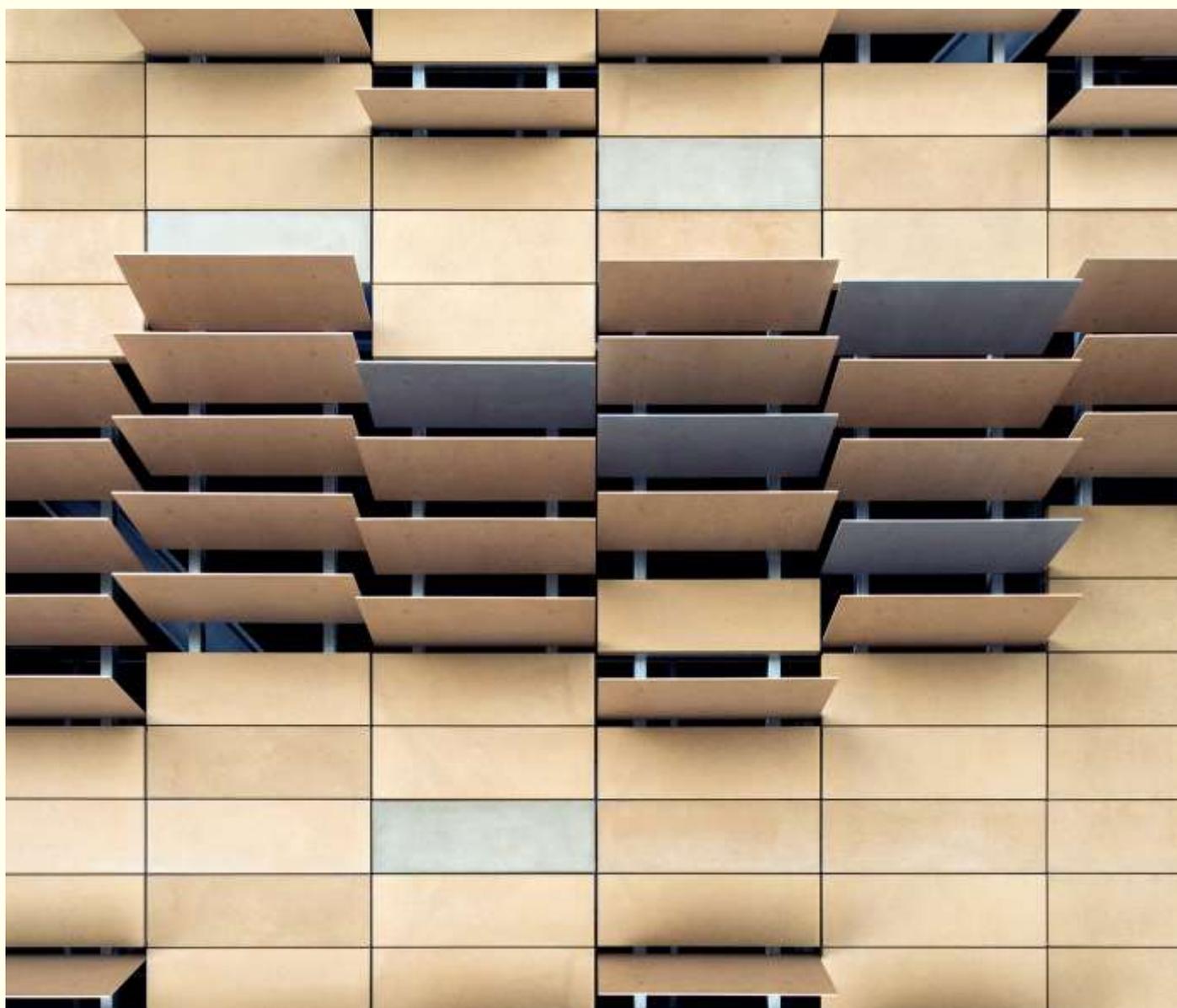


BAILLIE GIFFORD & CO

BCSSS BG Long-Term Global Growth Equity

Report for the quarter ended
30 September 2020



As long-term investors we expect the companies we hold to take a similarly long view. This requires them to act in a way that considers their impact on society and allows them to adapt in the face of change. We are encouraged by how your portfolio holdings have responded during the coronavirus outbreak.

