BAILLIE GIFFORD & CO

BCSSS BG Long-Term Global Growth Equity

Report for the quarter ended
31 March 2019

The 1950s ushered in an era of international economic cooperation designed by new multilateral economic institutions known collectively as the Bretton Woods system. Although this was the very beginning of our current system of globalisation, it was a simpler world back then. At that time, the world population was 2.5 billion with 30% living in Europe and North America. Business was about bringing raw materials in, manufacturing, and trading with other rich countries. Building competitive moats was the privilege of the rich as they could afford the required investment in labour, plant, and equipment.

The world has changed. The global population is now over 7 billion with the majority living in Asia and Africa. The most precious raw material is now data. Companies can reach billions of consumers with little capital. In less than a generation, emerging markets and developing economies have gone from being producers of goods and trading hubs for developed countries, to becoming an important destination for consumer goods and services in their own right. As we look ahead and take into account the accelerating pace of technological change, those companies that are not adapting to their externalities will be challenged and disrupted faster. Unlike other periods of significant change this revolution has no boundaries or borders. So, what endures and what fails?

Professor Hendrick Bessembinder has demonstrated stock market returns are driven by the few, not the many. In his research he has found that the entire wealth creation of the US stock market since 1926 is attributable to a mere four percent of companies. Our job as investors, is to find those companies, and to determine the characteristics that separate those special companies from the remaining 96%. We believe that really exceptional companies are as much about corporate character as about operational edge. And it may be that culture is the only truly sustainable competitive advantage – because it cannot be duplicated, unlike services, products or delivery systems. As long-term investors, we are looking for companies that will not only endure but prosper; companies which are willing to embrace uncertainty, disrupt themselves and adapt to changing environments are, to our mind, signals of their desire for success.

Global dynamics have introduced organisations to a multiplicity of ideas, workers and consumers with unprecedented levels of social, ethnic, cultural and religious diversity. While the changes will vary by region, they will have a profound effect on local and global markets and societies. It is the ability of companies to be sensitive to, and to adapt to, this changing world that will determine their success. In light of the above, two questions within our 10 Question research framework are coming to the fore. In the following pages we discuss a number of the Long Term Global Growth portfolio holdings and, based on our research and continued interactions with their management teams, look at how each stacks-up against questions four and five.

Question 4: Is your business culture clearly differentiated? Is it adaptable?

Question 5: Why do your customers like you? Do you contribute to society?

Illumina

Illumina, one of the largest holdings in your portfolio, has a stated mission to improve human health by unlocking the power of the genome. The genomics revolution promises to change how diseases are diagnosed, prevented, and treated. Currently, despite differences in race, gender, background, diet and a multitude of other factors, treatments for diseases are similar for all patients. This is because, for most diseases, treatments are based on ‘standard care’, which means applying the same treatments to all. However, this approach doesn’t work, leading to a significant waste of time, money and effort. In the US, healthcare spending accounts for around 18% of GDP and is estimated to rise by around $3.5 trillion every year.

Genomics is different. It is not about finding the standard but about understanding the difference. Genomics is about understanding diversity. It is about analysing an individual’s genome and using this information for personalised diagnosis, disease management and treatment. To realise the full impact of genomic medicine we must be sensitive to differences and transcend geographic boundaries. Extremely large and diverse data sets are needed to provide context for the interpretation of genetic sequences. No single country or institution can achieve the necessary scale and diversity alone. Illumina has realised that success in genomics requires a nimble organisation willing to move beyond its borders. Jay Flatley, the then CEO, recognised the need for cultural changes and brought in Francis deSouza. His background was an advantage, a computer scientist from Silicon Valley, of Greek and Ethiopian heritage; he grew up in the Middle East then relocated to America to study. deSouza needed to develop an organisation that would embrace the mission and be sensitive to the plurality of global dynamics. He believed that to improve human health a diverse team of professionals was needed. He started making changes by adding more women, ethnic minorities and individuals from non-medical business backgrounds to the executive team and the Board. His hope was to create a broad team with many different perspectives.

