

BAILLIE GIFFORD & CO

BCSSS BG Long-Term Global Growth Equity

Report for the quarter ended
30 June 2019





Thousands of school children protesting about climate change gather at the Victoria & Albert memorial at Buckingham Palace on 15 March 2019 in London.
© Getty Images Europe.

The sustainability enlightenment

The first half of 2019 has seen an unprecedented rise in the awareness of environmental challenges across the world. Although at the political level some countries continue to be singularly focused on particular projects or challenges, be that immigration, trade relationships or ‘Brexit’, at an individual and civil society level there is something akin to a contemporary enlightenment now beginning to take shape in earnest.

Swedish schoolgirl Greta Thunberg has taken the carbon transition challenge directly to governments around the world, inspiring the ‘Fridays for Future’ school protests outside parliaments. In addition, Sir David Attenborough’s Blue Planet highlighted the fragility of our oceans and the existential threat to aquatic life from plastics, prompting an 800% increase in enquiries about single use plastics at one UK supermarket chain. Meanwhile, veganism is the fastest growing trend in food just now, exemplified by the hugely successful IPO of plant-based food-tech company Beyond Meat earlier this year.

In a comprehensive and ground-breaking report published in May, the United Nations detailed the unprecedented current rate of decline in biodiversity – tens to hundreds of times higher than in the past 10 million years. One million plant and animal species are now at risk of extinction. Following on from Cape Town’s recent brush with being the first 21st century city to run out of water, there is now much greater awareness of the scarcity of potable groundwater.

At a regulatory level, the EU is pressing on with the development of the Sustainable Finance Action Plan, which will include one of the most ambitious codification exercises ever undertaken, the Green Taxonomy. This project is aiming to provide clear guidance as to which kinds of activities and products can be considered to qualify as suitably green to obtain prioritised financial and regulatory support.

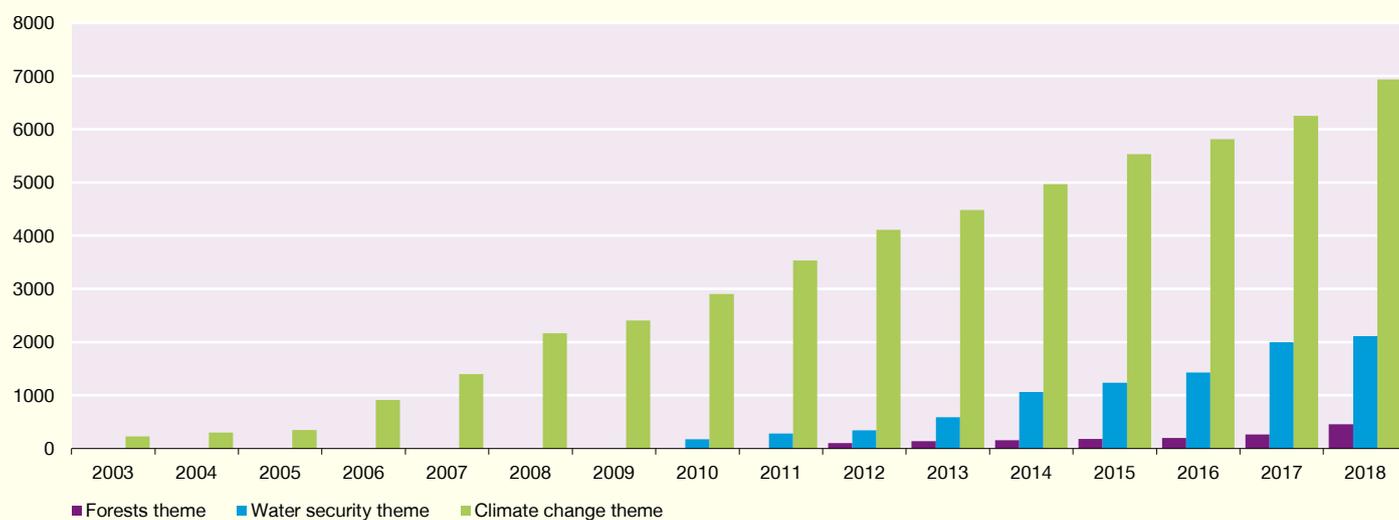
Whilst there are also countless examples of backsliding on environmental progress in different countries around the world, environmental activists and enlightened businesses are beginning to win the battle for hearts and minds, even if the newfound awareness has yet to turn into resolute action. Sustainability has gone into the mainstream, and over the next decade, it will start to have a financial impact on all businesses – we may be approaching the limits of conventional economic growth and the future winners will be the companies that are offering solutions to society’s challenges such as climate change.

