Global Stewardship

Environmental, Social and Governance Report 2021

Investment managers

Risk factors

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All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this article are for illustrative purposes only.

Annual past performance (%) to 30 June each year

	2017	2018	2019	2020	2021
Global Stewardship Composite	36.3	20.2	9.1	33.6	37.2
MSCI ACWI Index	22.9	9.5	10.3	5.7	25.1

Annualised returns to 30 June 2021 (%)

	1 Year	5 Years	Since Inception
Global Stewardship Composite	37.2	26.8	26.4
MSCI ACWI Index	25.1	14.4	15.4

Source: Baillie Gifford & Co and relevant underlying index provider(s).
Net of fees returns have been calculated by reducing the gross return by the highest annual management fee for the composite.
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CM16219 Global Stewardship ESG Report 0821
Ref: 10425 10001213

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Introduction

Welcome to our latest ESG (Environmental, Social and Governance) report, covering our activity during 2020 and our plans for the years ahead.

In a year destined to be remembered for the terrible impact of Covid-19, it was notable that ESG issues nevertheless gained in prominence in the minds of investors, from the ambition to 'build back better' from an environmental perspective, to a greater focus on how companies treated their employees during the pandemic. We believe Global Stewardship, which seeks to integrate ESG and investment with an unashamedly optimistic mindset, is well-placed to address these and future such challenges.

Key to this is our research approach, and in particular our Positive Inclusion Factors framework. This seeks to capture and balance the pertinent investment and ESG issues for every stock we consider, and underpins everything you will read in the following pages.

Positive Inclusion Factors

1. Will the company add value for SOCIETY in the long run?
2. Does it balance the needs of all STAKEHOLDERS?
3. Does the company exhibit a CULTURE of responsible business?

This year's report opens with a discussion of Global Stewardship through the lens of five data points, before moving on to our focus for 2021: climate, and how the portfolio is positioned both today and for the future transition to a low-carbon economy. We then provide a summary of our engagement and voting during 2020, before highlighting some of the wider ESG work we have undertaken in the recent past.

We trust you will find the report interesting and illuminating, and look forward to discussing it with you over the course of the year.

Global Stewardship in Five (ESG) Statistics

An increasing number of ESG data points are available to responsible investors: dozens of ratios, ratings and risk scores purporting to tell all. As bottom-up, sustainable growth investors we do not seek companies for Global Stewardship based on their performance against these metrics. Rather, we aim to allocate capital to businesses that we believe provide a long-term benefit to society while balancing the needs of their stakeholders and behaving responsibly. Quantifying this future potential is an inherent part of our investment process which requires us to make complex and nuanced judgement calls. It cannot, unfortunately, be simplified into a pre-packaged set of ESG scores.

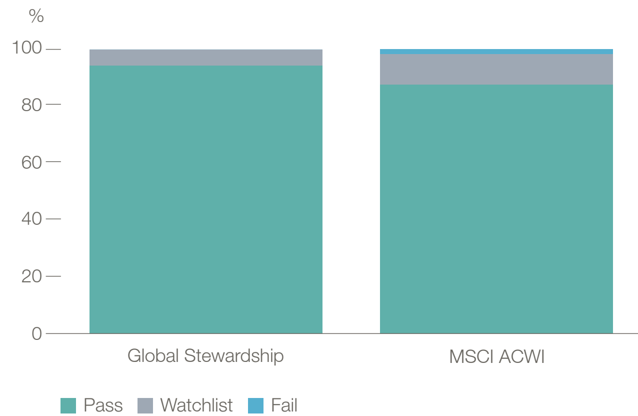
There are, however, a handful of criteria that we do like to track. This is both to aid our understanding of individual companies, and to understand how our wider portfolio stacks up relative to best practice expectations. If, for example, the companies that we select are, in aggregate, weak on diversity or shy on environmental reporting, we need to examine our own thought processes and engage with portfolio holdings. Moreover, although our view differs from many on best practice with regards to insider ownership and some board protections – for example, being comfortable with certain founder-controlled companies – we need to explain this to our clients and would not want it taken as implicit support for similar practices across the market as a whole.

Here we provide a data snapshot – a set of charts that illustrate the Global Stewardship portfolio against five core criteria, some of those most widely used to assess ESG quality. We have typically shown the portfolio versus the MSCI All Country World Index (ACWI), which is the strategy's benchmark and a widely used proxy for the broader equity market.

1. Responsible Practices: UN Global Compact Compliance

Our research process deliberately seeks companies with a positive attitude to stakeholder balance and good business practices. Reducing these actions and the surrounding corporate culture to a set of metrics remains a somewhat elusive goal, but one of the most widely recognised tests is compliance with the 10 principles of the United Nations Global Compact. This looks for good practice across human rights, the treatment of labour, environmental awareness and anti-corruption. All our companies currently pass this bar. Furthermore, only one holding, Amazon, appears on a related 'watchlist' due to concerns regarding staff safety and employee access to unions. This is an area that we have been discussing with the company over the course of many years. We have been pleased to see Amazon deliver higher minimum wages, improvements in health and safety reporting and, most recently, an external human rights review. But, as Amazon is a significant employer, we expect this will remain a focus of our monitoring and engagement with the company.

United Nations Global Compact Status



Source: MSCI Screener, Sustainalytics.

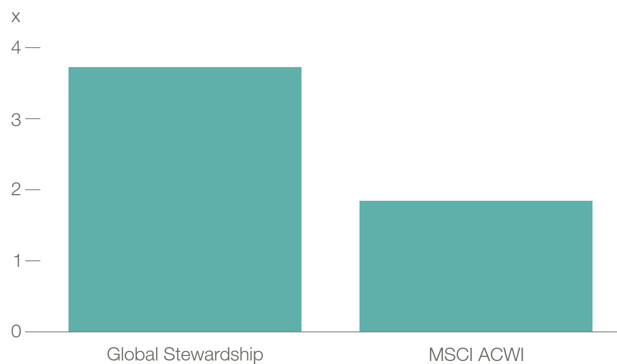
2. Capital Allocation: Investment vs Pay-out

At its heart, Global Stewardship is about allocating capital to drive a sustainable future. This requires companies that are committed to research and development (R&D), as well as continued capital investment.