In March, as coronavirus spread and a global pandemic was declared, the LTGG team began a review of every holding, looking at both financial resilience and cultural adaptability. In tandem, we wrote to all portfolio companies to reiterate our support.

“Please be assured,” we wrote, “that we remain very much long-term shareholders and as part of this we support any actions which your businesses must take to help employees and society in the short term. This is a crisis which goes way beyond short term financial results and we would encourage you to take a holistic view of your societal responsibilities, as we know you do, and not worry about short-term profitability. It is more important to do the right thing.”

We were encouraged by the responses to our letter and the actions taken. Many of your portfolio holdings were able to offer swift practical support to frontline healthcare workers. Facebook donated over 700,000 facemasks from its emergency supply – the company had held these for staff given the wildfires in California – and donated \$10 million to source additional medical supplies and support the vulnerable.

The Alibaba Foundation, alongside the founder’s Ma Foundation, delivered personal protective equipment (PPE) across the globe. Tencent allocated over \$300 million across two anti-pandemic funds to focus on the sourcing and donation of PPE and essential medical supplies. Aside from PPE, hand sanitiser has been in short supply. The L’Oréal Group’s factories were quick to ramp up production and dispatch several million units free of charge to hospitals, care homes, pharmacies and those most vulnerable.

Technological contributions from the likes of Alphabet, Alibaba, Facebook and Tencent have enabled remote collaboration, facilitated telemedicine and helped governments promote access to reliable information. Many of these platforms have faced challenges about their social licence to operate and we rightly continue to see increasing scrutiny. Interestingly, the pandemic has seen some of the western platforms take a leaf out of the eastern book. Alphabet, like Tencent, has facilitated government ‘asks’. Through YouTube, Google Maps and search, government information has been disseminated to help contain the virus and promote good hygiene.



The healthcare players in the portfolio are also doing their bit. Illumina made a software toolkit available to the global research community to help track the path and understand transmission routes and mutations of the virus. Illumina also donated sequencing machines and consumables to the Africa Centers for Disease Control and Prevention. Dexcom too has been donating hardware – up to 10,000 of its continuous glucose monitoring systems to hospitals and other care facilities. The ability to monitor a diabetic’s blood glucose remotely helps reduce the need for close physical observation and therefore preserves precious PPE.

The crucial requirement for social distancing to slow the spread of coronavirus has seen billions of us remain at home. Zoom has enabled many to continue working remotely, facilitating virtual meetings with ease. The company was swift to open up its offering, removing the time cap on meetings for free users and providing additional user support and training. Further, the company has been working with numerous foundations and institutions to facilitate mental health training, online education and telemedicine. Commendably, founder CEO Eric Yuan instructed staff not to ramp up sales or marketing in response to the crisis. However, just as Zoom began to be used as a verb, privacy and security concerns emerged. Zoom’s response was humble, swift

and decisive. It focused its efforts on security in the months that followed, addressing every issue, establishing a 'Chief Information Security Officer Council' to advise on building the firm's security and privacy, and even holding weekly 'Ask Eric anything' webinars.

Just as we at Baillie Gifford have had to learn new ways of working, so too have the companies in the portfolio. The changes range from facilitating different working patterns to reorienting their entire business model to reflect current, perhaps permanent, market conditions. Facebook, for example, is allowing its employees to 'work from home forever' with the expectation that over the next five to 10 years up to half of its employees could be working outside the office. This of course may have implications on wages, which will be interesting to see play out. Executives at online used car retailer Carvana, a relatively new holding, took pay cuts, with the forgone salary put towards furloughed workers. François-Henri Pinault, chairman and CEO of Kering, also took a salary cut to the tune of 25 per cent and waived his 2020 bonus.

AIA, the pan-Asian life insurer, having historically relied on face-to-face meetings as the primary source of new business, had to act quickly. It developed and deployed enhancements to its digital tools to enable remote sales. This strengthening will be the legacy of coronavirus. Thus a business built on face-to-face interactions adapted itself for the future. AIA also looked after its community during these months with local and targeted initiatives, including free insurance benefits for frontline healthcare workers.