To reach a broader consumer base not only required a fresh perspective at the executive level but operationally as well. Illumina broadened its geographic reach by employing staff of different nationalities in offices across the globe; careful to be sensitive to local operating environments and not impose a US approach in local markets. China, for example, represents the largest market in the world for next generation sequencing. To maximise success Illumina needed to build a strong local presence, supporting the needs of China. Illumina immersed itself in the country by hiring staff with an understanding of regional dynamics and partnering with local organisations – tremendous strides for an organisation that in 2013 questioned their commitment to the Chinese market. To ensure that such sensitivities became part of the DNA of the company, Illumina hired a Chief People Officer with a wealth of experience outside biotechnology. The company has also recently created a new position – Director of Global Diversity and Inclusion – to help focus and formalise efforts in diversity within the organisation.

The company’s understanding of the importance and impact of diversity doesn’t stop at the office doors. Illumina has become active in clinical consortium research programmes such as iHope and All of Us to provide sequencing to, and gather data from, groups that have historically been underserved and underrepresented due to background or diagnosis. By doing so, the public wealth of knowledge will continue to grow and provide benefits to many more patients who depend on the precision of genomic medicine. Illumina is also working to make sure the next generation of geneticists will come from a variety of backgrounds. Illumina seeks to inspire youth to pursue careers in science, technology, engineering and medicine and is working with schools globally to encourage the pursuit of careers in these fields.

To date just over one million people have had their whole genome sequenced, with nearly 20 million having undergone some level of DNA analysis. Illumina’s pursuit of diversity is to ensure that they will be at the forefront of sequencing for the next millions but with the keen understanding that genomics is not only for the one percent. Its success in this pursuit thus far increases our confidence in the probability that the company will succeed in its mission.

