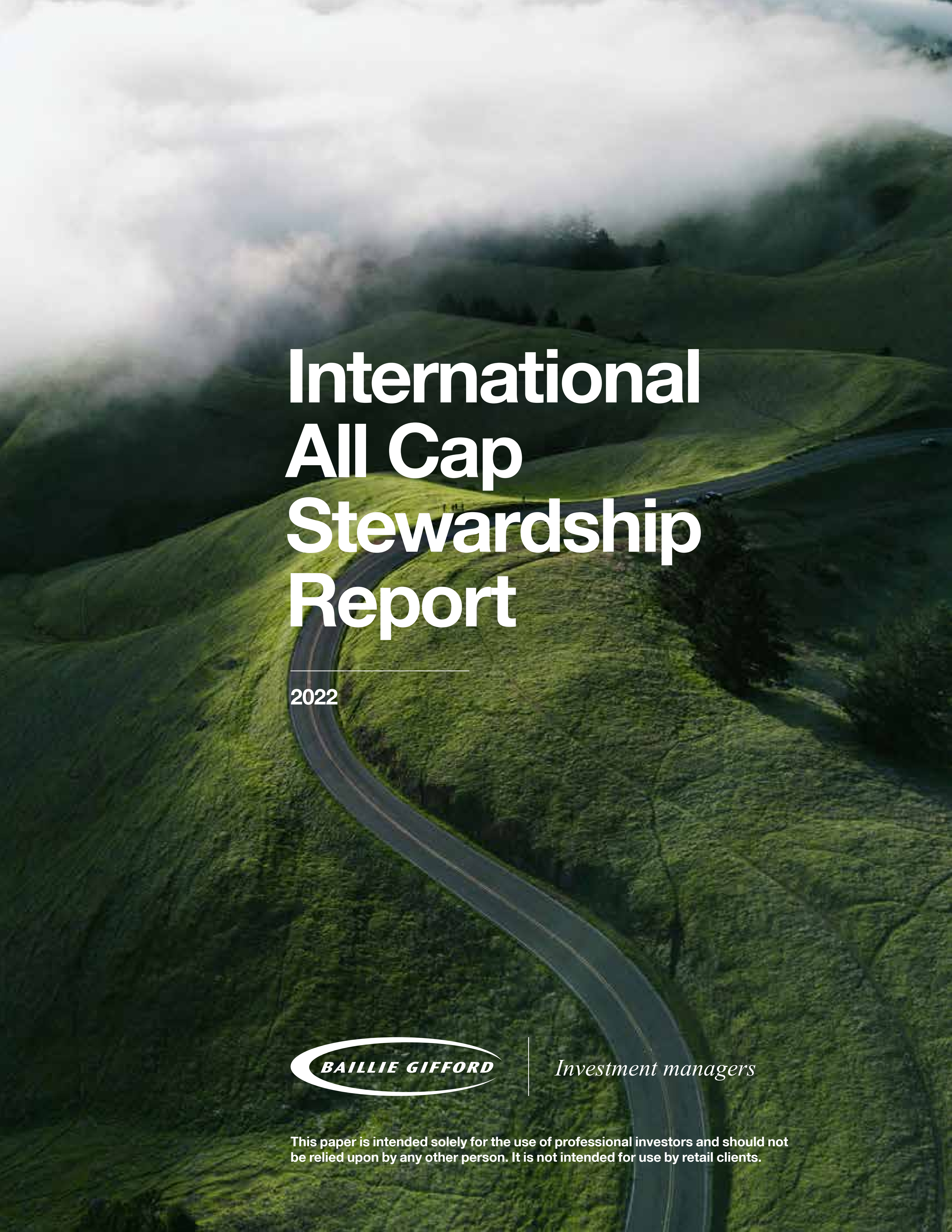

International All Cap Stewardship Report

2022

BAILLIE GIFFORD | *Investment managers*

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Introduction

Welcome to the International All Cap Stewardship Report. Our investment process is founded on the long-term ownership of growing businesses. Our 'bottom-up' approach to stock selection leads us to focus on understanding the fundamental drivers behind individual companies. We typically hold these investments for five to ten years – long enough for the fundamentals to emerge as the dominant influence on share prices. Cultivating conviction in corporate governance and sustainability in its broadest sense is a critical part of this process.

In 2022, to mark the 30th anniversary of the Developed EAFE variant of the International All Cap Strategy, we mined the strategy archives for reflections to include in an anthology of articles. The extracts ranged from insights into specific companies to consideration of political events, such as Brexit. They also showed how we had developed our thinking about corporate governance and sustainability. One of the lessons we drew from this exercise was that not everything that seems new really is. For instance, while sustainability has risen in prominence over recent years, we discussed the same considerations more than two decades ago. The following extract is taken from one of our quarterly reports to clients in 2000: "… our focus has been on the possible business risks that may be associated with companies' ineffective management and of social, environmental and ethical matters, and on the positive benefits for companies where these are managed well".

Nothing has changed. We expect the management of the companies we invest in to be trustworthy stewards of our clients' capital. In assessing and monitoring this, we firmly believe that their approach to environmental, social, and governance, or 'ESG', must be holistic and not be treated simply as an exercise in ticking off a list of requirements. The risks and opportunities associated with companies' approaches to ESG matters are perhaps more significant today. However, we still look at them through the fundamental lens of the investment case. Our research efforts focus on understanding the long-term growth drivers behind individual businesses and the ability of management teams to sustain and nurture cultural strengths and competitive advantages in their respective industries. Without building trust in company management teams, attempting such a long-term approach to selecting your investments would be impossible.

The following pages set out the key principles behind our stewardship framework and how the long-term risks and opportunities arising from governance and sustainability matters are considered as part of our investment research and decision-making process. There are examples of our engagement, voting activity, and pertinent data on portfolio characteristics. We believe stewardship is critical in pursuing successful long-term investment outcomes, and we are committed to improving. We hope you find our views helpful and look forward to conversations with you on these important matters.