Salesforce founder and CEO Marc Benioff wrote a personal message of support to clients in which he described the company's support for local communities and sought other opportunities where its technology could help. The company recently released Work.com, which helps support the safe return to the workplace and facilitates quick decision making. Services range from contact tracing to shift management and compliance and wellbeing training.

Shopify has enabled many businesses to continue operating in this challenging new environment. The support has been especially welcome for small merchants who have found ways to connect with customers. Shopify recognised the increased need for flexibility and, taking delivery as an example, has facilitated kerbside pick-up, home printing of shipping labels and the ability to offer local delivery. The company most recently reported a doubling of its growth rate; of course, the shift online driven by Covid-19 is one element of the story but the other is the unparalleled ease with which small businesses can reach large audiences and sell online using Shopify.

During lockdown, many of us turned to Netflix for entertainment. The company shut down production quicker than most broadcasters and studios as the risk of continuing with Covid-19 as an unseen 'extra' on-set was clear. The company recognised the devastation wrought by the virus on the creative industries and set up a \$100 million fund for cast and crew who found themselves jobless. However, with original content shot in many locations around the globe, the company has had the flexibility to restart filming where it's safe to do so. While Netflix has been a beneficiary of our binge-watching over the past few months, to keep us satiated a steady flow of new original content is needed. We have always admired the adaptability of Netflix and its management's drive to stay ahead and that also means adapting to new ways of filming. The use of Unreal Engine (an Epic Games offering) allows for filming in a closed studio but with virtual backgrounds which can be modified and changed in real time – so the production appears to have been filmed in the real world.

For children, Amazon offered free audiobooks via Audible. Available in many languages, these stories have been keeping kids gainfully occupied across the world, giving worn out parents a bit of respite. NetEase, better known for gaming, has seen the use of its online education services spike in China during the pandemic. Reporting 100 per cent growth in its education business in recent months, its growth trajectory is entirely different from what might have been achieved in 'normal' times.

To help keep us active, Peloton extended the free trial of its at-home fitness app to 90 days (no bike or treadmill required). The company also extended its ‘Comeback Program’ and donated bikes to hospitals and healthcare workers. Despite the extended free trial of the Peloton app the company has just reported its lowest churn rate in four years. We will be interested to see how this trend develops over the coming months. Also interesting is Peloton’s near doubling of paid subscribers, despite having paused advertising – it had to in order to process pent-up demand – an indicator of the organic strength of the brand.

Baillie Gifford holds itself to the same high standards it expects from portfolio companies. LTGG’s own Mark Urquhart, as a member of our Sponsorship Committee, has been at the centre of our efforts. Thousands of meals and supplies of foodstuffs have been provided to healthcare facilities in Edinburgh for those most in need in our community, IT equipment has been donated to enable patients to communicate with loved ones, PPE has been sourced for local hospitals, and we’ve supplied much needed administrative and financial support to local charities. Embedded in LTGG’s analysis of any company are two questions: how does the company contribute to society and how adaptable is its culture? The answers to these are more important than ever as we navigate this unprecedented pandemic.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	6	Companies	None	Companies	None
Resolutions	50	Resolutions	None	Resolutions	None

Embedded in our analysis of any company are two questions: how does the company contribute to society, and how adaptable is its culture?

The answers to these are more important than ever as we navigate this unprecedented pandemic

Earlier this year we wrote to all portfolio companies to reiterate our support and we are encouraged by how your portfolio holdings have responded during the coronavirus outbreak