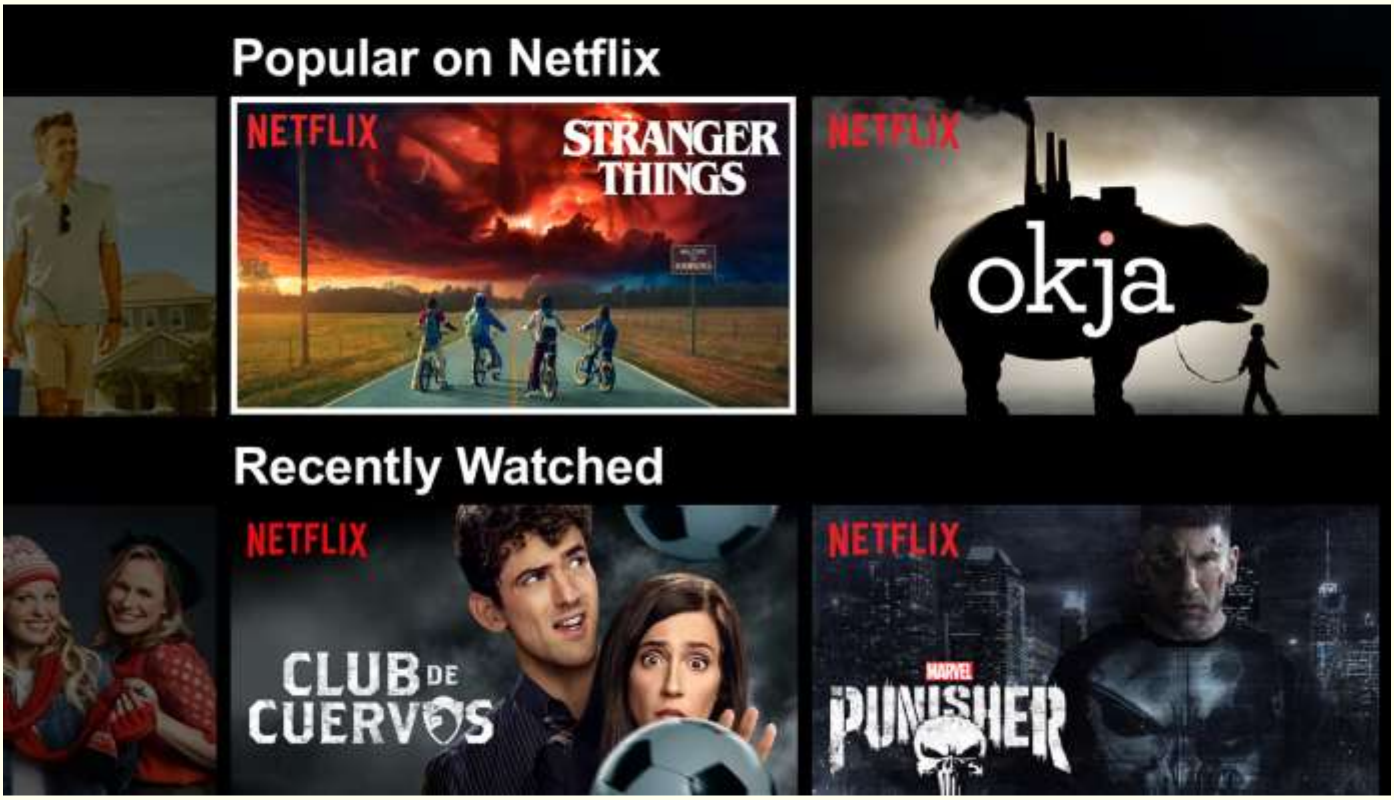
Netflix

In 2016, a company with under 5,000 employees located in a small sleepy town in America launched its product in 130 countries simultaneously. A remarkable achievement, truly remarkable for a company that only six years prior was confined to their domestic market. Netflix had gone global overnight.

Netflix is a company of serial reinvention, first moving from DVD rental to streaming to content producer, and now from a domestic player to a global one; amassing circa 140 million subscribers, of which only 58 million are in the US. We can credit Netflix's awesome growth with changing media habits and faster internet but more importantly a culture focused on delivering 'TV shows and movies to the billions of people with whom we share the planet'. Netflix believes that to be a truly global company then, by definition, you need to reach a diverse audience and that the content produced needs to reflect that diversity.

"From today onwards, we will listen, and we will learn, gradually adding more languages, more content and more ways for people to engage with Netflix. We're looking forward to bringing great stories from all over the world to people all over the world." CEO Reed Hastings.

Netflix is one of the first companies to assume that not all programming is watched in the same way around the world. The company believes that to tell stories from around the world, employees need to reflect the world with a wide range of perspectives and backgrounds. To do this Netflix is ensuring that its projects are inclusive, both in front and behind the scenes. However, what stands them apart is understanding that this effort is not about box ticking but one of creativity. In the last few years, we've seen Netflix invest heavily in storytellers that reflect the diversity of its audiences, producing over 100 projects in 16 countries and in 16 different languages – nearly doubling the number of shows produced and dollar investment since 2017. Netflix has turned to those with unique perspectives not seen on television before. Perspectives like Jenji Kohan's multiple award-winning, Orange is the New Black; an adaption of memoirs of a former female inmate of a minimum-security prison. Also, Lebanese director Mir-Jean Bou Chaaya's Jinn, the first Arabic language original series, and a supernatural thriller based on Islamic mythology; and Dee Rees, the first Black woman nominated for an Oscar for Best Adapted Screenplay, and her Mudbound – the tale of the struggles of two young men, one black and one white, who return from the war to work the land in the



American South. These stories and their creators demonstrate that provisions and clauses are not the only means to necessitate diversity and plurality of expression.

Netflix believes diversity of thought, culture, background, and perspective is the only way to create a truly global entertainment network. This is in contrast to mainstream Hollywood which continues to struggle with a diversity problem. The Time's Up and #MeToo movements have shed light on the mistreatment of women in Hollywood and continued dominance of straight white men behind and in front of the camera – with men occupying more than twice as many roles in films as women. This is not to suggest that the journey has been straightforward nor is it complete. Netflix fired its Chief Communications Officer for racial insensitivity. Since then, the company has hired a VP of Inclusion Strategy to help devise and implement strategies that integrate cultural diversity, inclusion and equality into all aspects of Netflix's operations worldwide.