Our Stewardship Principles

At Baillie Gifford, we are responsible for behaving as supportive and constructively engaged long-term investors. We invest in companies at different stages in their evolution across vastly different industries and geographies and celebrate their uniqueness. Consequently, we are wary of prescriptive policies and rules, believing these often run counter to thoughtful and beneficial corporate stewardship. Our approach favours a small number of simple principles which help shape our interactions with companies.

Prioritisation of long-term value creation

We encourage company management and boards to be ambitious and focus their investments on long-term value creation. We understand that it is easy for businesses to be influenced by short-sighted demands for profit maximisation, but we believe these often lead to sub-optimal long-term outcomes. We regard it as our responsibility to steer businesses away from destructive financial engineering towards activities that create genuine economic value over the long run. We are happy that our value will often be in supporting management when others don't.

A constructive and purposeful board

We believe that boards play a key role in supporting corporate success and representing the interests of minority shareholders. There is no fixed formula, but we expect boards to have the resources, cognitive diversity and information they need to fulfil these responsibilities. A board works best when strong, independent representation can assist, advise and constructively test management's thinking.

Long-term focused remuneration with stretching targets

We look for simple, transparent remuneration policies that reward superior strategic and operational endeavours. We believe incentive schemes can be important in driving behaviour, and we encourage policies that align with genuine long-term shareholders. We accept significant payouts to executives if these are commensurate with outstanding long-run value creation, but plans should not reward mediocre outcomes. Performance hurdles should be skewed towards long-term results, and remuneration plans should be subject to shareholder approval.

Fair treatment of stakeholders

It is in the long-term interests of companies to maintain strong relationships with all stakeholders, treating employees, customers, suppliers, governments and regulators fairly and transparently. We do not believe in one-size-fits-all governance and recognise that different shareholder structures are appropriate for different businesses. However, regardless of structure, companies must always respect the rights of all equity owners.

Sustainable business practices

We look for companies to act as responsible corporate citizens, working within the spirit and not just the letter of the laws and regulations that govern them. We believe that corporate success will only be sustained if the long-run impact of a business on society and the environment is considered. Management and boards should therefore understand and regularly review this aspect of their activities, disclosing such information publicly alongside plans for ongoing improvement. We take our responsibilities seriously. We will encourage a focus on building lasting competitive advantage and enthusiastically support those with a thoughtful approach, using voting to support our five core principles. At a time when the word 'activism' is synonymous with those targeting short-term gains, we want to reclaim the word for the long-term growth investor.

Our process

To explain how stewardship and sustainability considerations are integrated into the International All Cap strategy, we spoke to Joe Faraday, who has been a member of the International All Cap Portfolio Construction Group (PCG) since 2007 and has worked at Baillie Gifford since 2002.

What do you mean by stewardship?

We strive to invest in well-managed companies run by people who are doing the right thing for their shareholders. Our clients entrust us to manage their assets wisely, so we have a very important responsibility to pay close attention to the business practices and attitudes of the companies in which we invest on their behalf. This mindset is important in our ongoing dialogue with company management teams.

How do you see this as distinct from 'ESG'?

ESG focuses more specifically on each company's activities' environmental, social, and governance aspects. There are many ways of determining its scope, numerous definitions are involved, and the area is evolving quite rapidly. Nonetheless, there is considerable overlap with our long-standing belief in the importance of good stewardship. We expect the management of the companies we invest in to consider these issues as part of their strategy and to discuss these matters when we meet them.

Do you use ESG factors in the management of portfolios?

As long-term investors with a five-to-ten-year time horizon, the way a company is governed and its business practices have always been included in the scope of our investment research because these can impact company financial returns. Therefore, we consider ESG factors as relevant, taking a bottom-up approach and customising our analysis for each company by focusing on topics pertinent to each investment case (ie, not a one size fits all approach). This is a pragmatic way of incorporating relevant stewardship and sustainability considerations in our process. We do not apply external ESG scores or screens to this portfolio beyond a firmwide policy prohibiting investment in controversial weapons.

Is this an ESG strategy?

This is not a strategy in which an ESG screen forms an explicit part of our investment process, and we do not attempt to separate ESG issues and prioritise them over financial ones. Stewardship forms an integral part of maximising long-term returns for clients. So, rather than applying loosely-defined filters, our priority is to find, research and select high-quality growth businesses that are being run in the interest of shareholders and other stakeholders by aligned management teams focused on the long term. We believe that strong ESG credentials often underpin a company's prospects of long-term corporate success. Still, it is important to look at the big picture; to think about each company individually rather than a single set of requirements, and to consider the extent to which management is bringing about improvements for the future. The International All Cap strategy firmly believes in the importance of environmental responsibility, the fair treatment of shareholders, and good governance. We offer tailored portfolios for our clients with specific ethical requirements that can accommodate exclusion screens.

How do you integrate ESG considerations into the investment decision-making process?

Governance and sustainability have always been core to our approach of picking stocks for the long term. Companies that put at risk their reputation with any stakeholders or are reliant on an unsustainable regulatory environment will not earn a place in the portfolio. We believe there is a sound basis for thoughtfully integrating ESG considerations into our stock picking and portfolio management.

Our approach is largely qualitative, and consideration of a company's sustainability forms part of the 5-Question (5Q) Stock Research Framework we use to assess all holdings. These investment criteria prompt us to discuss: the sustainability of the growth opportunity and a company's competitive advantage, management's ambition and ability to execute, company culture and the treatment of stakeholders, the valuation multiple the market may attribute to the stock as a result, and the key milestones or non-negotiable aspects of the investment case.

Portfolio Construction Group (PCG) discussion

Five Key Questions

Growth	Management	Sustainability	Valuation	Discipline
Will this company be significantly larger in five years?	Are Management sensible guardians of our clients' capital?	What are the Environmental and Social implications for this company?	Why is the growth not reflected in the current share price?	What would make us sell?

