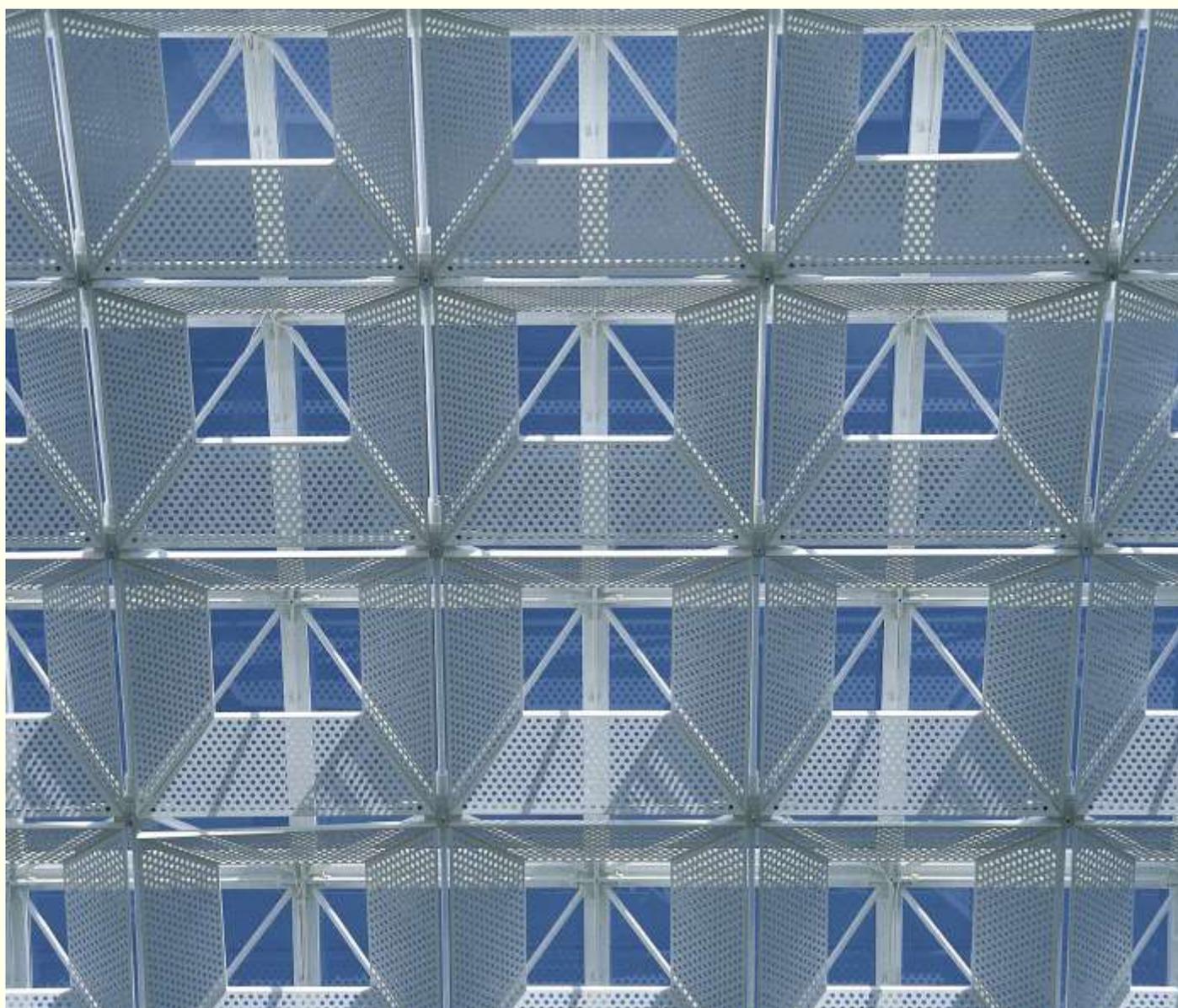


BAILLIE GIFFORD & CO

BCSSS BG Long-Term Global Growth Equity

Report for the quarter ended
31 December 2018





When we meet clients in the US, Asia and Europe, they generally want to know what primary sustainability issues other market participants are asking about.

Five themes are consistently part of the discussion:

- Climate change
- Diversity
- Tax
- Governance in China
- Human rights and supply chain responsibility

Baillie Gifford’s Governance and Sustainability team have been incorporating climate change in our research for over three years. We have begun to complete carbon footprints for many of our strategies in order to identify the largest contributors to the portfolio’s carbon intensity. We then assess these companies to understand their approach and governance structure for managing, controlling and reporting on the carbon emissions. If there is a lack of information, we engage with senior management to promote the importance of managing these issues.

Discussions about diversity have increased significantly over the last 12 months and it is now a standing agenda item in many governance meetings. We have reviewed our regional and global portfolios to highlight the percentage of companies with fewer than 30% female board members and the number that have a female CEO or chair. We have also tried to identify the degree of diversity in the senior management and executive teams. It is important to note that diversity is not just about gender. We think about skill set, experience, ethnicity and, increasingly, age diversity. Needless to say, the statistics are not positive, but this is an important conversation and we have a starting point from which we can assess progress.