Hence it is no surprise to see that the portfolio's R&D/sales ratio is three times the market average. In addition, Global Stewardship companies invest capital relative to returning it to shareholders ('the deployment ratio') at over twice the rate of the MSCI ACWI. This orientation of the portfolio is one of its most important societal contributions, and stands in marked contrast to the one-third decline in annual growth rates of both capital and intangible assets at US corporates in the period 1962-2016 (Thomas Philippon, 2019).

Standout capital investors held in Global Stewardship include companies as diverse as Tencent, Samsung SDI, Sartorius and NVIDIA. Encouraging a long-term perspective and continual investment, even in tough times, is a feature of our company engagement, and many examples of such discussions can be found in our regular client reports.

Deployment Ratio



Deployment Ratio equals the Capex + R&D/Dividends and buybacks.
Source: Company reports, Factset.

3. Alignment: Core Shareholders

We believe alignment between managers and owners through significant equity ownership to be a positive indicator for business investment and holistic, long-term thinking. Quite apart from clear financial alignment, core owners and executives with notable 'skin-in-the-game' should be more likely to recognise the importance of appropriate stakeholder balance to the sustainability of their business. That said, being the minority outsider in such circumstances can magnify the risks of poor governance, making our assessment of corporate culture even more important. This is an instance where what may be right for an outstanding few firms will almost certainly not be right for the average company.

Just over 30 per cent (by weight) of the Global Stewardship portfolio is invested in companies where one group or entity controls over 30 per cent of votes, or can elect over 50 per cent of the board. That compares to just over 20 per cent across the MSCI ACWI. Moreover, 73 per cent of the portfolio (by weight) has at least one shareholder with more than 10 per cent of the votes.

The over-riding feature of our core shareholder companies is exposure to entrepreneurial founders. These range from Daniel Ek at Spotify to Tobias Lütke at Shopify, who have the long-term ambition to transform, respectively, access to music and commerce. Our Chinese investments are also closely controlled by founders or founding partnerships, and we believe this is intrinsic to both their record of innovation and ability to operate in a complex socio-political environment. More conventionally, we also hold companies such as Adevinta, Atlas Copco and DENSO, where the core shareholders are strategic and enable the patient development of businesses over time. Our ongoing role is to engage directly with these companies to assess how our external perceptions of culture and alignment match their internal intentions.

Weighted Proportion of Portfolio with Core Shareholders

Source: MSCI ESG Screener.

4. Challenge: Board Independence

For us, the proportion of independent directors on a board is something to consider alongside protections for the executive such as dual class shares, classified boards and the length of non-executive tenure. We take notice of all these characteristics when we consider each of our holdings, but, overall, the boards of Global Stewardship companies have a slightly lower proportion of independent directors than the MSCI ACWI.

In some cases, the care and protection that can be given to entrepreneurs by those they know and trust can be a defining feature of success. For companies in the early stages of their growth opportunity, some insulation from the market can also create the time and space needed to invest for the long term and allow vision to play out, delaying the risk of being pre-emptively acquired and absorbed into bigger incumbents. These features have always been a part of our investment process for companies in the healthcare/biotech industry, but have become more important elsewhere as the portfolio has invested in a new set of disruptive technology start-ups such as Twilio and Zoom.

As ever, we assess each company individually. In some instances, especially for older incumbents, we can find a lack of board independence troubling as it might indicate an overly entrenched or closeted executive. At others, it is a case of evolution: as a business grows and matures, the board needs to change with it. Over the last year or so, Baillie Gifford has engaged to encourage additional board independence at holdings as diverse as Tesla, JD.com, CyberAgent and Hargreaves Lansdown. That also formed part of our rationale for selling out of Facebook in early 2020. Conversely, we have been happy to allow the extension of board protections a little longer at The Trade Desk (a five-year extension to a dual share class structure) and Netflix (preserving super-majority voting for now).

Board Independence

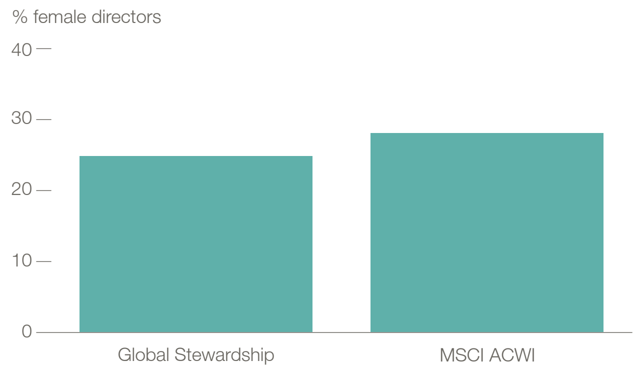
Source: MSCI Screener.

5. Diversity: Women on Boards

It is profoundly disappointing to note that the Global Stewardship portfolio lags the market in terms of the average number of women on the boards of our holdings. We have some leadership examples: Zalando's board is 57 per cent women, and Amazon's 45 per cent. However, our comparative weakness on this point is largely a function of our relatively high weights in Japanese and Chinese companies, as the MSCI Japan index has only 15 per cent female board representation, and China just 12 per cent.

In all markets, we engage on this issue as part of our discussions around wider board openness and strategic awareness. Gender diversity was an important element of the successful broadening of board independence at both CyberAgent and Softbank Group. It is also important to note that this is just one measure of cognitive diversity.