Given this starting point, it would be easy to think that we have all the key information we need to start weighing environmental factors in to the investment process, or indeed individual consumer decisions. This couldn’t be further from the truth. Despite two decades of corporate responsibility initiatives and growing

interest in sustainable investment, our data map of environmental impacts is surprisingly simplistic. In this sense, practitioners in the burgeoning field of ESG have to more openly acknowledge that like late medieval cartographers’ limited knowledge of the earth, we actually know very little about the full lifecycle environmental impact of different products and services. Our sustainability data map today more closely resembles the very first enlightenment maps, which only showed the tiny sections of known coastlines – in this case, these are the most advanced businesses providing professionally collated and verified data. We can’t begin to chart a safer course without better navigation tools.

The graph below shows the very recent increase in voluntary environmental disclosures to the internationally recognised Carbon Disclosure Project (CDP) reporting platform.

CDP disclosure growth
Number of companies per year of CDP disclosure cycle



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total disclosing companies (across all themes)	228	300	349	915	1,395	2,166	2,403	2,906	3,536	4,140	4,539	5,001	5,624	5,863	6,316	7,018
Disclosures on climate change	228	300	349	915	1,395	2,166	2,403	2,903	3,531	4,112	4,482	4,968	5,532	5,815	6,251	6,937
Disclosures on water security	0	0	0	0	0	0	0	176	283	345	589	1,064	1,237	1,426	1,997	2,113
Disclosures on forests	0	0	0	0	0	0	0	0	0	100	138	159	179	199	264	455

Source: CDP.

Whilst the increase in reporting is impressive, the quality and coverage of data is much less encouraging, with estimated figures still common, even for very large companies. In some emerging markets, robust data is almost non-existent. A secondary challenge is defining appropriate boundaries for environmental reporting: should Netflix report on the full carbon intensity of video streaming, including the energy usage of the broadband providers that channel its content? Should Amazon take responsibility for the delivery emissions of third party couriers? How can Novozymes and Tesla capture the net positive carbon contribution of more efficient enzymes and mobility?

Even bigger data challenges exist in certain sectors. We know very little about commercial fishing supply chains and stock provenance. Many products and services in food, fashion and other sectors cross the globe several times before reaching shelves, but this hidden environmental footprint is currently undisclosed and invisible to consumers. Disruptive start-ups will challenge this by building business models around openness and data.

Rather than leading to a collective shrug that ‘it’s all too difficult’, the above data challenges should galvanise action across ESG teams to demand a step change towards comparable decision-useful reporting from our holdings and much better third-party information from provider services. If regulation and changing stakeholder expectations are going to disrupt business as usual in the 2020s (and we all need this to happen), we need to know where companies are starting from and how quickly they can change their business models to position themselves for long-term success in the age of sustainability.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	23	Companies	8	Companies	2
Resolutions	271	Resolutions	27	Resolutions	2

The first half of 2019 has seen an unprecedented rise in the awareness of environmental challenges across the world

There has been a heartening increase in reporting, but the quality and coverage of data is much less encouraging, with estimated figures still common

Many products and services in food, fashion and other sectors cross the globe several times before reaching shelves, but this hidden environmental footprint is currently invisible to consumers

