abstained/Withheld | |
|----------------------|-----|--------------------|----|--------------------------|------|
| Companies | 21 | Companies | 6 | Companies | None |
| Resolutions | 270 | Resolutions | 22 | Resolutions | None |

Increasingly complicated societal quandaries are seemingly being delegated to companies and investors to attempt to resolve, rather than being addressed by primary legislation or regulation

The traditional notion that business, politics and social debate can be kept separate is evaporating. Staying silent on important social justice issues is increasingly hard to justify

We aim to embrace complexity so that we can be progressive and supportive long-term owners of good companies

Firm-Wide Company Engagement

| Engagement Type | Company |
|----------------------|--|
| Corporate Governance | Atlassian Corporation Plc , Housing Development Finance Corporation Limited , Ionis Pharmaceuticals, Inc. , NIO, Inc , Peloton Interactive, Inc. , Tesla, Inc. |
| Environmental/Social | ASML Holding N.V. , Alphabet Inc. , DexCom, Inc. , Spotify Technology S.A. , Tencent Holdings Limited |
| AGM or EGM Proposals | ASML Holding N.V. , Amazon.com, Inc. , Delivery Hero SE , Kering SA , Netflix, Inc. |

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

| Company | Engagement Report |
|-----------------------------|---|
| Amazon.com, Inc. | <p>We had a call with Amazon ahead of its 2020 AGM to discuss some of the proposals on the ballot. It was also an opportunity to discuss the company's response to the Covid-19 pandemic, and the additional measures being taken to protect staff. With the significant increase in online delivery volumes during national lockdowns, stakeholders raised concerns regarding the challenges of protecting facilitation centre employees in an environment where social distancing is not always straightforward. We were reassured to hear about additional measures that had been implemented, from temperature screening to deep cleaning. We raised concerns over recent staff dismissals for failing to adhere to company policies while campaigning to challenge Amazon's response to the pandemic, and an ensuing senior technical manager resignation in protest. We urged management to be as tolerant as possible during this sensitive period, while accepting that important minimum operating standards must be respected by all employees. With respect to the AGM, we discussed shareholder proposals relating to high profile issues including artificial intelligence and privacy concerns, and gender and racial pay gap reporting. We agreed to meet again later in the year to discuss progress on these priorities.</p> |
| Atlassian Corporation Plc | <p>Atlassian strives to make better products, people, and a better company. We had a virtual meeting with co-CEO Scott Farquhar to learn more about his long-term vision for Atlassian and its corporate culture. In his words, the company's role is to "unleash the potential of every team" by overcoming frictions through connecting very different teams across organisations. As testament to the company's interesting 'lust-worthy' culture, it has designed office spaces to encourage openness, team work and socialising (as a high proportion work from home). The company has been able to accelerate hiring as rivals have let people go during the Covid-19 pandemic. Like his co-founder, Farquhar strikes us as open and down-to-earth, at the helm of a company that quietly gets on with its task of making businesses more productive.</p> |
| DexCom, Inc. | <p>Dexcom's competitive position has strengthened, its utility has proven lifesaving, and its culture is one of the most patient-centric that we have encountered. A discussion with CEO Kevin Sayer and senior management allowed us to learn about the effects of the Covid-19 pandemic on Dexcom's business. In the short term, the goal has been to keep employees and patients safe. The company launched a patient assistance programme for those who lost their insurance due to the pandemic. In the longer term, Sayer believes the pandemic makes continuous glucose monitoring (CGM) even more central. The arguments are broadly fourfold: first, studies suggest people with 'uncontrolled' diabetes are more likely to die of Covid-19 than non-diabetics; second, several health authorities are allowing increased remote monitoring to limit direct patient contact with hospital staff; third, regulatory approvals are likely to be faster; and fourth, both patients and physicians are likely to be more willing to accept near real-time remote monitoring. Despite such tailwinds, Sayer is mindful of the need for further falls in the cost of Dexcom's CGM devices and more improvements in the patient experience. We are examining whether the odds of an outsize return may have increased meaningfully.</p> |
| Ionis Pharmaceuticals, Inc. | <p>Our discussion with CEO Brett Monia, CFO Beth Hougen and COO Onaiza Cadoret provided an opportunity to learn more about Ionis' priorities, particularly since Monia became CEO in January after 30 years at Ionis. His appointment follows a multi-year transition period, demonstrating the care with which the company approaches succession. On future growth, management noted that the approval of Spinraza has validated Ionis' antisense technology as a new class of drugs and R&D is contributing to an extraordinarily productive clinical pipeline. We asked if there was ambition to introduce significantly lower drug prices, given the reduced cost of discovery afforded by Ionis' platform. They conceded that future economies of scale as more drugs enter the market could translate into operating leverage and pricing flexibility that other companies lack.</p> |
| NIO, Inc | <p>We continue to engage with NIO as it seeks to raise the pace of operational progress. William Li, founder and CEO, has communicated regularly with us over recent months. During that period the company has traversed a Chinese auto slowdown, reductions in electric vehicle subsidies, a product recall and the Covid-19 pandemic. Most recently, Li highlighted recovering sales and deliveries, the normalisation of business operations, and recent investment agreements with strategic investors from Hefei province. We look forward to continued dialogue with the company.</p> |