Netflix has taken on the incumbents and continued to adapt by putting together a portfolio of programming that appeals to customers worldwide. Netflix's determined reinvention, first operationally and now culturally, is clearly a differentiator amongst global content providers and thus deserving of its top 10 position within your LTGG portfolio.

Atlassian

Atlassian is an Australian enterprise software company which develops products for software developers, project managers and content management. Its mission is to unleash the potential of every team through open work. Atlassian is trying to change the way we work; believing that organisations thrive when teams work openly. The company contends that most work is done in a closed way, often unwittingly. Information is hidden or lost, bonds between teams and teammates are weak, and perspectives are withheld. Knowledge is wasted and potentially frittered away. To work openly requires employees to feel they belong; necessitating an organisation that appeals to and respects a diverse set of perspectives and constituents.

Atlassian has seen that the highest performing teams are comprised of people with diverse perspectives and, points to numerous studies which show diversity both inherent (race, gender) and acquired (experience, cultural background) is correlated with business success. However, success, in terms of diversity, within Atlassian and in technology companies generally has so far been marginal. With so much at stake, why aren't these companies making more headway?

It shouldn't be surprising that most diversity programmes aren't increasing diversity. Despite a few new bells and whistles, courtesy of big data, companies are basically doubling down on the same approaches they've used since the 1960s – which often make things worse, not better. Diversity initiatives are often targeted at those in narrowly defined categories of 'diverse' candidates. Efforts are compartmentalised into projects, committees, training days or initiatives. This force feeding can activate bias rather than stamp it out.

For Atlassian increasing diversity in every sense is not a fad but a non-negotiable key to progress. However, the company has found that serious long-term commitment to diversity requires more than check-the-box initiatives and is incredibly challenging for an organisation. To move forward, Atlassian is focusing on three areas: team-level progress; process and policy and, importantly, accountability. Atlassian has realised that to make progress, the company must move beyond traditionally defined categories of diversity and that initiatives must be integrated into strategy. Woven into the fabric and the vision of the organisation, not only through culture, values and belief systems, but every aspect of the employee experience from recruitment and performance objectives to leadership and development. Importantly, like all operations within the business, diversity needs to be measured to determine progress and, as part of the learning process, any appropriate adjustments made.

Most diversity and inclusion conversations currently focus on the company as a whole. Atlassian has come to realise that success is about balancing perspectives within every team at all levels of the organisation. For example, if women and people of colour are found only in select departments or at the lower levels, the organisation will not profit from diversity. To meet these objectives, Atlassian has implemented the 'diverse slate approach' for executive and board positions and is rolling that out across other levels of the organisation. This approach to hiring sets the expectation that candidates from underrepresented groups should be considered and represented at interview stage.

Atlassian is updating policies and processes and implementing programmes that address representation and retention issues. For example, they are taking a different approach to hiring, implementing what Atlassian calls 'values fit.' This involves standardising all interviews around a specific set of questions that highlight behaviours that are successful at Atlassian, not a preconceived notion of cultural fit. Additionally, Atlassian is intentionally providing opportunities to people from underrepresented groups to grow and develop. Launching a senior technical mentorship initiative, a programme for emerging female leaders, and a pilot apprenticeship programme for Black, Latina, and Indigenous women.

Most importantly there is a focus on learning and accountability, each year Atlassian releases its demographic breakdown for the company's workforce which includes team level data. The idea is to evaluate how diverse Atlassian's teams are within each job function. Atlassian contends that being precise and data-driven about the impact you intend to have will make it easier to adjust or scrap ineffective projects altogether. Otherwise, efforts to increase diversity and inclusion can become vague and untenable. Experience has shown there's no forward momentum without milestones or measurement. Results show that Atlassian has seen an increase in women in technical and leadership roles, underrepresented minorities, and employees over 40 years old. In addition to quantitative improvements, the company has also seen qualitative improvements, evidenced by dialogue and discussion around gender identity, autism, mental health, parental status and personality differences, like introversion and extroversion. Atlassian has found that more diversity and inclusion has led to happier employees, greater engagement, greater employee retention and more innovative ideas. All this combined has meant institutional knowledge stays within the organisation.