Firm-Wide Company Engagement

Engagement Type	Company
Corporate Governance	Netflix, Inc. , Pinduoduo
Environmental/Social	Alphabet Inc. , Amazon.com, Inc. , Beyond Meat, Inc. , Moderna, Inc.
AGM or EGM Proposals	Tesla, 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
Alphabet Inc.	<p>Topics addressed during Alphabet's latest ESG call with shareholders included: content moderation (positive results from increased AI interventions - full details are in the now quarterly Transparency Reports), human rights (including a change in algorithms following a review of the company's approach to hate speech in 2019, while human rights analysis is being embedded in product development), and modern slavery (Google has joined a group of companies led by the Responsible Business Alliance to examine claims of forced labour in its supply chains in China). We wish to dig deeper into such topics and continue to seek closer engagement with management.</p>
Amazon.com, Inc.	<p>As part of our longstanding dialogue with Amazon on its approach to environmental and social issues, we met with Tessie Petion, Head of ESG Engagement - a newly created role at the company. Petion noted that Amazon has made good progress with regard to its environmental disclosures, but lags far behind where it should be on social matters. She spoke of Amazon's hesitancy to publish certain practices if they were not deemed pre-eminent. We would encourage the company to lead from the front and not be afraid to make mistakes. With this in mind, we reiterated our interest in Amazon publishing more granular health and safety data on its workforce. We are planning further discussions with Petion in coming months, in which we expect to address own-product supply chain oversight, human rights around privacy and freedom of expression, and employee relations.</p>
Netflix, Inc.	<p>While much of the market negativity over Netflix centres on valuation, rising content costs and competitors, the risk that captures our attention is whether the company can continue to create hits over the long term. Our conversation with Spencer Wang, VP Finance, provided reasons for optimism. He reiterated that the Netflix culture needs to change, especially as the company becomes more international. Netflix is positioning itself as global, and this is evident in its employee demographics which are far more representative than peers. Ideas from teams of young people in regional offices percolate up to management, such as its successful new catalogue of Hindi-language shows. We are also encouraged that its chief content officer Ted Sarandos has been promoted to co-CEO, suggesting future succession planning, while his data-led approach and willingness to take risks (he was largely responsible for Netflix's push into original content) speak to a culture of constant product innovation.</p>
Pinduoduo	<p>Although Pinduoduo is only five years old, founder chair Colin Huang is already devoting much thought to retaining talent and succession-planning. Huang recently stepped back from the CEO role and will continue to serve as chair. Co-founder and CTO Chen Lei has become CEO. Our impression from speaking to Huang is that there is a low probability of him retiring this decade and he remains actively involved in leading the partnership. Despite being one of China's wealthiest individuals, he has nurtured a corporate culture characterised by 'Ben Fen' (humble and calm). Huang also transferred a significant portion of his holding in the company to the partnership, emphasising his desire that the assets should be used to fund research and socially responsible activities, and to incentivise future generations of management. This strengthening of the partnership gives us greater confidence in the longevity and sustainability of the leadership.</p>
Tesla, Inc.	<p>We attended the 2020 annual meeting virtually, followed by the company's 'Battery Day', where CEO Musk outlined plans to reduce battery cell cost: a key bottleneck in the ongoing transition from internal combustion engines to electric vehicles. The meeting was broadcast by live webcast, with a small number of shareholders able to attend. Each sat in their Tesla Model 3, as at a drive-in cinema. We supported two shareholder proposals, to eliminate supermajority voting provisions from the bylaws and for more disclosure around the company's use of mandatory arbitration. The former resolution was passed by the requisite majority and we look forward to the board implementing these changes. We intend to engage on the use of arbitration, to encourage better transparency. The Battery Day presentation explained Tesla's plans to pursue technological advancements and increased vertical integration of its manufacturing process to drive down battery costs. By re-engineering cell design, Tesla hopes to reduce battery costs by 56% per kilowatt-hour over the next three years. This is seen as critical to the company's long-term mission of accelerating the advent of sustainable energy. We applaud the scale of Tesla's ambition and support its commitment to invest for the long term. We believe that embracing the risks and delivering successfully on these plans will greatly benefit all stakeholders.</p>

Votes Cast in Favour

Companies	Voting Rationale
Alibaba, HDFC Corp, Inditex, Meituan Dianping, NetEase.com ADR, Pinduoduo Inc ADR	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

We did not vote against any resolutions during the period.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

Head Office
Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +044 (0)131 275 2000

Copyright © Baillie Gifford & Co 2009