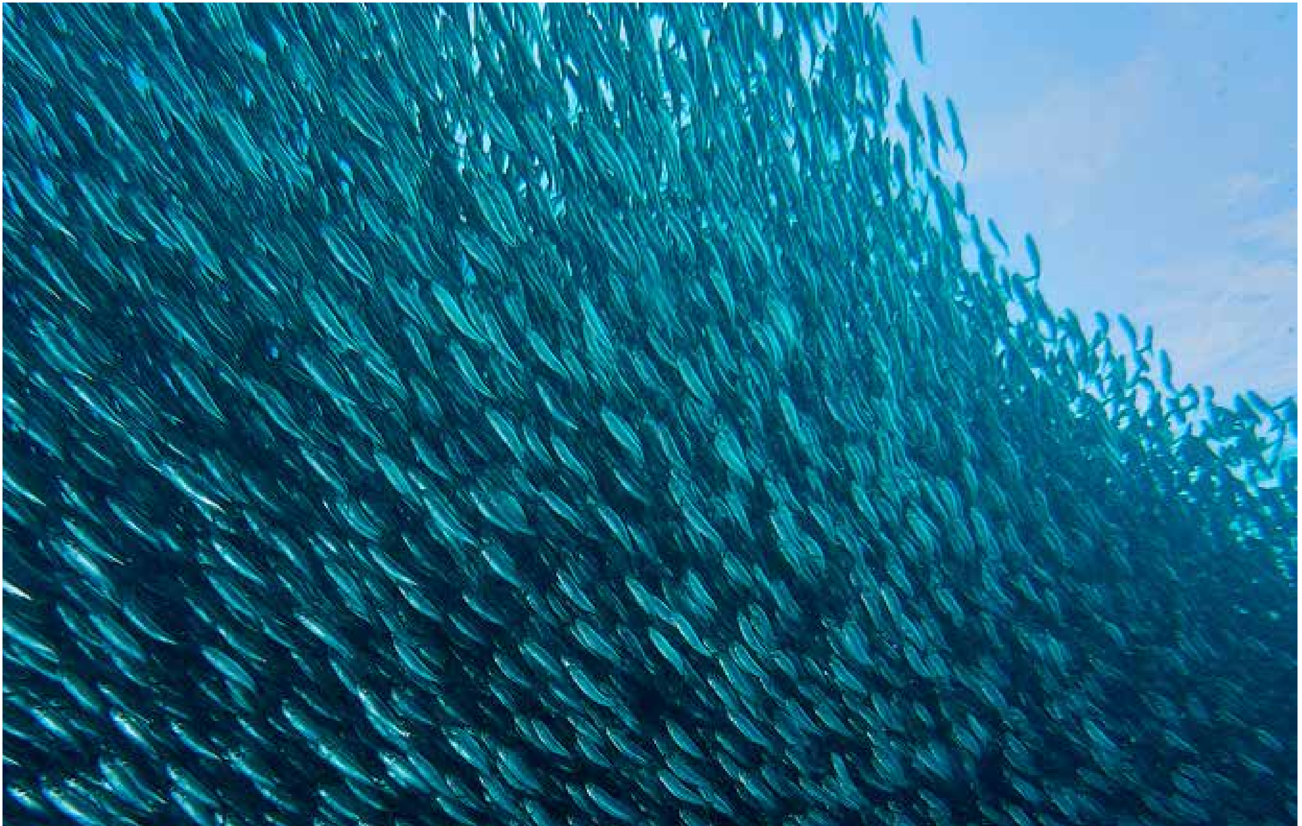
Proportion of Female Directors (Supervisory Board Level)



Source: MSCI Screener.

ESG metrics such as the five discussed above are not, by themselves, a short-cut to sustainable investment. But, as we have shown, with the correct context and expanded analysis they can reveal interesting truths about your portfolio. In particular, such data points are increasingly important in our efforts to quantify and influence Global Stewardship's exposure to the climate crisis, and this is discussed in the next section.

Global Stewardship and Climate: Risks, Reporting and Opportunity



Global Stewardship's emphasis on ESG and its focus on investing in sustainable growth companies results in a natural alignment with businesses which are making a positive contribution to combatting the climate crisis. By their very nature, our Positive Inclusion Factors – seeking the potential to add value to society and evidence of responsible business practices – act as a catalyst for a pro-climate tilt across the portfolio.

We have explained our vision for a successful, low carbon world in 2050 in a separate report, alongside a discussion of how this impacts our investment approach and engagement activities.

In this section, we therefore concentrate on providing a snapshot of climate-related portfolio characteristics: greenhouse gas emissions, exposure to physical change and potential alignment to the transition to a low carbon economy. Few of these data points are absolutes, too many are still estimated, and most depend on evolving methodologies. We are committed to advocating for greater corporate disclosure and supporting the development of more helpful climate metrics in the future, particularly given our likely long-term bias to the growing band of low carbon solutions providers.

Risk: How Carbon Intensive is Global Stewardship?

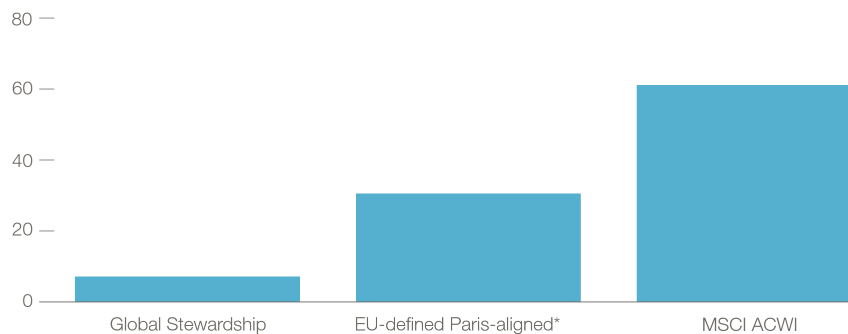
Measurements of the intensity of carbon, or more accurately of greenhouse gas or GHG, generally focus on two footprints: the direct and the indirect. The former is a measure of emissions directly resulting from the operations of a firm, either Scope 1 (relating to the combustion of fuels or from industrial processes) or Scope 2 (relating to purchased energy, such as electricity). The latter, indirect emissions, are known as Scope 3 and consider the overall prevalence of GHGs across the entire value chain of a company. For example, they may occur 'upstream' in relation to product sourcing, or 'downstream' in the use and disposal of purchased goods.

The collection and reporting of direct (ie Scope 1 and 2) emissions data are now relatively accurate and commonplace. However, the broader Scope 3 figures remain inconsistent and almost entirely estimated by various agencies and consultants. There are also concerns regarding appropriate comparators for GHG intensity. Sector-specifics (for example, per kilometre travelled or per widget produced) are of little use across a diversified portfolio, while measurements relative to sales ignore the wide range of margin structures across different firms. Analysing emissions relative to market capitalisation may prove too volatile, as it is subject to the short-term whims of the stock market.