Atlassian acknowledges it has made only incremental gains and that the journey is far from done. However, since Atlassian entered the portfolio in mid-2016 we have seen tangible progress. In 2017 Atlassian commissioned a report to understand the state of diversity in the technology sector and this was followed in 2018 by the second such report. Learnings from these reports are being put into action and Atlassian is shifting the focus from diversity and inclusion to balance and belonging; we look forward to following their progress.

Alibaba

We have just looked at several of your western portfolio holdings. However, what are we seeing in Asia, where the majority of the world's population resides? Alibaba's mission is to 'make it easy to do business anywhere', with a vision of serving two billion consumers globally by 2036. As with the western companies looking to expand eastwards, Alibaba is expanding outside of China, and such vision requires a wide lens. Alibaba is keen not to ignore global norms when it comes to Governance and Sustainability – that's what its global stakeholders will expect. We were surprised and delighted that in 2018 Alibaba looked to Baillie Gifford for input and advice as it compiled its first ESG report. Alibaba not only recognises the need to be cognisant of best practice but also to

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implement the appropriate governance and human capital management structures to promote continued corporate success to the benefit of all stakeholders.

In China entrepreneurs have grown successful companies by using technology as a tool not only to leapfrog the west but to help narrow the disparity between those who have, and those who have not. Further, Alibaba's digital economy has increased economic inclusion for underrepresented groups by making access to its sites and applications cheap and easy – costs are low and technical knowledge is not required. There are 10 million small businesses and start-ups on Alibaba's Taobao platform and half of these are owned and or operated by women. In addition, roughly 160,000 of the online shops are operated by persons with disabilities; last year generating $1.8 billion in sales. The company's digital economy has allowed more women entrepreneurs as well as those with physical disabilities to be included and in turn benefit from China's economic growth. Alibaba's workforce is representative of its customer base. The workforce has an almost fifty-fifty, male female split, although it has been higher in the past; watered down by recent overseas mergers and acquisitions activity. Female representation is significant throughout all levels of the organisation. Of the 36 partners one-third are women, along with six of the 15 strong leadership team and one-third of all managers. According to Ma, the reason is simple: "Men focus on products, while women focus on customers. Most of Alibaba's buyers are women – and many of the sellers too. And few companies succeed by ignoring their customer base".

Whilst gender diversity is deeply rooted in the Alibaba culture, the organisation understands that diversity goes beyond gender and is fundamental to its continued global success. In support of their business moving from the domestic market, the Alibaba Global Talent Development programme has been introduced. Each year the company recruits roughly 30 individuals from around the globe to participate in a two-year training programme at corporate headquarters in Hangzhou. On completion these candidates may take up a position in any one of Alibaba's offices globally, having benefited from their submersion in the corporate culture.

Much like the new Chinese business models leapfrogging those from the encumbered West we are not short of examples which suggest that the shape of these Chinese companies are, in some cases, well ahead of their western counterparts. Alibaba's steady operational performance can certainly in part be attributed to the governance of the business and we have been encouraged by their increased disclosure in this regard. No surprise therefore that we have increased the holding over the recent past.

We have seen through these four businesses the potential impact of an inclusive organisation. Not only is it the right thing to do, it's also how businesses will survive in an increasingly globalised and diverse world. Research shows diverse teams produce better outcomes. However, crafting a truly effective diversity and inclusion strategy is no small effort, and requires strong, sustained and inclusive leadership. This also illustrates why the bar for inclusion into the LTGG portfolio is demanding – answering Questions 4 and 5 is not easy: truly great organisations are continually trying to improve and adapt.