For example, Question 2 of our 5Q asks, "Are management sensible guardians of our clients' capital?" and Question 3 addresses sustainability asking, "What are the environmental and social implications for this company?". Sub-questions consider topics spanning management motivations and alignment of long-term interests, the company's intent, business practices and product/services, and the associated long-term risks and opportunities that these pose.

In addition, the strategy's dedicated ESG analyst writes a pre-buy note on every stock being considered for the portfolio. This note outlines notable governance and sustainability factors and draws on proprietary research from our ESG analyst. This report forms part of the pack for our PCG stock discussion meeting. Our ESG analyst participates in company meetings, PCG discussions, and pre-buy conversations. Having an ESG specialist embedded within the team provides a different perspective on this topic and gives the team a direct link to the firm's wider ESG team.

Process case study

Experian: Data security and privacy is a key ESG risk, and an opportunity

Experian holds and manages the credit history and repayment data of approximately 1.3 billion people and 166 million businesses as an international consumer credit reporting company. There can be very few companies on par with the opportunity such an extraordinary dataset brings. The secure management of data and its responsible use is vital for Experian's management. It was a priority engagement issue for us during our pre-buy consideration of the company as an investment.

As it's a key duty of the board to steer a corporate strategy that balances data security and privacy with commercial opportunity, we sought to understand the board's prioritisation better. Over the course of 2021, before purchase, we hosted a series of meetings with the Chair of the Board and the Chair of the Audit Committee to set out how the board approaches the governance of data and the setting of a sustainable strategy regarding data usage and security. In parallel, we have shared our assessment of board skills and expertise in data security.

While Experian's longer-term right to use, share and sell the data it collects and creates is an evolving debate, our investigative engagement strengthened our confidence that the board has the appropriate diversity of technical and cognitive skills to meet the challenge of governing Experian in the interests of shareholders, customers and wider stakeholders. This positive engagement led to the investment in Experian for the International All Cap strategy. We would not have proceeded without this increased conviction on a key ESG factor.

How do engagement and voting factor into your process?

As long-term stewards, we use our regular meetings with company management to encourage best practices and long-term thinking in our investee companies. The ESG analysis considered in our stock discussion can raise areas that do not break the investment case but where there is room for improvement. We follow up on areas of concern with company engagement systematically. Where there is an ESG issue to address, be it remuneration, board structures, or employee welfare, we work patiently with companies through ongoing dialogue. These meetings are a collaboration between portfolio managers and our ESG analyst. If appropriate, we will push for improvements. There are several examples of portfolio holdings for which we have done this with encouraging results. While we would not want to be taken for granted as supportive shareholders, we aim to be seen as the core long-term shareholders to whom the board and management will reach out on significant matters. Where clients permit, we vote all our proxies and will use our votes to encourage progress on areas of concern.

ESG issues are also increasingly an agenda item raised by management themselves. Frequently encountered areas are corporate governance and sustainable business practices. We are also finding that climate change preparedness is an increasingly common topic of discussion.

Do you have an engagement priority list?

Yes. Our proactive engagements are aligned with the long-cycle growth themes of the strategy. We have four multi-year engagement focus areas: climate transition, supply chain resilience, digital platforms stakeholders, and growth companies' governance. We have an additional list of companies where engagement is linked to vote escalation where an issue has not been resolved to our expectation within an internally set timetable.

Do you use third-party data or external ESG ratings or scores?

Via our risk team and dedicated ESG analyst, we monitor external ESG scores and United Nations Global Compact compliance as part of our risk framing. Still, we do not apply third-party ESG scores to our stock picking and portfolio management. We believe ratings should be used cautiously or as input to a more comprehensive analysis process. It is important (always) to interrogate the data, engage with companies and solicit other perspectives and input.

Have you sold any companies based on ESG concerns?

Yes. On occasion, we have sold a holding based on ESG concerns. It has also happened that we have declined to invest in a company for these reasons. However, given the relatively concentrated number of companies in which we invest for our clients, the importance that we place on stewardship, and the high bar that we set for inclusion, it is rare for us to have to sell a stock purely on ESG grounds. Our perspective as long-term owners of companies means that we want to help them to overcome their challenges rather than sell and walk away when challenges arise.

What ESG qualities do you look for in a company?

We don't believe in a one-size-fits-all approach because quantitative metrics of ESG considerations are often unreliable and unsatisfactory. We are open-minded about the most appropriate way to govern and manage a company. We are pragmatic about the significant differences in what is expected and the options available to companies. For example, we don't have a fixed view of how a company's board of directors should look. Effective boards can and do take many forms, and some of those which are least effective conform to the full range of widely accepted corporate governance norms. For this reason, we are sceptical of overly prescriptive policies and checklists when analysing, engaging and voting on corporate governance issues. Just as our investment research is bottom-up, we prefer to take a case-by-case view on governance, focusing on what works in practice. There is, perhaps, more common agreement on sustainability qualities. We will gravitate towards companies that treat their stakeholders fairly and have a strategy to address the growing challenge of climate change.

What ESG themes are driving and delivering new opportunities?

The climate transition and path to net zero have opened up an array of innovative, fast-growing companies. The solar, wind, and battery manufacturers are the first-order opportunities. Solar manufacturer, LONGi Green Energy Technology, was founded in 2000, and battery manufacturer CATL was founded in 2011. These Chinese companies have grown to lead their respective sectors domestically and on a global stage. We have also found exciting opportunities amongst companies whose products are needed to realise the energy transition such as Epiroc, Atlas Copco, Nidec and Nibe.

An emerging ESG theme is the societal impact and worker experience at digital platforms. It is shaping our analysis and stock picking and impacting our holding size. The shift to online fulfillment of products and services has accelerated, bringing with it the opportunity for greater social inclusion and economic empowerment. However, it can be at the expense of worker experience. We spend much time analysing and engaging with companies that can demonstrate a strategy that establishes workers as valued partners rather than a variable cost to minimise. The social justice of an online world is a key ESG theme for our team's bottom-up analysis.