| Company | Engagement Report |
|---------------------------|---|
| Peloton Interactive, Inc. | <p>Peloton is in the early days of growth, with a unique culture fuelling the brand and seizing market opportunity. Our discussion with founder CEO John Foley and CFO Jill Woodworth followed recent correspondence. Peloton has responded commendably during the Covid-19 pandemic, helping customers under financial strain and gifting bikes to healthcare professionals and hospitals. Equally, the company's early announcement of support for the re-emergence of the Black Lives Matter movement strikes us as genuine. Foley's vision of Peloton as a non-hierarchical, modern brand with progressive HR and diversity and inclusion at its core is potentially an enduring competitive advantage. The recent collapse of the CrossFit brand following the tweets of its then-CEO serves as a powerful contrast in company culture. More generally, Foley strikes us as an interesting founder who has created a business capable of disrupting (and perhaps expanding) an industry that is little changed in decades. Peloton thinks about the customer and culture, delivering better hardware, better software and a better customer experience. Owning its suppliers and controlling its delivery remain key differentiators against emergent imitators.</p> |
| Spotify Technology S.A. | <p>Spotify aims to enable a million creative artists to live off their art. We met with the head of creator business during the quarter and, as well as discussing current and future opportunities for the streaming platform, we got a better understanding of how the business is measuring progress against its core mission. A methodology for each country has been defined to enable management to monitor how many artists are able to live off their work. We are thinking about appropriate metrics which could be used to report progress against this mission and are following up.</p> |
| Tencent Holdings Limited | <p>Tencent provides internet and mobile services, as well as online advertising in mainland China, the United States, Europe, and internationally. As part of our ongoing research to understand the investment and stewardship case, we spoke with the chief strategy officer, James Mitchell. Topics discussed included the evolving regulatory environment for gaming in China and beyond, the development of the company's corporate culture as growth continues, and the challenges of data governance. A further call on this latter topic, with a particular focus on the operating environment in China, is planned.</p> |
| Tesla, Inc. | <p>We had a call with the chair, Robyn Denholm. We discussed items on the AGM ballot (now postponed until September 2020), as well as the company's management of labour and safety workplace issues during the Covid-19 pandemic. While there is still stakeholder scrutiny of Tesla's approach to some ESG issues, including employee arbitration rights and supply chain risks, we were encouraged by the excellent progress that the company has made over recent years with respect to external disclosure and impact reporting. This has been accompanied by increased stakeholder engagement, and the recruitment of highly respected new independent director, Hiromichi Mizuno, who will bring additional board level oversight to Tesla's approach to governance and sustainability issues.</p> |

Votes Cast in Favour

| Company | Meeting Details | Resolution(s) | Voting Rationale |
|-------------|--------------------|---------------|--|
| Amazon.com | Annual 27/05/20 | 10 | We supported a shareholder proposal for Amazon to report on the median gender and racial pay gap across the business. We believe this proposal requests data which will be useful in understanding Amazon's efforts to promote equality and inclusion in the business. |
| Amazon.com | Annual 27/05/20 | 16 | We supported a shareholder proposal to improve the transparency of Amazon's corporate lobbying policies and governance. We believe greater transparency of all political expenditures and lobbying, particularly indirect spending through trade associations, coalitions and charities, would enable shareholders to assess alignment with Amazon's values and corporate goals. |
| Facebook | Annual 27/05/20 | 10 | We supported a shareholder resolution relating to the introduction of reporting on the company's efforts to address online child sexual exploitation on social media channels, as we believe that enhanced disclosure on this sensitive issue is in shareholders' best interests. |
| Facebook | Annual 27/05/20 | 6 | We supported a shareholder resolution relating to the introduction of a majority voting standard for directors, as we believe that simple majority voting is best practice for director elections. |
| Facebook | Annual 27/05/20 | 7 | We supported a shareholder resolution relating to the introduction of reporting on political advertising on the company's social media channels, as we believe that enhanced disclosure on this sensitive issue is in shareholders' best interests. |
| Netflix Inc | Annual 04/06/20 | 5 | We supported a shareholder resolution for a report on political contributions as we believe enhanced disclosure on the company's policies and procedures is in shareholders' best interests. |

| Companies | Voting Rationale |
|---|---|
| AIA Group, ASML, Adyen Nv, Amazon.com, Delivery Hero AG, Dexcom Inc, Facebook, Hermes International, Illumina, Intuitive Surgical, Kering, L'Oreal, Meituan Dianping, NVIDIA, Netflix Inc, Salesforce.com, Shopify 'A', Spotify Technology SA, Tencent, Workday Inc, Zoom | We voted in favour of routine proposals at the aforementioned meeting(s). |