That being said, we accept that 'perfect is the enemy of good' and that transparency is important. In that spirit, we provide the data below according to the emerging preference for emissions compared to enterprise value, which is the sum of a firm's market capitalisation plus the book value of its debt. On that basis, the direct GHG intensity of Global Stewardship is just 12 per cent of our comparative index, the MSCI ACWI. It is also significantly lower than the indicative intensity of the new 'Paris-aligned' indices, as defined by the EU.

We do, admittedly, hold a small number of more GHG-intensive companies. Our top three holdings by direct emissions intensity are Samsung SDI (batteries), Bridgestone (tyres) and DENSO (auto components). However, we are comfortable that each of these provides essential products, and moreover that they are run by management teams which are working hard to minimise the impact of their operations.

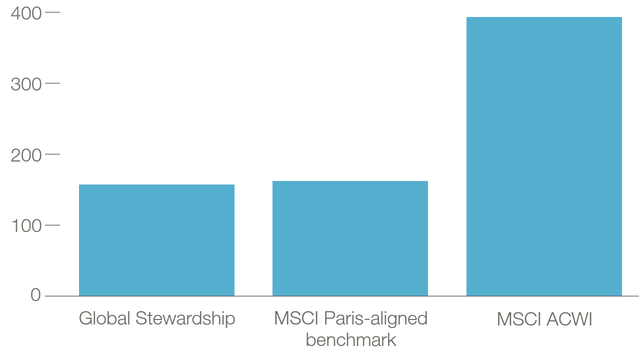
Direct Emissions Intensity (Scope 1&2, tCO2e/$EVIC)



Source: MSCI data and BG calculations. As at 31 December 2020. *The EU has set a defined standard for the emissions intensity of Paris-aligned benchmarks. This begins with the exclusion of most fossil fuel related activities and a 50 per cent lower emissions intensity than the parent index. The standard incorporates only Scope 1&2 emissions at this stage. This bar approximates that standard relative to the MSCI ACWI. EVIC – Enterprise Value Including Cash.

During 2020, we had many conversations with companies, data providers and academic consultants in a search for better Scope 3 data. For now, we have chosen to illustrate our full chain emissions exposure using the figures provided by MSCI. While this uses sector-based estimates and is not sufficient for granular stock selection, we consider it the best of the currently available broad tools, and useful in identifying areas for further research. The MSCI data suggests that our indirect, Scope 1-3 emissions footprint is below that of the estimated MSCI Paris-aligned index (which was originally set in May 2020 at a level of emissions 50 per cent of the broader ACWI and declining at 10 per cent per annum thereafter).

Emissions Intensity Across the Value Chain (Scope 1-3, tco2e/$EVIC)



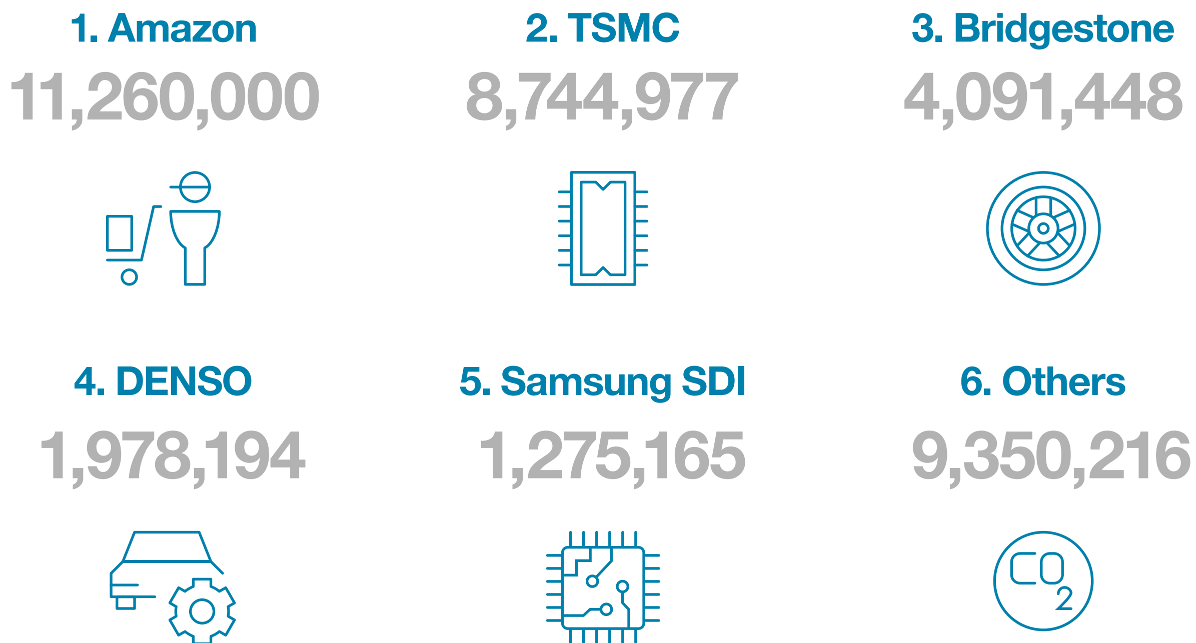
Source: MSCI data and BG calculations. As at 31 December 2020.
Note: MSCI has created a Paris-aligned benchmark that builds on the EU definition. It includes MSCI's estimated Scope 3 dataset. While this lacks company-level accuracy it is useful for indicative reference. Data shown is actual intensity of the indices at 31 December 2020.

Scale: Which Companies Produce the Most Carbon?

Intensity metrics are useful for cross-portfolio comparisons, but we should not overlook the impact of the big emitters in absolute terms. Carbon is a volume game and solving the climate crisis requires a reduction in the economy's overall level of emissions. Global Stewardship holdings directly produce a combined estimated 36 million tonnes of GHGs. That is no small number, it is roughly the same as what you would produce in a year of driving 11 million VW Golfs 12,000 miles each. On the other hand, it is only around one-third of the emissions generated by the annual operations of ExxonMobil, with those from actually burning Exxon's products many times greater still.

Our largest direct emitters by volume are Amazon, TSMC, Bridgestone, DENSO and Samsung SDI. Regardless of their weighting in the portfolio, or whether they stack up well in relation to carbon intensity versus peers, these are the companies we need to look to for leadership in emissions reduction. All five are good performers in terms of their disclosures and setting of targets, but we want each of them to go further.