For us and the portfolio companies it is not about being perfect but about progression. We know that diversity matters. Our discussions with companies about diversity have increased significantly over the last 12 months and it is now a standing agenda item in many governance meetings. The world is much more diverse and highly connected, and it is those organisations and institutions that embrace greater diversity that are achieving better performance. We all have more work to do to take full advantage of the opportunities presented by a more diverse workforce. But with the rewards of diversity set to increase, investing now is essential as the leaders will pull further ahead.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	1	Companies	None	Companies	None
Resolutions	7	Resolutions	None	Resolutions	None

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Firmwide Company Engagement

Engagement Type	Company
Corporate Governance	Amazon.com, Inc., Facebook Inc., Kering SA, Netflix, Inc., 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
Facebook Inc.	We discussed regulatory pressure and public sentiment as part of a broader conversation with CEO Mark Zuckerberg and VP of Global Policy Management, Monica Bickert. Her role is to oversee whether content can remain on Facebook or needs to be removed. Our overall impression is that having attempted to contain issues around content and privacy, Facebook is beginning to grasp them. Three aspects of the discussion were of particular interest. First, it is impossible to create a single set of rules around which content is acceptable and which is not, so a degree of human interpretation (currently handled by 20,000 reviewers) will still be required. Second, partnerships with regulators seem increasingly advanced, open and collaborative with regard to content and issues such as terrorism. Third, Facebook is adopting a policy of radical transparency in addressing the challenges. Rules on what is permissible are openly available, as are reports on what has been removed, and metrics on whether offensive content was identified by Facebook, users or members of the public. This approach seems appropriate and we look forward to continued progress and discussions around these complex issues.
Kering SA	We have great respect for CEO François-Henri Pinault as a chef d'orchestre with a superb eye for spotting new talent and building brands, but investing for the long term means we must also look to the people around him. A meeting with Group Managing Director Jean-François Palus provided helpful insights in this regard. Pinault has surrounded himself with people who speak their mind and challenge each other - including Palus, with whom he has worked for over 25 years. Both are eager to diffuse values such as inclusivity and sustainability to all employees to prepare the next generation of leaders and instil a culture that will endure. A trailblazing approach to environmental sustainability is an important part of this culture. Since 2010, sustainability targets have been considered when calculating executive compensation. Kering has also published an environmental profit & loss account since 2015 to measure the environmental impact of its activities. Palus emphasised that a focus on sustainability is now essential for any luxury brand. In his view, the new generation of customers is looking not just to buy products, but also to understand what a brand stands for and how its products are made.
Netflix, Inc.	During a conversation with CEO Reed Hastings, we were intrigued to hear his thoughts on public and regulatory perceptions of Netflix. Hastings stressed that he wants viewers to continue to rave about the great value Netflix provides, so viewing needs to grow ahead of any price increases. Cognisant of the risk of societal backlash in future, he is determined that Netflix should never be perceived by consumers as a 'bad' company. With regards to regulators, Hastings acknowledged that the mere phenomenon of a company growing to great scale draws attention. He is mindful of Netflix's corporate behaviour as it grows. This is also a priority outside the US. For Netflix's executive leadership, this means being well-rounded - entrepreneurial but not overly aggressive - and better understanding the regulatory sensitivities in different markets.
Tesla, Inc.	We met the new Chair, Robyn Denholm, the CFO, Zach Kirkhorn, and Sanjay Shah, the VP of Energy Deliveries. Denholm is aware of the challenges that need to be addressed. We believe she has a good chance of being an effective chair, leading a board that provides stability and support to Tesla's mercurial founder. Invited to share our views, we advised a longer-term focus, fewer targets for the stock market and a more Amazon-like detachment from the media noise. Kirkhorn shared his thoughts on the company's future margin structures, the importance of devolving the leadership of the Shanghai manufacturing plant and the burgeoning opportunity in autonomous driving, while Shah explained how his previous experience in leading Amazon's fulfilment strategy would be applied to the scaling of Tesla's energy business, describing energy as "Tesla's AWS". These three individuals, along with Jerome Guillen (President of Automotive) and JB Straubel (Chief Technical Officer), lead us to believe that Tesla has a markedly more cohesive and impressive management team than widely perceived by the stock market whose focus remains, almost entirely, on Elon Musk.

Votes Cast in Favour

Companies	Voting Rationale
Meituan Dianping	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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