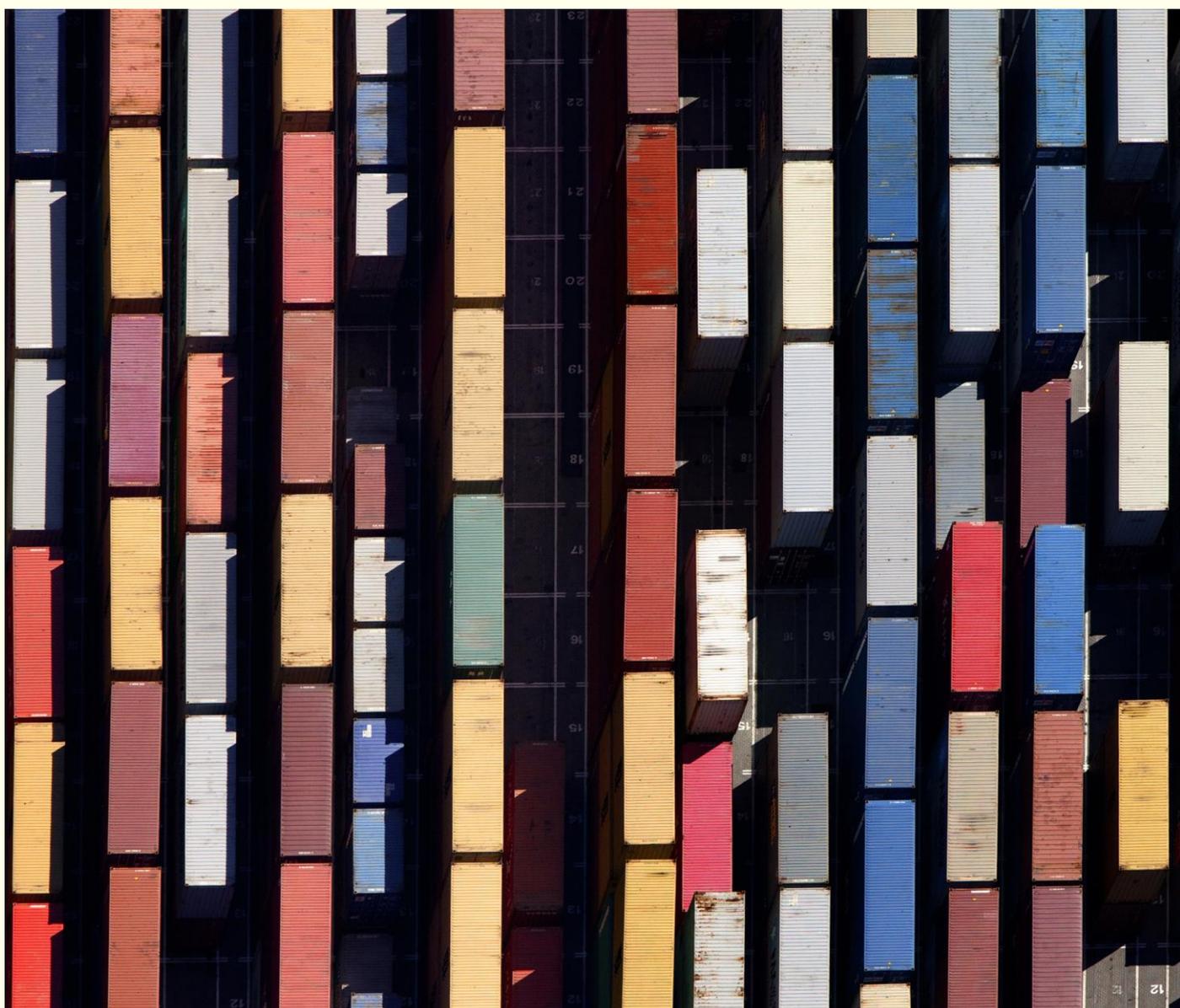


BAILLIE GIFFORD & CO

BCSSS BG Long-Term Global Growth Equity

Report for the quarter ended
31 March 2018



Governing the giants

It's 119 BC. After centuries of warring between kingdoms, China is unified. But there are powerful and potentially destabilising forces. These include not only the Huns bearing down from the north, but also the wealthy salt merchants whose profits rival the central government's treasury. Their business is booming because in ancient China everyone wants salt. And so the emperor responds by converting the salt industry into the world's very first state-run monopoly.

Fast-forward a couple of millennia to 2018. This time it's not the salt merchants but the so-called 'tech' enterprises of the 21st century that trouble governments in the West: namely Alphabet, Amazon and Facebook. Their prevalence throughout society is clear: Facebook has over 2 billion monthly active users across its platforms; Google represents over 80% of online search in much of the West; and nearly half of all US e-commerce passes through Amazon. As these companies become increasingly intertwined in people's daily lives, they inevitably attract attention. Increasingly, politicians, the media and market commentators suggest that regulatory intervention is necessary.

During the past year, Google has been fined a hefty \$2.7 billion following a European Commission antitrust ruling. Facebook has faced a spate of fines by European countries on data privacy issues. Both companies also endured grilling by the US Senate intelligence and judiciary committees regarding their inadvertent roles in the 'fake news' ads that were disseminated on their platforms during the 2016 US presidential election. Amazon – whose revenues are larger than Facebook's and Alphabet's combined – is the target of those advocating more assertive US antitrust regulation. Once revered as beacons of innovation, entrepreneurship and grassroots movements, these companies are now lightning rods for accusations of anti-competitiveness, weak data privacy, political sabotage, and unhealthy addictions.

