Sustainable Growth

Sustainability Report 2022

Actual Investors

Risk Factors

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

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Introduction

Welcome to the latest Sustainable Growth Sustainability Report. This report covers the ESG (Environmental, Social and Governance) work we undertook in 2021, as well as some ideas for the future.

Again, we focus on climate. Following Baillie Gifford's commitment to the Net Zero Asset Manager's Initiative (NZAMI), in 'Towards net zero' we set out Sustainable Growth's climate commitments and how we plan to reach net zero carbon emissions in the portfolio. This includes the results of our first 'climate audit', which we plan to make a feature of future Sustainability Reports.

Away from the 'E' of ESG, in 'Diversity matters' we also look at female representation on the boards of portfolio holdings. As with the climate audit, this highlights that there is much work still to do for many portfolio holdings. Both subjects will be a part of our programme of company engagement, and we update on recent such efforts in 'Conversations with companies'.

Finally, we bring you up to date with how we voted our clients' shares over the past year, as well as how Sustainable Growth's ethical exclusion policy has influenced our portfolio thinking.

We hope you find our Sustainability Report enlightening and look forward to discussing it with you over the coming year.

Towards net zero: our climate commitment

Sustainable Growth has societal considerations at the heart of its investment process and, as a result, our portfolio exhibits a pronounced pro-climate tilt. Moreover, we embrace the very necessary energy transition as one of the most significant investment opportunities of the next decade and more, and one which offers the potential for genuine sustainable growth. We therefore push our investee companies to take a similarly optimistic approach to climate, embracing it as a way to create new markets or to deepen their competitive edge.

Holding other firms to such a high standard might prompt our clients to (justifiably) ask about our own climate commitments. We are therefore pleased to introduce our **Climate Policy** which supports Baillie Gifford's recent commitment to NZAMI. The policy lays out our aim to reach emissions consistent with global net zero across the portfolio by 2050, with an interim target for 2030 based on the increasing alignment of company strategies and targets. To achieve this, we will work with the management teams of portfolio holdings as they develop their business models, encouraging adequate disclosures against science-based targets and clear strategic alignment. We also commit to reporting our progress to you, our clients, in these reports. As a result, our climate section takes a slightly different form this year. Following the now familiar analysis of the portfolio's emissions intensity, we report the results of our first 'climate audit'.

Please see the Prospectus or Offering Memorandum for details of how our climate commitment applies to our pooled funds.

Carbon intensity

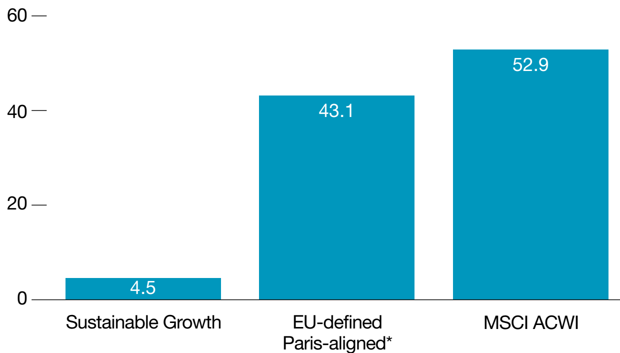
Measurements of the intensity of greenhouse gas emissions (GHGs) generally focus on two footprints: the direct and the indirect. The former is a measure of emissions directly resulting from the operations of a firm (scope 1 relates to the combustion of fuels or from industrial processes whereas Scope 2 relates to purchased energy). The latter, indirect emissions (also known as Scope 3) consider the 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.

For easy comparison across business types, we provide the emissions data that follows relative to a firm's enterprise value (the total value of its equity, debt and cash.) On that basis, the direct GHG intensity of Sustainable Growth is just 8 per cent of its comparative index, the MSCI ACWI. It is also significantly lower than the indicative intensity of 'Paris-aligned' indices, as defined by the EU. Despite the low starting point, this also presents progress versus 2020 numbers, when the reported intensity was 12 per cent higher despite the pandemic halting much economic activity and causing a global dip in emissions of around 7 per cent.