Votes Cast Against

| Company | Meeting Details | Resolution(s) | Voting Rationale |
|------------|--------------------|---------------|--|
| Amazon.com | Annual 27/05/20 | 11 | We opposed a shareholder proposal to report on the community impact of its operations. We believe that Amazon's Climate Pledge is a significant statement of intent to improve the environmental impact of its operations, so this additional report would not be an appropriate use of Amazon's resources at this time. |
| Amazon.com | Annual 27/05/20 | 12 | We opposed a shareholder proposal to ask Amazon to sell books promoting conversion therapy and barring charities from AmazonSmile because of conservative religious views. We are supportive of Amazon's actions in this area. |

| Company | Meeting Details | Resolution(s) | Voting Rationale |
|------------|--------------------|---------------|---|
| Amazon.com | Annual 27/05/20 | 13 | We opposed a shareholder proposal requesting Amazon to report on promotion data. We do not believe the level of detail requested in this report will enable effective assessment of Amazon's diversity and inclusion initiatives. |
| Amazon.com | Annual 27/05/20 | 14 | We opposed a shareholder proposal to reduce the current ownership threshold from 30% to 20% to call a special meeting as Amazon has put forward a separate proposal under resolution four to reduce the threshold to 25% which we have supported. |
| Amazon.com | Annual 27/05/20 | 15 | We opposed a shareholder proposal to publish a human rights impact assessment. We are supportive of Amazon's current approach which takes a more comprehensive risk-based approach to address human-rights than the proposal requests, evaluating its operations and value chain to identify, prevent and mitigate adverse impacts. |
| Amazon.com | Annual 27/05/20 | 5 | We opposed a shareholder proposal requesting Amazon to report on food waste as we believe Amazon's continually developing approach to managing food waste appropriately deals with this issue. |
| Amazon.com | Annual 27/05/20 | 6, 7 | We opposed two shareholder proposals requesting Amazon to report on their use of surveillance technology. We believe Amazon is closely monitoring this issue and currently has appropriate measures in place to mitigate the risks of human and civil rights violations from the use of surveillance technology. |
| Amazon.com | Annual 27/05/20 | 8 | We opposed a shareholder proposal requesting a report outlining Amazon's process for developing policies to address hate speech and offensive products as we believe Amazon has clear policies and procedures in place to address hate speech and offensive products. |
| Amazon.com | Annual 27/05/20 | 9 | We opposed a shareholder proposal requiring an independent Chair. We believe the current Chair, Jeff Bezos, is a responsible, long-term steward of the business. We also believe the SID Jonathan Rubenstein provides appropriate balance to the current joint CEO/Chair set-up. |
| Facebook | Annual 27/05/20 | 11 | We opposed a shareholder resolution relating to the commencement of additional gender and racial pay gap reporting. Whilst gender pay gap reporting is now widespread, reporting on other types of diversity pay gaps is less well established and best practice is still being developed. We strongly support further sector-wide work in this latter area to improve diversity and racial equality. |
| Facebook | Annual 27/05/20 | 4 | We opposed a shareholder resolution relating to a 'one vote per share recapitalisation' that was not aligned with our voting policy. The proposed change to a single share class could potentially be disruptive and we do not believe that the proposal would necessarily improve the strategic oversight of the business and alignment with long-term holders. |

| Company | Meeting Details | Resolution(s) | Voting Rationale |
|----------------|--------------------|---------------|---|
| Facebook | Annual 27/05/20 | 5 | We opposed a shareholder resolution relating to an independent board chair that was not aligned with our voting policy. The proposed change could potentially be disruptive and we do not believe that the proposal would necessarily improve the strategic oversight of the business and alignment with long-term holders. |
| Facebook | Annual 27/05/20 | 8 | We opposed a shareholder resolution relating to the recruitment of an additional independent director with specialist human rights expertise. Given the multi-faceted and demanding nature of the requirements of independent directors we believe that suitable candidates should have a broad range of experience and qualifications, including the ability to draw on independent expertise as required. |
| Facebook | Annual 27/05/20 | 9 | We opposed a shareholder resolution relating to an additional civil and human rights risk assessment as we believe that the company is already undertaking sufficient work to understand the risks in this area of its business. |
| Illumina | Annual 27/05/20 | 4 | We opposed a shareholder proposal relating to political contribution reporting as we believe that the company's current practices in this area are satisfactory. |
| Kering | MIX 16/06/20 | 0.10-0.12 | We opposed three resolutions related to remuneration due to concerns with the link between pay and performance. |
| Netflix Inc | Annual 04/06/20 | 6 | We opposed a shareholder resolution to eliminate supermajority voting as we are satisfied the company's current governance provisions are appropriate. |
| Netflix Inc | Annual 04/06/20 | 7 | We opposed a shareholder resolution requesting a report on the company's equal employment policy as we considered it unnecessary. |
| Salesforce.com | Annual 11/06/20 | 6 | We opposed a shareholder resolution as we do not believe that the requested change to the company's articles of association is required. |

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

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