Global Stewardship's Big Direct Emitters (tCO2e)



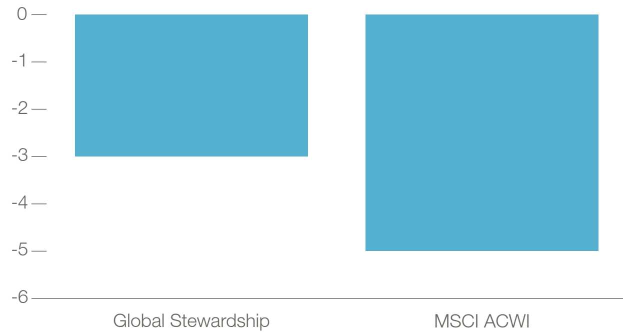
Source: MSCI Screener.

Risk: Physical Change

Our climate is in crisis because unchecked change will have ever-greater impacts on the physical world: rising sea levels, flooding, more acute storms and, in some places, temperature extremes that will preclude current work patterns and agriculture. We need to understand the potential exposure of our holdings to these physical realities. While some companies are providing information on this (and we engaged with several of our financial sector holdings on this topic during 2020), we are beginning to use consultant data as a research flag for investigating the type and extent of exposure more broadly across the portfolio.

Analysis of asset and market-level impacts has been pioneered by the world's insurers and is increasingly available to other investors. The graphic illustrates one attempt at quantifying the potential for value loss to corporate assets if temperatures were to rise by more than 3oC this century. This data is useful not as a number in itself – it is almost certainly too small for that outcome – but as an indicator of relative risk.

Physical Climate Risk (per cent impact on corporate value)



Source: MSCI Screener; aggressive physical risk scenario.

Reporting: How Do We Know?

The good news is that reporting of climate-related risks is improving all the time. Led by regulators and initiatives such as the Task Force on Climate related Financial Disclosures (TCFD), many companies now detail their emissions, together with their plans for reduction, and discuss more qualitative issues such as physical risk and strategic exposure to positive solutions. It is clearly our responsibility to encourage this transparency. For some it will be existential, and our conversations will be in-depth and cover the full gamut of corporate governance and strategy, but for others it will be more like minor housekeeping (for example, for our early-stage biotech and software service holdings). Our approach to each company is bespoke, and this remains an engagement priority for us in 2021.

Using MSCI's latest dataset, just over half of the companies in Global Stewardship currently report their direct emissions – a lower proportion than we would like. More positively, this covers over 90 per cent of the likely (ie estimated and reported) portfolio emissions, but nevertheless we want some of our potentially significant non-reporters (namely Tesla and the Chinese ecommerce platforms) to catch up rapidly. For context, over 60 per cent of companies in the MSCI ACWI are now classified as emissions reporters, covering some 80 per cent of estimated GHG emissions.

Very few companies, anywhere, have yet to provide comprehensive indirect/Scope 3 emissions reporting. However, there are some notable instances of emergent best practice in the Global Stewardship portfolio. For example, Bridgestone provides an excellent overview of its value chain footprint. Meanwhile, to back up its 'Net Zero by 2040' commitment, Amazon has provided useful insight into the Scope 3 emissions of its own-product sales. Company, regulator and investor focus is rightly switching to disclosure on this broader emissions metric, and it forms part of our engagement discussion with those companies which can exert material influence.

Finally, in terms of demonstrating best practice and laying the foundations of authenticated climate targets, the gold standard is company reporting in line with the Carbon Disclosure Project (CDP) and Science Based Targets initiative (SBTi). It is great to see that 40 per cent (29) of the companies in Global Stewardship are reporting to CDP, versus an MSCI ACWI average of 30 per cent. Moreover, 10 of the portfolio companies have achieved the top A grade.

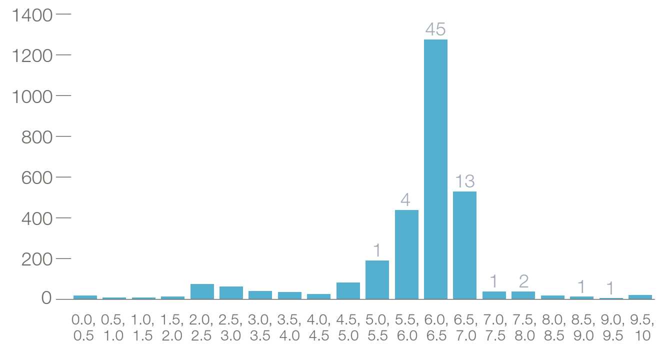
Opportunity: Transition Alignment

In an ideal world, corporate exposure to the solutions that could solve the climate crisis would be easy to find, or measurable by a simple set of metrics. Right now, that is just not possible. Disclosure around some of the key markers (such as sales from low carbon products, potential for avoided emissions, or clear targets for reduction) is not there yet, but much of this will necessarily always be qualitative. Which management teams will have the drive and determination to turn products and discoveries into commercial solutions?

We are seeking better ways to create some ‘proof points’ for the positive alignment of Global Stewardship to climate solutions. One example is the chart here, which illustrates the placement of Global Stewardship companies across MSCI’s Low Carbon Transition scoring. This metric attempts to integrate exposure to climate-related solutions in products and strategy, with companies such as Tesla scoring a 9, and slow-moving fossil fuel companies sitting below 2. Created top-down and far from perfect, it is at least objective relative to our own perceptions of the portfolio. Overall, the Global Stewardship companies are clearly tilted to the right side, and we believe we have chosen the best 45 companies in the MSCI ACWI’s 1200+ mid-range spike.

MSCI Low Carbon Transition Score: Global Stewardship Companies vs the MSCI ACWI

Number of companies in MSCI ACWI at each score



Global Stewardship companies

Source: MSCI Screener, BG calculations.