What do you think is different in terms of how you think about ESG?

The industry tends to be risk-focused on ESG. While we incorporate risk-based analysis as part of our thinking on ESG, we spend most of our time considering the growth opportunities that stem from transforming to a digital and low-carbon economy, for example. We believe the solutions to society's challenges, such as climate change, will be addressed most profoundly by innovation. Regulation is not sufficient. Innovation will emerge from early-phase entrepreneurs seeking capital to well-established businesses looking for shareholder support to change direction. It opens up opportunities when ESG is viewed through a growth and ambition lens.

Do you outsource ESG activities to a separate team?

No, the Portfolio Construction Group takes full responsibility for all ESG activities and outcomes. Where there is a contentious issue the portfolio managers will collaborate with the strategy's ESG analyst in company meetings, in primary research, and in relation to challenging votes. Of course, we also benefit from a wide range of external inputs, from colleagues in different teams to trusted external information sources, but this is part of our fundamental research process.

Do you use screens to filter out companies on ESG grounds?

We have a firmwide policy that prohibits investment in controversial weapons such as landmines, cluster munitions, nuclear weapons, chemical weapons, white phosphorus and depleted uranium. Some clients ask us to comply with their own ethical requirements by avoiding certain industries. However, beyond this we prefer to let our portfolio managers form their own view on what represents a good long-term investment.

The strategy offers a separate Responsible International All Cap portfolio for clients who wish to apply additional ethical exclusions, such as tobacco, alcohol, gambling, and certain high-impact fossil fuels.

How do you monitor existing holdings in relation to ESG compliance?

The process of monitoring ESG factors is largely embedded in portfolio construction rather than being entirely separate. We incorporate new information published by companies, for example in annual reports, sustainability reports and regulatory filings, and we follow third party research and information sources for ESG-related information. This information is filtered into team stock discussions and investor analysis throughout the year. We also use our meetings with company management and board members to further our understanding of their approach to ESG issues and to engage on these. This work goes on weekly during the year and is part of the portfolio-building and monitoring process. On a more formal quarterly timetable, our ESG analyst checks all holdings against a screen for any identified breaches of ethical norms. This additional check ensures that we are aware of issues that may not have arisen during other, more traditional analyses.

Can clients apply their own ESG overlay?

Yes. Several International All Cap clients already do this across a range of industries and activities. Please see page 22 for further information about our Responsible International All Cap strategy variant.

Engagement examples

Engagement examples for the year ended June 2022.

Weir

We discussed their role in driving sustainability solutions for customers

Hargreaves Lansdown

We examined the rationale for board changes in the context of investment priorities for long-term growth

Intertek

We opposed the remuneration policy due to long-term alignment concerns

Sweden

United Kingdom

Netherlands

France

ASML

We sought clarity on proposed remuneration policy changes

Kering

Ongoing engagement on their sustainability strategy and supply chain transparency

NIBE

We encouraged avoided scope 3 emissions disclosure and explored proactive education role

Baillie Gifford's five Stewardship Principles

- Prioritisation of long-term value creation
- A constructive and purposeful board
- Long-term focused remuneration with stretching targets
- Fair treatment of stakeholders
- Sustainable business practices

Li Ning

We checked supply chain policies specifically reference human rights and avoiding forced labour

BeiGene

The CEO outlined progress toward their long-term global health vision

Keyence

Insufficient board independence led us to abstain in chair election

LONGi Green Energy Technology

We confirmed well audited supply chains and policies, with links to forced labour resulting in contract terminations

Alibaba

We urged ESG reporting improvements and received encouraging responses

DENSO

We encouraged greater ambition in climate goals and additional disclosure

China

Japan

South Korea

Coupang

We gained comfort in management focus on long-term labour issues

India

Singapore

HDFC

We deliberated the merits of the announced HDFC Bank merger with both CEOs

United Overseas Bank

We supported the increased focus on climate change materiality to long-term success

Engagement case study


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Kering

Overview and objectives

Kering is a French listed luxury goods company which develops, designs, manufactures, markets, and sells apparel and accessories. We benefit from a long-term and constructive relationship with the company, and in 2018 we began to take part in an annual roadshow dedicated to ESG matters. Our engagements have consistently focused on required improvements to the structure of executive director remuneration, including the integration of ESG metrics into the long-term incentive.

Action taken

At the 2016 AGM, we took the decision to abstain on the remuneration report due to concerns regarding excessive relocation allowances being granted in addition to standard remuneration, and weak targets as part of the long-term incentive plan. These targets meant that the plan fully vested if there was progress, averaged over the three-year performance period, against any one of the three performance metrics. We escalated our voting action by choosing to oppose the remuneration report at the 2017 AGM. We continued to engage with Kering on our concerns regarding remuneration and continued to take voting action. In 2019 and 2020 we engaged directly with the chair of the remuneration committee. We encouraged greater ambition, both in terms of target stretch and through the incorporation of robust ESG metrics within the long-term incentive plan.

Outcome

We observed progress and noted positive changes made to the forward-looking remuneration policy that directly addressed our concerns. Updates to the Long-Term Incentive Plan included a more stretching tiered vesting schedule, which required progress across each of the three performance metrics for it to fully vest. The incorporation of an ESG metric linked to sustainable sourcing practices of Kering's key raw materials addressed the most environmentally impactful area of the value chain, as identified by Kering's Environmental Profit and Loss accounting practices. At the 2021 AGM, we were able to vote in favour of all remuneration related proposals for the first time.

Francois-Henri Pinault, Chairman and CEO of French luxury group Kering, attends the company's annual news conference at their headquarters in Paris.

Proxy voting

Proxy voting at annual general meetings is one of the key active engagement tools available to us to support and, where necessary, influence or challenge the management teams of the companies we invest in on behalf of our clients.