Firm-Wide Company Engagement

Engagement Type	Company
Corporate Governance	Amazon.com, Inc. , Netflix, Inc. , Tesla, Inc.
AGM or EGM Proposals	Intuitive Surgical 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 to discuss changes to the board and this year's annual shareholder meeting. The board has been strengthened by adding Rosalind Brewer, current COO of Starbucks, who will support learning about physical retail. Her appointment is part of a board refreshment process, with other new directors expected. Experience in consumer goods and cloud computing have been identified as desirable, although current levels of leadership and executive experience are satisfactory. Consistent with the company's willingness to engage openly with us, we were offered a meeting with lead independent director, Jonathan Rubenstein. We intend to take up the offer later in the year. This direct access to the board is valuable in developing our relationship and understanding of the non-executive leadership team and their governance of the business. We touched on the 2019 annual shareholder meeting. The agenda contained several shareholder proposals, focused on environmental, social and governance topics. We opposed most resolutions as the requested changes were of limited value to the business. We voted in favour of two resolutions promoting a thoughtful approach to climate change and gender pay equality. Following the meeting, we met non-executive director, Jamie Gorelick. We discussed Amazon's plans for its 2019 Sustainability Report and the demand from a broad range of stakeholders for improved disclosure on working conditions and pay rates. Our engagement is ongoing and we plan to have further discussions over the coming months.</p>
Netflix, Inc.	<p>Netflix has a bespoke governance structure, maintaining policies and provisions which are not considered best practice. It has also refused to adopt shareholder proposals for changes, which have received majority support at previous AGMs. Our call helped us better understand its corporate governance. Netflix recognises that, as the business matures, its governance practices must evolve to remain appropriate. However, the board believes existing practices, such as a classified board and supermajority voting requirements, protect the business from short-term market pressures. Specifically, it is fulfilling its fiduciary duties by rejecting pressure to conform to a prescriptive list of best practices that it does not consider supportive of growth. The board has been strengthened in recent years and operates in a manner which ensures knowledgeable and nimble decision making. There is also greater corporate consciousness as to how the business maintains its relationships with stakeholders. Our research and engagement indicate that Netflix's governance is pragmatic and supportive of the long-term strategy. Accordingly, we were happy to take a different view from the market and voted at the AGM to maintain the current structure, including the rejection of two shareholder proposals to amend voting standards and corporate political disclosures. As responsible stewards of your capital, we will continue to engage with the company to ensure its governance practices remain appropriate.</p>
Tesla, Inc.	<p>Ahead of the AGM, we had a call with Chairwoman Robyn Denholm. We discussed the addition of new independent directors Larry Ellison and Kathleen Wilson-Thompson to the board. Wilson-Thompson is an executive at Walgreens, with an extensive career in human resources. She will focus on culture and talent management. Ellison is an accomplished entrepreneur and will serve as a mentor for CEO Musk, advising how to grow Tesla's business. Board refreshment is ongoing and additional directors with manufacturing and financial expertise are considered desirable. We were encouraged to learn that Denholm also plans to develop Tesla's governance practices in line with the company's status as a more mature business. We also provided constructive feedback on confusing market statements regarding the company's retail stores, vehicle pricing and capital requirements. The board is acutely aware of the need to do better in this area and are working on improved coordination of future communications. Denholm invited us to engage later in the year for more detailed discussion on her plans for Tesla's corporate governance. She is interested in our views and we look forward to continuing our dialogue.</p>