Engagement: Conversations with Companies

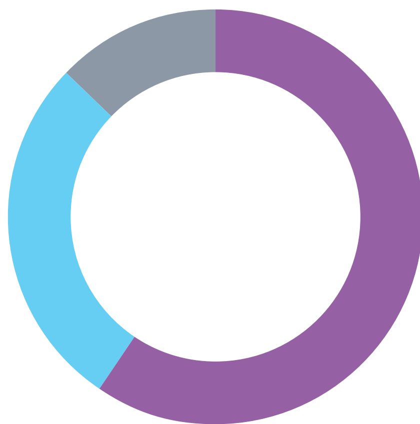
Company engagement, when done properly, is not about one-off confrontations where management teams are presented with a list of prescriptive demands. Rather, it is about creating a two-way relationship built on trust and understanding. Even where there is an individual issue to address, it is important to put it in context and to consider the direction of travel – sometimes there is no good quick fix for a problem. As long-term investors, we embrace the responsibility of undertaking such engagements, which will often span multiple interactions over a period of months or years.

Members of Global Stewardship and colleagues from across Baillie Gifford had 119 engagement meetings or calls with portfolio companies during 2020.

Some of these had quite specific and directed intentions regarding, for example, the evolution of governance or requests for disclosure. Others were on one of several themes identified by our research, including climate and the energy transition, capital allocation and, more esoterically, responsible gaming. However, the vast majority of meetings were part of broader, ongoing conversations, as we seek to extend our understanding of a company's culture and goals. We provide updates on all of our noteworthy engagements in our client quarterly reports.

In this section, we have picked out four examples from the recent past which illustrate the value of the two-way conversations described above. These were with **Hargreaves Lansdown**, the UK online savings platform, **JD.com**, the Chinese internet retailer, **Chegg**, an innovator in the provision of online educational resources, and **Tesla**, the pioneering maker of electric vehicles.

Purpose of Engagement Meeting



Engagement for Understanding – Strategy (71)

Engagement for Understanding – Business Practices (33)

Engagement for Change (15)

Hargreaves Lansdown (HL) hit the headlines in 2019 following the suspension of the Woodford Equity Income Fund. Although not directly managed by HL, the fund had previously appeared on HL's recommendation lists and was therefore widely held by users of the HL platform. We initiated a conversation with the company to ensure that, in the short term, it was doing what it could to help its customers, and then that it took the opportunity to learn from the incident and avoid similar situations in the future – crucial for its reputation and hence for the investment case for continued ownership by Global Stewardship.

We spoke to the chief executive officer (CEO) in the immediate aftermath of the Woodford suspension in the second quarter of 2019, following up with him in the third quarter as HL started to consider necessary improvements to its governance framework. We then discussed the progress of these initiatives with the chairwoman towards the end of the year and again in 2020. We are pleased that the company's strengthened governance framework includes features we had encouraged.

Our approach in these meetings was to strike a challenging but constructive tone, seeking improvements as an engaged ongoing shareholder. We believe that this helped build our relationship with HL, which bore fruit later in 2020 when the chair of the remuneration committee approached us for a pre-AGM (annual general meeting) consultation on the proposed pay package for senior management. We were unhappy with some elements of this, as we were concerned that they might undo some of HL's good work rebuilding its reputation following the Woodford crisis. We were pleased that our thoughts were taken on board by the company and the proposals were altered, allowing us to ultimately vote for the package at the AGM. We are often asked when we 'vote against management', as if this is the sole defining characteristic of serious engagement. As this example shows, in some instances the real work is done before a vote – not as headline-grabbing, but good for shareholders.

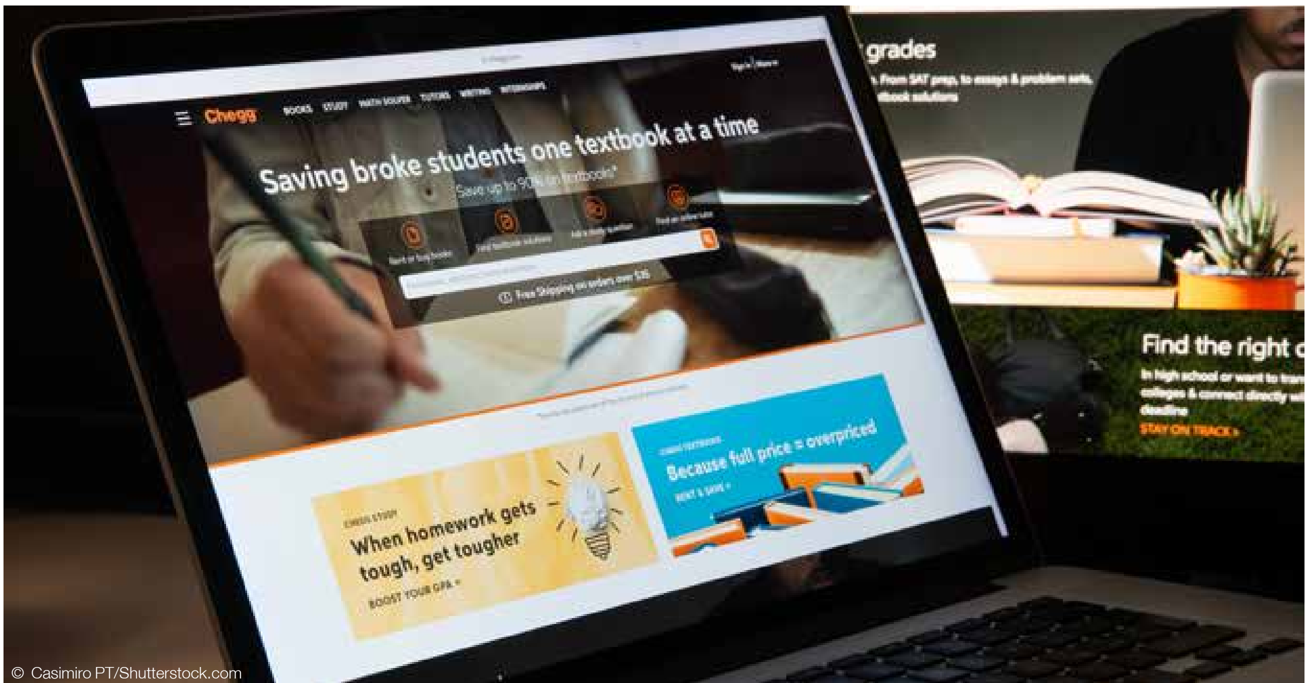
JD.com's ecommerce platform has become China's largest retailer. It operates an integrated model from stock to delivery, and is driving innovation in automation. We have been engaging with the company since 2018 to seek improvements in its governance. In particular, we wanted JD.com to start holding an AGM to allow investors to learn more about how the business was performing and to question management; to increase the level of independence of the board; and to amend the firm's Articles of Association to allow the board to meet without needing the chief executive to be present. This latter issue is clearly a potentially very limiting requirement should the CEO be indisposed. Removing it would, in our view, be indicative of a reasonable and appropriate level of internal delegation.