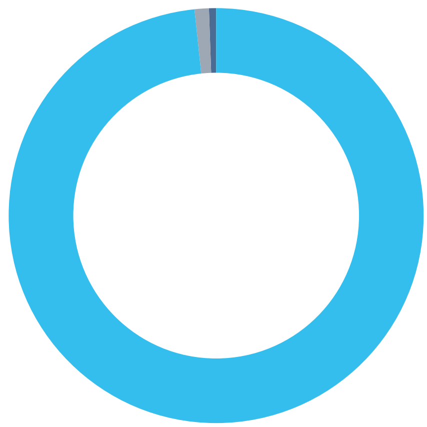
Voting at company general meetings is one of the most important ownership rights we have as a shareholder. We also recognise that, as a significant shareholder in a number of companies in your portfolio, we must exercise our voting rights responsibly. Consequently, all our voting decisions are made on a case-by-case basis. We have a dedicated ESG research analyst who provides advice and guidance on each company to the investment team. Our voting decision will be taken based on our combined analysis and views.

Our investment style allows us to invest in only those companies we actively support and admire. It is therefore the case that most of our final voting decisions are in support of management. However, we will engage with companies where more information is required or if a resolution appears to conflict with our stewardship principles. If, after dialogue, we conclude that it is in the long-term interest of both the company and our portfolio investors to withhold or oppose a resolution, we will do so. We will always inform a company of our concern and rationale where we have reason to vote against management. By taking this careful, research-led approach to voting, and by meeting and engaging throughout the year with the management and board members of the companies, we can most effectively apply our voting rights on your behalf.

The following chart, which provides a summary of our proxy voting activities for ACWI ex US All Cap strategy variant in the 12 months to June 2022, illustrates our voting decisions across the resolution categories.

Proxy voting statistics

ACWI ex US All Cap data – All ballots[1]



For: 98.4%

Against: 1.3%

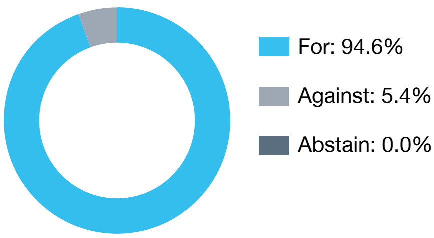
Abstain: 0.3%

Based on a representative portfolio.

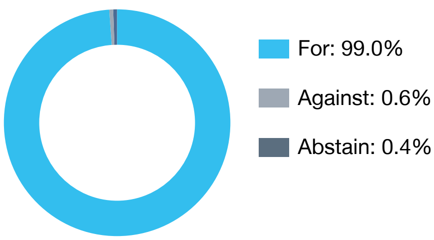
1. For Developed EAFE mandates the split is: For 98.9 per cent, Against 1.0 per cent, No vote 0 per cent, Abstain 0.1 per cent. For EAFE Plus mandates the split is: For 98.7 per cent, Against 1.0 per cent, No vote 0 per cent, Abstain 0.3 per cent.

Management proposal breakdown – ACWI ex US All Cap strategy

Remuneration[2]



Director elections[3]



Example – LMVH

We opposed six resolutions relating to executive compensation as we continue to be concerned with the lack of disclosure of performance targets and achievement against these. While our preference is to engage directly with the management and board, following our decision to abstain on several compensation related proposals in 2020 and our follow-up communications, we've escalated our concerns to opposing in 2021 and 2022.

Example – Trip.com

We voted in favour of the re-election of Jane Sun, CEO of Trip.com as director. While we are comfortable that her insights and Trip.com's alignment as a meaningful shareholder will be invaluable to the company's future, we have highlighted to the company to address the independence imbalance on the Board.

Example – Keyence

We abstained on the re-election of the chair. We had two concerns that we held the chair ultimately responsible for: the first with regards to the company's capital strategy and the second concerning appropriate independent representation on the Board. While the former was unaddressed (and we would have normally opposed the chair re-election in such circumstances), we have seen improvements in the latter in line with our recommendation. On balance, we decided to abstain and followed up with the company to express the rationale of our vote.

2. For Developed EAFE mandates the split is: For 92.4 per cent, Against 7.6 per cent, No vote 0 per cent, Abstain 0 per cent. For EAFE Plus mandates the split is: For 93.3 per cent, Against 6.7 per cent, No vote 0 per cent, Abstain 0 per cent.

3. For Developed EAFE mandates the split is: For 99.8 per cent, Against 0 per cent, No vote 0 per cent, Abstain 0.2 per cent. For EAFE Plus mandates the split is: For 99.5 per cent, Against 0 per cent, No vote 0 per cent, Abstain 0.5 per cent.

Homing in on the ‘S’ in ESG

Fair treatment of stakeholders is one of our five stewardship principles, another is sustainable business practices. In this article, ESG specialist, Gavin Grant, shares a collection of insights from the 12 months to June 2022 on emerging social themes pertinent to the strategy’s holdings.

The interconnected stakeholder

As long-term investors we recognise that workers are an integral component of company success

In almost every company annual report there is a line in the CEO’s statement thanking the workers for their dedication and hard work during the year; “I would like to thank our exceptional people everywhere” (Burberry, 2021). As long-term investors, we recognise that the workers are an integral component of company success. But the role of a worker is changing. No more so than where digital and online technologies are unseating traditional models of work.

The underlying thesis to support the rise of technology in so many aspects of our daily lives is that it drives progress and prosperity. We are surrounded by new digital entrants that have transformed the way we shop, eat, travel, socialise, find work and bank – to name just a few core activities. Alibaba, Shopify, Auto1 and Coupang exemplify the new generation of technology-led companies in the portfolio. The pace of innovation and growth has been remarkable. But it comes at a risk that the workers are marginalised or reduced to an as-yet unavoidable non-digital cost.

As long-term investors we are particularly focused on the need for technology to deliver on the promise of widespread societal advancement. To achieve this goal, the workers are critically important stakeholders, and they must share in the success of the company. We use the term ‘worker’ rather than ‘employee’ to capture the wide spectrum of roles – from permanent employee to part-time, contracted, temporary and the tied self-employed. Increasingly, the employment rights previously afforded to just permanent employees are being extended to other classes of workers. For example, in early December 2021 the EU published draft legislation that will ensure workers get the applicable local minimum wage, access to sick pay, holidays and other employment rights. Similar legislation is tabled in the UK.