Voting

Report for the quarter ended 30 June 2019

Company	Meeting Details	Resolution(s)	Voting Rationale
Amazon.com	Annual 22/05/19	7	We opposed a shareholder proposal requesting a report on the impact of the government use of facial recognition technology which we believed was too prescriptive.
Amazon.com	Annual 22/05/19	8	We opposed a shareholder proposal requesting a report on products which promote hate speech which we believed was too prescriptive.
Amazon.com	Annual 22/05/19	9	We opposed a shareholder proposal requesting an independent board chairman as we are comfortable with the current approach at the company.
Facebook	Annual 30/05/19	5, 6, 8, 9, 11, 12	We opposed six shareholder resolutions regarding changes to the dual-class share structure, an independent board chairman, diversity reporting and long-term strategy. We did not consider these proposals to be in shareholders' best interests.
Illumina	Annual 29/05/19	5	We opposed a shareholder resolution requesting the company produce a report on its political contributions as we believe current disclosure and practices are appropriate.
Kering	MIX 24/04/19	E.15	We opposed a resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.
Kering	MIX 24/04/19	O.6, O.7, O.9	We opposed three resolutions regarding remuneration due to concerns regarding pay and performance. We have been engaging with the company and have seen some progress which led us to support a separate resolution on pay.
Netflix Inc	Annual 06/06/19	4, 5	We opposed two shareholder resolutions requesting a report on political contributions and elimination of supermajority voting requirements as we believe the company's current provisions are appropriate.
Rocket Internet SE	AGM 06/06/19	9	We opposed a resolution which sought to disclose remuneration as an aggregate figure for management rather than provide details for each individual. The latter is common practice and we do not believe sufficient rationale has been provided for a more limited form of disclosure.
Salesforce.com	Annual 06/06/19	6	We opposed a shareholder resolution regarding disclosure of board qualifications as we believe the company already provides such disclosure.
Tesla Inc	Annual 11/06/19	7, 8	We opposed two shareholder resolutions regarding a public policy committee and elimination of supermajority voting requirements as we considered them to be unnecessary.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
Kering	MIX 24/04/19	E.12	We abstained on a resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.

Voting

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Company	Meeting Details	Resolution(s)	Voting Rationale
L'Oreal	MIX 18/04/19	E.9	We abstained on a resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.

Votes Withheld

We did not withhold on any resolutions during the period.

Votes Cast in Favour

Company	Meeting Details	Resolution(s)	Voting Rationale
Amazon.com	Annual 22/05/19	11	We supported a shareholder proposal requesting that the company produce enhanced disclosure on their approach to managing carbon emissions and addressing climate change.
Amazon.com	Annual 22/05/19	13	We supported a shareholder proposal requesting that the company produce enhanced disclosure on gender pay disparities across their business.
Facebook	Annual 30/05/19	10	We supported a shareholder proposal requesting the company produce enhanced disclosure on gender pay disparities across their business.
Facebook	Annual 30/05/19	7	We supported a shareholder resolution requesting the introduction of a majority voting standard for director elections.
Intuitive Surgical	Annual 25/04/19	5	We supported a shareholder resolution requesting the removal of supermajority voting provisions as we believe this is in shareholders' best interests.
Companies	Voting Rationale		
AIA Group, ASML, Amazon.com, Bluebird Bio Inc, Delivery Hero AG, Dexcom Inc, Facebook, Hermes International, Illumina, Intuitive Surgical, Ionis Pharmaceuticals, Kering, L'Oreal, Meituan Dianping, NVIDIA, Netflix Inc, Rocket Internet SE, Salesforce.com, Shopify 'A', Spotify Technology SA, Tencent, Tesla Inc, Workday Inc		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 22/05/19	10	We opposed a shareholder proposal requesting a report on sexual harassment which we believed was too prescriptive.
Amazon.com	Annual 22/05/19	12	We opposed a shareholder proposal which requested a directors' qualification matrix which we believed was too prescriptive.
Amazon.com	Annual 22/05/19	14	We opposed a shareholder proposal to assess the feasibility of including sustainability as a performance measure within executive compensation which we believed was too prescriptive.
Amazon.com	Annual 22/05/19	15	We opposed a shareholder proposal which requested vote counting to exclude abstentions which we believed was too prescriptive.
Amazon.com	Annual 22/05/19	4	We opposed a shareholder proposal requesting a report on the management of food waste which we believed was too prescriptive.
Amazon.com	Annual 22/05/19	5	We opposed a shareholder proposal requesting a reduction in the ownership threshold to call a special meeting as we are comfortable with the current approach at the company.
Amazon.com	Annual 22/05/19	6	We opposed a shareholder proposal requesting to prohibit sales of facial recognition technologies to government agencies which we believed was too prescriptive.

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