We first raised this with the chief financial officer (CFO) at the end of 2018, before formally following up with the company in a collaborative engagement with another long-term investor in 2019. A few months later, we met JD.com again to discuss progress. We were assured that the company was actively considering all the points we had raised, although getting the right candidate to improve the board was taking time. This is understandable: better to be patient and pick the right person than to rush an appointment for the sake of it. However, we continued to push for more progress in 2020, when JD.com started to prepare the ground for a secondary offering of its shares in Hong Kong (it had previously been US NASDAQ-listed).

As part of that process, we were delighted to see that JD.com had reduced 'key man' risk through adjustments to its quorum rules for board meetings, and that the company has committed to hold an AGM in 2021 - so two of our three points have been dealt with. Our third wish, to see more independent directors on the board, remains a live issue, which we reiterated to the CFO in a call in the second half of 2020 and will continue to press for in 2021. As long-term investors, we hope that JD.com continues to make a positive contribution to the modernisation of the Chinese economy, and we believe that evolving governance of the company has a role to play.

Chegg has transformed itself from a textbook rental service into an online platform offering both study support and, increasingly, access to structured programmes for career-based learning. It is seeking to enhance an education system that, particularly in the US, seems to fail too many.

However, we are aware that using the platform to copy answers, rather than as a way in which to understand concepts faster and better, will likely lead to vastly different educational outcomes. Made-to-order homework answers, plagiarism checks, question banks with verified accuracy, and expert tutors are powerful tools which are at the core of some long-standing question marks concerning Chegg. Does the company really 'care' about education and helping people learn? Is the platform 'good' for education? For Global Stewardship to continue to support Chegg, we need to be robust in our analysis of its role and intent.



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We discussed these issues in a September 2020 meeting with Chegg's CEO, Dan Rosensweig. Acknowledging the various measures already in place to maintain academic integrity – including monitoring processes, training of Chegg 'experts', user bans and strict enforcement of the 'honor code' – we questioned whether this was enough to prevent cheating, particularly given the growing transition to digital examinations. Rosensweig was adamant that Chegg has no interest in aiding cheating, and we were reassured to hear that measures were being developed to counteract this. We suggested that Chegg should explore ways to quantify the beneficial impact of the study platform on academia. Again, we were pleased to learn that objective student outcome data is considered a 'next step' for the company, and a study is underway to examine this.

In January 2021, Chegg announced the launch of 'HONOR SHIELD', a new tool to further support the integrity of online assessments. The company recognises the sudden impact of Covid-19 in forcing many schools and colleges to transition to online learning at short notice, and that a small minority of students will have misused the platform in ways it was not designed for. 'HONOR SHIELD' therefore limits access to Chegg solutions during designated exam periods, and allows professors to confidentially, and without charge, pre-submit exam or test questions, preventing them from being answered on the Chegg platform during specified dates and times. We are delighted that we can play a role in encouraging responsible behaviours like these, that should help underpin Chegg's long-term sustainable growth.

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Tesla remains among the largest holdings in Global Stewardship, reflecting its potential to transform transport and energy for a low carbon future. We want to continue to support Elon Musk and his company in this regard, but we also recognise that the expectations and responsibilities of the company have rightly changed as Tesla has grown rapidly. Tesla is owned by a number of different strategies at Baillie Gifford, and our clients' combined shareholding makes us one of the largest outside owners of the company. On this basis, our colleagues across investment teams and our Governance and Sustainability department have engaged extensively with the company on various governance issues over a number of years.

In late 2018, we were pleased to see the appointment of Robyn Denholm as independent Board chair, and the further extension of board independence and challenge with the arrival of ex-Japan Government Pension Investment Fund Chief Investment Officer Hiromichi Mizuno as a non-executive director in April 2020. We continue to support the further evolution of Tesla's governance, and, for example, at the company's AGM in September, we voted in favour of a shareholder resolution to move to simple majority voting.

During 2020, one area of focus for Baillie Gifford's engagement with Tesla was the company's treatment of its staff. As Tesla's physical production increases, employee issues from basic health and safety through to pay and oversight become increasingly critical to smooth, sustainable delivery. We have been discussing greater transparency in this area directly with the company and, in addition, supported a shareholder resolution asking Tesla to disclose more on its use of forced arbitration clauses in employment contracts (see next section).

Baillie Gifford did not, however, support two other shareholder resolutions seeking specific corporate social responsibility disclosures. In each case we did not feel that the request was fit for purpose. Instead, we have continued our direct discussions with the company on wider impact reporting. Given the company's leadership position in electric vehicles and solar panels, it has much to offer in best practice in supply chain management and disclosure, particularly on cobalt and rare earth minerals. It also can help in the development of metrics and reporting on greenhouse gas emissions, both direct and avoided. We therefore look forward to the publication of the company's new Impact Report in 2021.

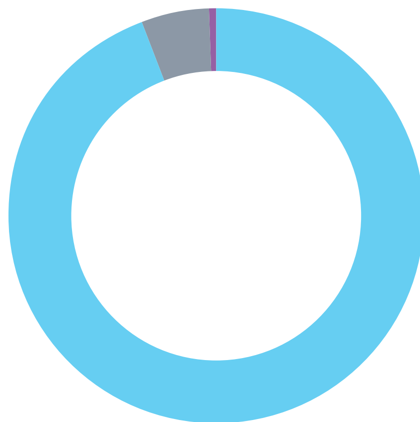
Voting: Report on 2020

One important element of our wider programme of engagement with portfolio holdings is proxy voting. At company meetings, this is a key tool which allows us to support, influence or challenge the management teams of companies in which we invest. Where possible, we seek to vote all shares globally on behalf of our clients to ensure they have a voice in corporate decision making. We evaluate all proposals in-house, on a case-by-case basis, considering what we believe to be in the best long-term interests of our clients. If we elect to vote against management, we endeavour to discuss our concerns and communicate our decision with them prior to submitting our decision.