Perhaps we could expect the EU and UK to take a lead on worker rights, given the central role played by workers and unions in so many sectors. But there are growing calls for change in other markets too. In August 2020, the US former Chief Justice of the Court of Delaware, Leo Strine, published a remarkable paper titled, Toward Fair and Sustainable Capitalism. In the paper he calls for companies to do business in a way that provides Americans with access to good jobs, sustainable wage growth, and a fair share of the wealth that businesses generate. To achieve this goal he proposes every US company puts a worker on the board of directors. This is a radical intervention from the heart of corporate America. In Asia too, we are seeing examples of a reconsideration of worker rights. For example, Coupang, the fast-growing South Korean e-commerce company has implemented a maximum hourly working week, holidays and sick pay in response to worker criticism of high-burden schedules. We have engaged with Coupang on its approach to supporting its workforce and continue similar engagements with other strategy holdings.

The nature of work will continue to evolve but the fair treatment of employees and all other categories of workers need not be compromised. It’s in the interest of the strategy’s long-term return potential that we actively support this objective.

Supply chains

Good supply chain management is key to many holdings, their competitive edge and long-term success, and we are encouraged by the engagement we have had with many on this.

The global nature of modern supply chains has been a recurring theme of our ESG analysis and engagement. Supply chains are complex, typically multinational and encompass multiple stakeholders, from workers and communities to natural resource management and environmental footprint.

The vulnerability of physical supply chains was highlighted by the Covid-19 pandemic as production facilities and transport routes closed. The supply of oil and gas is under sanction across many nations, such as Iran, Venezuela and Russia.

Tragically, we are currently drawn back to the analysis of international supply chains in the context of being used as a tool of state sovereignty and border management. But as with our work on climate change in times of disruption, we look to the long term and see the global nature of trade and cooperation between suppliers, manufacturers and customers as broadly irreversible. We are engaging with companies in the portfolio for evolution in managing ESG risks across the supply chain.

The days of speed and cost being the determining measures of effectiveness are giving way to the necessary accommodation of impact and opportunity on the stakeholders along the chain. While we have seen international companies withdrawing operations from Russia, it was notable that several strategy holdings suspended operations and continued to pay employees their salary and benefits, for instance, Kering, LVMH, and Burberry. These companies are doing the right thing for their workers and dependent customers. We applaud but are not surprised by the long-term approach of these companies and many other holdings in the portfolio. It displays the strong corporate culture we hold as a core ESG consideration when investing for the long term.

Supply chain oversight

We have a long-term focus on supply chain management in the apparel and luxury goods sectors. The strategy invests in a number of companies in these sectors such as Adidas and Li Ning plus LVMH, Kering, and Burberry mentioned above. In each case the supply chains required to support the finished goods are complex. The obligation for monitoring and auditing each supplier up the manufacturing chain rests with the companies held in the strategy. So, given the complexity and the attendant risk to labour rights and worker safety, it is essential that each company has an effective, proven process to manage these risks.

Our engagement with the strategy's apparel and luxury goods holdings has been running for several years. During this time, we have sought to build a clear understanding of how each company manages its supply chain and we have spent time with each company mapping the Supplier Codes of Conduct each has in place. This work has proven helpful when addressing emerging issues such as the risk of forced labour entering the manufacturing supply chain.

It is our belief that the strategy's holdings have demonstrated a best-in-class approach to supply chain oversight. Nevertheless, we will maintain vigilant to emerging societal risks that may stretch established monitoring and auditing systems.

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Li Ning – supply chain engagement case study

Our objective was to better understand Chinese sports apparel maker Li Ning's approach to human rights and supply chain transparency. We met with the CEO on a range of issues. One of the areas we wanted to learn more about was its approach to upholding international labour standards in its sourcing practices and supply chains. We followed up with a range of detailed questions to the company. Li Ning has confirmed that it does not use three suppliers mentioned in international reports regarding the risks of forced labour. It also provided more details on its supply chain due diligence. Li Ning reaffirmed its commitment to zero forced labour and supplier sourcing practices. We have encouraged further transparency in this area and are following up with the company to learn more about its plans.

Conclusion

As always, our work is through a long-term lens. Arguably all ESG factors are intertwined, and it is our role to make the connections between them and the investment implications for long-term returns.

The metrics

As avid supporters of analysing businesses through a qualitative lens, this section might cause the odd raised eyebrow. So, what has this got to do with stewardship?

Given the rise of ESG-influenced investing, you'd be forgiven for thinking there was enough relevant data to guide decisions. But this is far from the truth. Despite decades of research into corporate responsibility, growing interest in sustainable finance, and an entire industry devoted to churning out ESG data, there are still significant gaps in this data, and in our knowledge. Our investment approach draws on a broad range of sources of insight, from company visionaries to academic experts to data providers. They help us inform, support and challenge our contentions about companies' long-term prospects, including their governance and sustainability. We are mindful of the adage 'not everything that can be counted counts, and not everything that counts can be counted'.

Investors are increasingly faced with a barrage of ESG data and ratings that are often inconsistent, incomplete, and incomparable. We view data not as a checklist of boxes to be mechanically ticked off, but instead as the starting points for conversations with companies and stakeholders. Our approach must be more nuanced and qualitative. The following selected data points compare the representative ACWI ex US All Cap portfolio to the MSCI ACWI ex US Index (please see the footnotes for the data points for the Developed EAFE All Cap and EAFE Plus All Cap representative portfolios compared to the MSCI EAFE index). The data points illustrate the importance of nuance and the questions we seek to explore through our broader analysis and company engagement.