And yet they are much loved by their billions of users. People around the world communicate with each other more easily than ever before. Shoppers benefit from choice, price and convenience that are generally unmatched by bricks and mortar retailers. Millions of start-ups and small enterprises can grow thanks to flexible low-cost platforms such as Instagram or Amazon, which offer unparalleled access to global



markets. As they expand their activities into ever more business areas – such as video, cloud, and future artificial intelligence applications – Facebook, Amazon and Alphabet are bound to compete with each other more intensely. And it only takes a quick glance beyond the domestic US market to realise that Chinese giants such as Alibaba and Tencent are spreading their wings internationally and are beginning to compete head-on with the western players abroad – and perhaps one day even on US home turf.

The debates on these issues rage on and we cannot know how exactly they will play out or what the outcome will mean for companies. After all, regulatory policymaking is notoriously uncertain, lengthy, complex and fragmented. However, we do know that the probability of some sort of regulatory intervention is sufficiently high to warrant our serious attention.

Long-term success in a more regulated future boils down to something far more fundamental than companies' lobbying budgets or legions of lawyers: attitude. There is no perfect company and each will make its own mistakes, but how a company recognises its errors, reacts, learns and takes proactive action says a lot to us about its culture and ability to adapt to a shifting regulatory environment.

In early January, while many of us were still recovering from the excesses of the festive period, Mark Zuckerberg informed the world of his New Year's resolution to fix the world's largest social network. He acknowledged that Facebook makes too many errors when preventing misuse of its social media tools. To help remedy this, the company is hiring 10,000 extra employees to work on safety and security. It already reviews nearly 90% of flagged hate speech within 24 hours – a significant feat when policing a community of over 2 billion people. The most striking aspect of this rethink is the acceptance that it will lead users to spend less time on Facebook, which might cause revenue growth to slow – a sacrifice that the company is willing to make in return for a better user experience. Whether these actions have the desired effect or not, the thoughtfulness and willingness to do what's 'right' reflects a culture that is likely to reinforce the longevity of the company.

Amazon faces a similar amount of public interest. When we attended the Sun Valley Conference last year, Jeff Bezos mused that the level of coverage and criticism of the company he founded is predictable, acceptable and understandable given its size and influence. This attitude perhaps goes some way to explaining why Amazon did not contest or appeal against last year's verdict by the European Commission that ordered Luxembourg to collect some 250 million euros in back taxes from the

company. Other US companies that have been landed with similar charges by the Commission haven't been quite so discreet or understanding.

In contrast to the growing scrutiny of western giants, it's often observed that the shortage of such public debate in China permits the rapid growth of Alibaba, Baidu and Tencent to continue unabated. It seems the Chinese State views these companies positively – at least for now – perhaps because they drive technological progress that is considered helpful for maintaining social harmony. Our meetings with Alibaba in November last year reiterated the company's commitment to facilitate social mobility and employment opportunities beyond the millions of jobs the company has already helped to create. Its Taobao Villages – e-commerce centres dotted throughout rural China – are helping to lift many areas out of poverty by providing access to online retailing and infrastructure. Last year, Tencent also showed a keen sense of social purpose by tackling addiction to video gaming. Rather than trying to maximise short-term revenues, it proactively limited the number of hours that children can play its 'Honour of Kings' game. Such actions reflect management attitudes that truly concentrate on the long term.

Following the introduction of ancient China's first state monopoly, a fierce discourse among scholars was held at the imperial court in 81 BC to debate the government's economic policies. Today, a not-too-dissimilar discourse is underway. The world has changed beyond recognition in the past millennia, but the age-old conundrum persists regarding the role of government in the economy. Ten years from now, will Amazon have been axed in two by antitrust regulators? Will the public have shunned social media, causing the likes of Facebook to become virtual ghost towns? Will Alibaba have fallen foul of the Chinese State and been subjected to government control? Maybe. But we think there's a decent probability that, with the right attitude, these companies have got what it takes to become the world's principal drivers of social, economic and environmental progress – while at the same time growing into the 21st century's leading multi-trillion dollar companies.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	2	Companies	None	Companies	None
Resolutions	5	Resolutions	None	Resolutions	None

As large companies grow ever bigger, they often attract attention from regulators

Long-term success in a more regulated future boils down to something far more fundamental than companies' lobbying budgets or legions of lawyers: attitude

The thoughtfulness and willingness to do what's 'right' reflects a culture that is likely to reinforce the longevity of a company

Firm-Wide Company Engagement

Engagement Type	Company
AGM or EGM Proposals	L'Oreal S.A., 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
Tesla, Inc.	<p>Ahead of the special shareholder meeting in March to approve the 2018 CEO performance award, we had a call with the Senior Independent Director Antonio Gracias and CFO Deepak Ahuja. The focus of the discussion was to understand the thinking behind the new award, including the plan's structure, targets and quantum. We were part of the initial consultation in July 2017, and it was clear from this latest conversation that it has been an extensive process. The award retains several features from the 2012 equity incentive plan, including its simple, long-term structure and use of market and financial targets, which were effective in facilitating the company's success to date. The board outlined its belief that Musk remains a critical driver of Tesla's long-term mission and that this new award was important for ensuring his retention. Musk is unusual amongst the founders of our holdings in that he has substantial outside business interests. Therefore, a key objective for the board and the 2018 Plan was to appropriately position the Tesla role within Musk's list of priorities. We believe the scale of the targets and the corresponding potential payout are sufficiently large to put the company's success at the top of Musk's agenda. For options to vest, Musk and Tesla must bring radical change to large, established industries. The consequence of this will be a very substantial return on our clients' investment, as well as value for broader stakeholders. For these reasons, we confirmed our support for the plan, which was subsequently approved by shareholders.</p>

Votes Cast in Favour

Companies	Voting Rationale
HDFC Corp, Tesla Inc	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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