Tax has never been off the agenda, but the extraordinary growth of the internet platforms over the last decade has magnified the importance of the issue to governments and society more broadly. It is an issue we have spoken about and it will be interesting to see how government policy responds to the challenge. We are particularly curious to see whether the UK’s proposal to tax revenue rather than profit will be a workable option.

Governance in China is not a new discussion, but there is renewed focus following the opening of the China A-share market and the update to the corporate governance code, both of which occurred in June 2018. It will be fascinating to be part of the development of corporate governance and stewardship in China over the next five to 10 years. We have a few examples of companies that understand there are global norms and expectations when it comes to reporting, and Alibaba is a particularly important case. However, the vast majority of Chinese companies would be considered laggards when analysed against global norms. The Chinese market primarily comprises retail investors (85%), so both the regulators and companies are looking for more global institutional investors to become involved. For this to happen, improved reporting and disclosures in English would be a helpful starting point.

Human rights and supply chain responsibility manifest themselves in corporate reputation and brand value. Of the five issues highlighted, this is potentially the most difficult to understand. Somewhat uncomfortably for companies with global supply chains, the vast majority of businesses in which we invest on behalf of our clients will have some exposure to human rights abuses or child labour. If we accept this as an uncomfortable reality, the question turns to how companies can minimise the risk and how they respond when they identify an infringement.

Looking ahead

This is a quick and superficial review of some of the engagement topics, and issues of interest in different parts of the world. If it initiates any questions or demands a deeper commentary on any of the subjects discussed, please get in touch. The Governance and Sustainability team at Baillie Gifford continued to grow in 2018 and now numbers 13 members. With all of the current activity, further growth looks likely in 2019.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	2	Companies	None	Companies	None
Resolutions	18	Resolutions	None	Resolutions	None

Our clients in the US, Asia and Europe commonly want to know what sustainability issues other market participants are asking about

Five issues that are consistently part of the discussion are: climate change, diversity, tax, governance in China and supply chain responsibility

The Governance and Sustainability team at Baillie Gifford continued to grow in 2018 and now numbers 13 members. With current levels of activity, further growth looks likely in 2019

Firmwide Company Engagement

Engagement Type	Company
Corporate Governance	Alphabet Inc. , Amazon.com, Inc. , Kering SA , NVIDIA Corporation , 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>In keeping with its technology sector peers, Alphabet faced challenges in 2018 relating to data governance and corporate culture. A recent staff walkout in protest against the company's handling of sexual harassment cases also attracted significant international media coverage. The company's newly established quarterly governance calls are therefore a welcome development. Management have taken the harassment issues seriously, and announced commitments to all employees, offering further channels of communication for reporting concerns, along with further education and training. Whilst much of this is still work in progress, Alphabet's commitment to employees was clearly emphasised. We look forward to an update at the next quarterly conference call.</p>
Amazon.com, Inc.	<p>On a 2018 governance and sustainability update call with Amazon, we covered several subjects, including the ongoing issue of employee working conditions and measures to combat fake customer reviews on the website. The call was helpful and insightful, and we were encouraged by Amazon's recent moves to improve employee engagement at facilitation centres and its commitment to addressing and removing fake reviews.</p>
Kering SA	<p>The heads of investor relations and legal came to our offices as part of the company's first roadshow dedicated to governance and sustainability. They wanted feedback on previous shareholder meeting agenda items ahead of the 2019 AGM. On behalf of clients who provide us with voting discretion we have been withholding support on remuneration primarily because of concerns regarding the stringency of the remuneration policy. Two years ago, the company moved from a long-term incentive plan based on one metric to a plan based on three - with a requirement to achieve positive progression on one of those three metrics. A key reason for this change was that the company had not met the target attached to the sole metric, meaning executives would receive very limited awards. It was one of the few operational metrics to perform badly. We do not believe the revised policy of having to achieve positive progression is stretching enough and at the most recent AGM, remuneration received an oppose vote of around 20%, demonstrating a meaningful level of shareholder dissent. The company agreed that improvements on stringency could be made. Generally, across our European holdings we are seeing an increase in remuneration policies basing awards on one metric and Kering is a good example of the risks attached to doing so. We had a helpful discussion and agreed that a plan based on operational metrics with stretching targets on balance was preferred. The board are reflecting on improvements to the policy which will hopefully be brought to shareholders for approval in 2019.</p>
NVIDIA Corporation	<p>We accepted an offer to discuss governance with the new lead independent director of Nvidia, Mark Perry. Since we first invested, he is the third non-executive director with whom we have engaged. This level of board access is excellent and has helped to develop a good understanding of the company's corporate governance. The discussion focused on the board's structure and its interaction with management. Perry explained that ongoing refreshment is expected, with artificial intelligence, big data and international experience identified as focus areas. Diversity was also highlighted as an important consideration, and we were encouraged to hear that the company is seeking to improve this across the business. We were also pleased to learn that the board has regular communication with senior management, including direct contact with leadership teams below executive level, and has been a valuable source of advice and guidance.</p>

Votes Cast in Favour

Companies	Voting Rationale
Alibaba, Atlassian Corp Plc	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.

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