Ownership

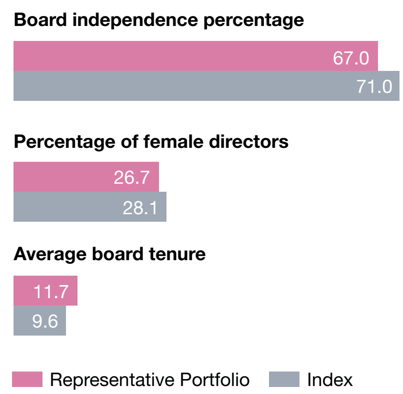
Founder and family-led firms are a defining characteristic of the portfolio, and we hold them at a much higher rate than the index. This reflects our belief that it often takes influential and visionary leadership, backed by aligned and patient shareholders, for a company to spearhead disruptive change while remaining focused on its long-term mission. Such long-term vision often means that these companies are among the most proactive in embracing sustainability planning and climate transition planning as part of their strategy development. A core tenet of our stewardship activities with non-founder-led holdings is to encourage their leaders to act as principals of each business, not merely agents that shareholders have employed.

Owner Type	Representative Portfolio %	Index %
Controlled (≥ 30%)	7.8	9.1
Principal (10–30%)	14.7	15.4
Founder Firm (CEO/Chair)	33.4	16.6
Family Firm (≥ 10% and Board)	17.9	12.4
Widely Held	23.3	42.7

Source: MSCI.
For Developed EAFE mandates the split is: Controlled 7.5 per cent, Principal 17.5 per cent, Founder Firm 20.0 per cent, Family Firm 23.5 per cent, Widely Held 28.5 per cent.
For EAFE Plus mandates the split is: Controlled 8.1 per cent, Principal 16.1 per cent, Founder Firm 27.2 per cent, Family Firm 19.0 per cent, Widely Held 26.7 per cent.
For the MSCI EAFE index the split is: Controlled 7.5 per cent, Principal 16.1 per cent, Founder Firm 7.2 per cent, Family Firm 11.9 per cent, Widely Held 56.0 per cent.

Board membership

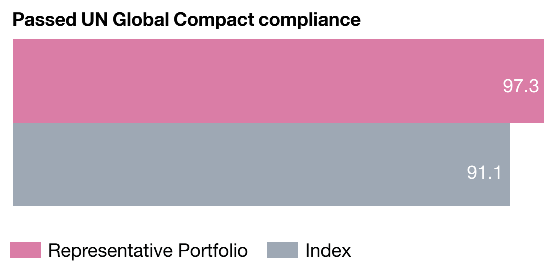
We look to company boards to provide effective oversight. Companies should demonstrate an appropriate level of board commitment and independence. Boards need to make reasonable progress towards both gender and ethnic diversity. While some progress has been made on the percentage of female directors in recent years, there is a much further to go. The overall number hides a wide range of situations, and there are companies in the portfolio with no female directors and others with gender parity. The lower board independence percentage compared to the index reflects both the weighting in Japan and the high number of family-led boards in the portfolio. In all areas where companies fall short of our expectations concerning board independence and composition we engage and, where appropriate, exercise, our voting rights.



Source: MSCI.
For Developed EAFE mandates the split is: Board independence 68.4 per cent, Female directors 29.5 per cent, Average board tenor 11.7 years.
For EAFE Plus mandates the split is: Board independence 68.6 per cent, Female directors 27.5 per cent, Average board tenor 11.9 years.
For the MSCI EAFE index the split is: Board independence 74.1 per cent, Female directors 33.3 per cent, Average board tenor 9.8 years.

UN Global Compact compliance

This indicator uses company compliance with the 10 UN Global Compact Principles as a proxy for social performance and exposure to corporate controversies. No companies in the portfolio are non-compliant with the UN Global Compact, **where data is available.** Within ACWI es US All Cap portfolios, two companies are on the watchlist. Baidu has allegedly engaged in the censorship of information within its services, in line with the demands of the Chinese government. Li Ning is on the watchlist due to links to forced labour in the Xinjiang region of China through its supply chain. We expect all our holdings to respect internationally accepted human rights and labour rights throughout their business operations and value chains and engage where necessary.



Source:MSCI
For Developed EAFE mandates the percentage pass is 100 per cent
For EAFE Plus mandates the percentage pass is 98.8 per cent.
For the MSCI EAFE index the percentage pass is 93.3 per cent

Carbon footprint

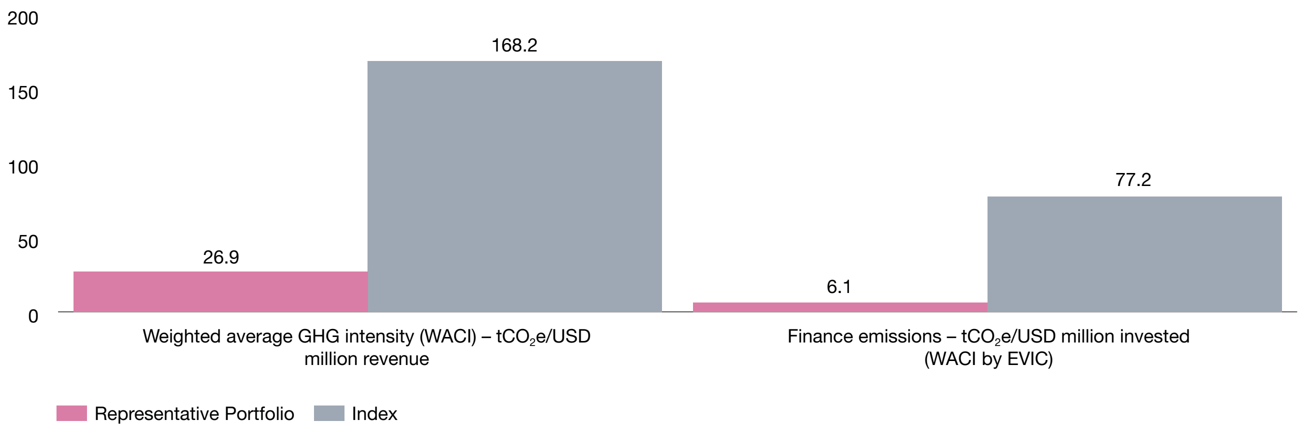
We are pleased to see that our efforts to deliver long-term value creation for our clients have been done in a manner that has a significantly lower climate impact than the index (as demonstrated by the charts below).