During 2020, Global Stewardship voted at 71 company meetings on a total of 790 resolutions. As the data below shows, we were typically supportive of management. This is to be expected: one of the key elements of our investment framework is to favour companies which exhibit a culture of responsible business, and where the internal management team is well-aligned with external shareholders. In addition, as outlined in the Hargreaves Lansdown case study earlier, we can influence a company before the final vote, and hence ultimately support a proposal that previously we would have opposed.

But we are prepared to vote against management when necessary. Shareholder resolutions – proposals submitted by a company's shareholders – are one way for external stakeholders to have a voice in the governance of listed businesses. As the data and examples below show, we supported (and hence voted against management) in almost a quarter of these, on a range of issues, over the course of the year.

Voting Record



For: 94.4%

Against: 5.3%

Abstain: 0.3%

Shareholder Resolutions

For: 22.9% (11/48)

Against: 77.1% (37/48)

Environment

TJX Companies

We supported a shareholder resolution which requested a report from the company on how it plans to reduce its chemical footprint. The use of hazardous chemicals in the manufacturing process of products sold by TJX has been flagged as a material issue, and we believe the company should undertake and share its own 'chemical footprinting' to help shareholders understand how the business is monitoring and managing this risk.

Social

Tesla

Tesla has received criticism in the past for its treatment of employees, and we have engaged extensively with the company on the topic. During 2020, we supported a shareholder proposal which was asking for the company to report on its use of arbitration to resolve employee disputes. Our view is that additional disclosure and transparency in this area will allow shareholders to continue to develop a better understanding of Tesla's workplace practices.

Governance

Amazon

'Big tech' companies are increasingly coming under scrutiny to ensure they are behaving in a way which is commensurate with their scale and influence. Political lobbying is one element of this, with clear reporting a minimum first step to allow shareholders to assess how companies' actions are aligned with their stated corporate values. As a result, we supported a shareholder proposal to improve the transparency of Amazon's corporate lobbying policies and governance.

Thinking Differently – Wider Perspectives During 2020

As this report has shown, Global Stewardship invests in a diverse array of businesses and engages with companies on an extensive range of topics. But our work does not stop there, and the following are examples of other outputs from 2020 which helped our efforts to think differently in our approach to responsible investment.

Outside Perspectives – Reading Days

Here at Baillie Gifford we value curiosity, the ability to ask 'What if?'. We also set a great deal of store in getting away from the relentless background noise of daily news and endless financial commentary. One way in which we seek to encourage both curiosity and contemplation is through reading days. We organised one such event in 2020, where each of the Global Stewardship team picked a book to read, summarise and present to colleagues. The day was based on the broad theme of sustainability, and included sessions on stakeholder capitalism, climate, free markets and innovation. The latter may not seem obvious for responsible investors, but in our view it is crucial as the convergence of various technologies is leading to rapid societal transformation. We need to understand the impact of this – positive and negative – in order to ensure we back the right companies and encourage corporate behaviour to protect the interests of customers, employees, and the environment.

Staying with the environment, our discussion of climate on the reading day was focused on how Global Stewardship can make a positive contribution through its investments and programme of company engagement. We debated how best to strike the balance between demanding a minimum standard of compliance from all holdings, while avoiding a 'box-ticking' mindset where we thoughtlessly criticise companies without taking time to understand the backdrop. We embraced the notion that the environment is the only stakeholder without a voice at the table. If we can provide that voice in our engagement with companies, then we will have played a valuable role. We have subsequently strengthened our climate approach and developed a strategy climate policy as a result.

Top-Down Perspectives – Thematic Research

The first of the Positive Inclusion Factors – Will the company add value for society in the long run? – embraces entertainment as a source of sustainable growth, and we have holdings in gaming companies such as Japan's Nintendo. However, we are aware of the increasing societal scrutiny in this area, questioning whether gaming businesses have any place in a responsible investment fund. During 2020 we attempted to address this head on through a thematic review of the issues and our investments. This piece balanced the concerns of controversial content, addiction, and a growing focus on monetisation (primarily through 'loot boxes') against an evolving body of research highlighting the potential benefits of gaming, ranging from cognitive function and social interaction to education and mental health.

This led to portfolio change, ultimately contributing to our sale of GREE, Inc. GREE stood out from our other gaming holdings due to its dependency on revenue from 'gacha' (essentially loot boxes), and its self-admitted recognition that securing new sources of revenue in this way was critical. We also debated what future success for the company may look like and surmised that making more addictive games and encouraging further player spending on loot boxes was not aligned with our Positive Inclusion Factors.

Challenging Perspectives – Healthcare, Biotech, Biopharma and External Rating Agencies

ESG data from external ratings agencies is one of a great number of sources that we use to ensure a balanced piece of analysis when looking at potential stock ideas for Global Stewardship. Notably, one of the external ratings agencies currently allocates a poor ESG risk score to several of our healthcare, biotech and biopharma holdings. These companies are often penalised based on a perceived magnified risk in areas such as business ethics, product quality, product safety and access to healthcare. Additionally, poor disclosure is not particularly uncommon for these types of companies: for example, many do not have environmental policies in place.

This raises a question, which we came back to time and time again during 2020. Why, as responsible investors, do we hold such businesses that 'score' so poorly? The answer is that while it is important to quantify ESG risk, we are mindful of balancing this against ESG opportunity, which is far more difficult to reflect in a simple rating. Factors such as product quality and safety, along with business ethics, are clearly material considerations when analysing healthcare firms. However, we must also weigh these against the possible benefits to society.

One example is Abiomed, a company which develops technologies designed to assist and replace the pumping function of the heart. The company is 'marked down' by ratings agencies due to the risk that its devices may harm patients or may need to be recalled. But this ignores the potential for these same products to help treat desperately ill patients and save many lives – cardiovascular diseases are the number one cause of mortality globally, responsible for millions of deaths per year.

In Global Stewardship we address the most significant ESG risks via exclusions and rigorous responsible investment analysis. But we also consciously take a step back to see the bigger picture – the innovation, the transformation, the advancement of technologies. That's why our research process focuses on what could go right, rather than simply what might go wrong. For us, the biggest risk may be to not provide capital to potentially transformative companies like Abiomed.

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