Carbon footprint analysis identifies the largest direct emitters and helps to prioritise research and engagement activities.

— Financed Emissions represent the carbon footprint of the portfolio. The carbon footprint is the total carbon emissions of the portfolio per million USD invested.

— The weighted average carbon intensity (WACI) metric considers portfolio exposure to carbon-intensive companies by revenue.

These intensity measures allow comparison of emissions across companies of different sizes and in different industries. We recognise that carbon footprinting and emissions intensity analysis is imperfect. Beyond simple concerns about data accuracy and availability, this analysis can only tell us where a company is – not where it is going. This is why we see it as a starting point and not the end.

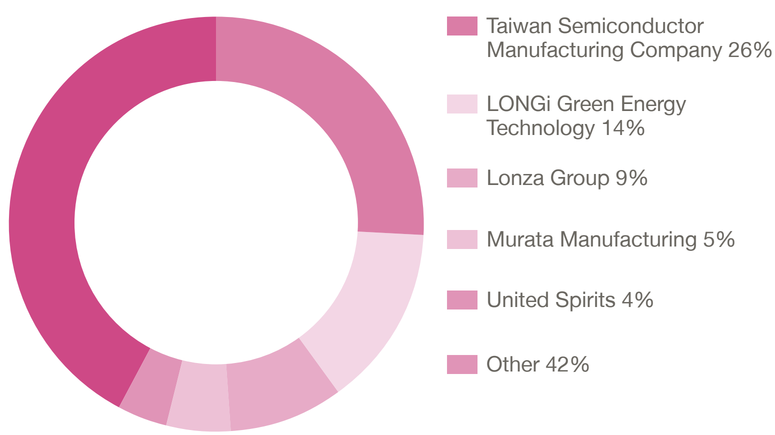


Source: MSCI.

Largest percentage contributors to carbon in the portfolio

(Function of holding size and emissions)

A small number of companies contribute disproportionately to portfolio emissions, and Taiwan Semiconductor Manufacturing Company (TSMC) is the single largest contributor to the portfolio WACI. We believe that for most holdings, a well-integrated approach to addressing the risks and opportunities of climate change is a prerequisite for demonstrating a long-term approach to generating value. As such, we incorporate climate analysis into our stock-level sustainability research and analysis and engage with companies on the issue where necessary.



Source: MSCI. Percentage of representative portfolio's total carbon emissions.
For EAFE Plus mandates the largest emitters are: Taiwan Semiconductor Manufacturing Company, Lonza Group, Murata Manufacturing, Unicharm, Jeronimo Martins.
For Developed EAFE mandates the largest emitters are: Lonza Group, Murata Manufacturing, Unicharm, jeronimo Martins, SMC.

TSMC is the leading semiconductor foundry and technology enabler. TSMC is aware of the untenability of its carbon footprint, evidenced by ongoing projects to decarbonise its power sources and improve energy efficiencies at its manufacturing sites.

LONGi Green Energy Technology is a leading solar manufacturer. Given its global scale, the company's positive impact is clear, yet it must be offset with elements of negative operational impact incurred in the production process of its solar technologies.

Lonza Group is a leading contract development manufacturing organisation for the pharmaceutical and biotech industry. Lonza has put in place a target to reduce waste intensity by 24 per cent, and energy intensity by 24 per cent, and has increased its ambition to reduce CO_2 intensity by 36 per cent by 2030.

Murata Manufacturing is a Japanese electronic component manufacturer and leader in multi-layered ceramic capacitors. The company has outlined medium and long-term goals to reduce emissions from its large-scale plants, increasing renewable energy sourcing to 100 per cent by 2050. By the end of the current decade, the group has committed to reducing scope one and two emissions by 46 per cent, and scope three by 28 per cent.

United Spirits is the largest branded spirits company in India. The company has an ambitious plan to achieve net zero across its scope one and two emissions by 2025, source 100 per cent of its power from renewable sources, and reduce its value chain carbon emissions (scope three) by 50 per cent by 2030. Its parent company, Diageo, continues to be a leader in setting ambitious targets across water use, carbon reduction, and packaging waste management.

We, as investors, have an important role to play in monitoring the climate transition plans of listed companies in your portfolio. There are several holdings where we can point to their recently published climate reports as providing a comprehensive analysis of the risk and opportunities. A stellar example is TSMC's climate report. Nibe, the Swedish maker of energy efficient heat pumps, would be another example, but there are many others, and it is encouraging how far the leading companies in the portfolio have come in responding to our request for granular climate-related reporting. However, we can identify companies that are innovators and active adaptors to decarbonisation. ASML, Nibe and CATL are just three strategy examples where focused climate-related innovation is transforming each business.

Responsible International All Cap

For our International All Cap clients with a particular emphasis on ethical issues when managing their portfolios, we offer a variation of our strategy with some additional process steps. In addition to the investment philosophy and process of the main International All Cap strategy, this portfolio also has the following features:

Initial screening

We do not purchase the shares of companies that derive more than 10 per cent of their revenues from alcohol, tobacco, gambling, armaments, adult entertainment, or fossil fuels, plus any areas specified by our clients' own restrictions.

Qualitative analysis

Our ESG analyst produces a report highlighting any additional considerations or concerns. This is primarily based on our own analysis, but it also considers the views of external agencies and, more explicitly, considers the perspectives of the United Nations Global Compact. The analysis covers environmental safeguards, social impact (labour relations, customer impact, broader societal impact), and governance (track record, board membership and policies).

Decision making

If our qualitative analysis highlights a significant concern, there is a further decision-making discussion by a subset of the Portfolio Construction Group and the strategy's ESG analyst. This discussion will determine whether the stock that is being considered should be added to the portfolio.

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