We do hold a small number of more GHG-intensive companies. Our top three holdings by direct emissions intensity are Samsung SDI (batteries), Bridgestone (tyres) and TSMC (semiconductors). We also own some large emitters in absolute terms, with Amazon (ecommerce), TSMC (semiconductors) and Bridgestone (tyres) being the most significant contributors. However, we are comfortable that each of these firms is embracing the necessary change and taking leadership within their respective industries with regard to minimising the impact of their operations.

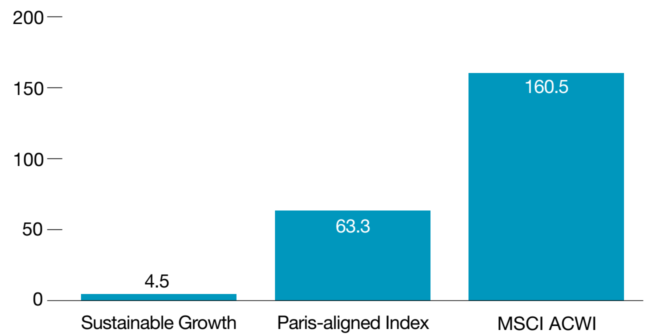
Our opportunity-focused approach also sees us gain exposure to several solutions providers. Among others, we would classify holdings in ITM Power (green hydrogen), Samsung SDI (battery technologies) and NIBE Industrier (heat pumps) as climate positive, albeit carbon accounting methods are not yet sophisticated enough to quantify their contribution reliably.

Direct Emissions Intensity (Scope 1 and 2, tCO_2e/$m invested)



Source: FactSet data and BG calculations. As at 31 December 2021.
*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 and 2 emissions at this stage. This bar approximates that standard relative to the MSCI ACWI.

Emissions Intensity Across the Value Chain (Scope 1–3, tco_2e/$m invested)

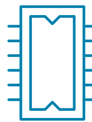


Source: MSCI data and BG calculations. As at 31 December 2021.
Note: MSCI has created a Paris-aligned benchmark that builds on the EU definition. It includes MSCI's estimated Scope 3 dataset for the most material sectors. While this lacks company-level accuracy it is useful for indicative reference. Data shown is actual intensity of the indices at 31 December 2021.

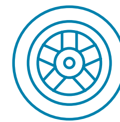
Sustainable Growth's Big Direct Emitters (tCO2e)

1. Amazon
14,890,000

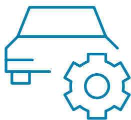
2. TSMC
10,293,201



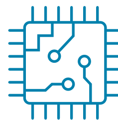
3. Bridgestone
3,435,435



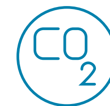
4. DENSO
1,544,633



5. Samsung SDI
1,399,830



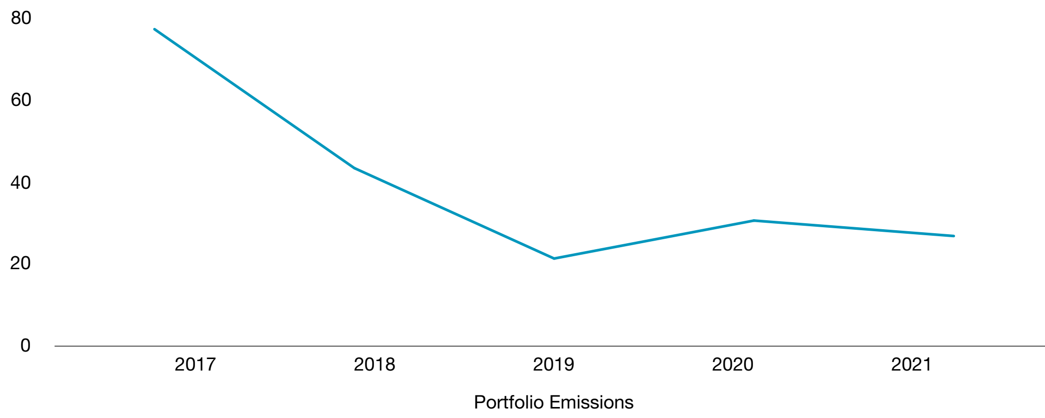
6. Rest of portfolio
8,317,182



Source: Baillie Gifford and Co. Data as at 31 December 2021. We sold out of DENSO in March 2022.

Portfolio carbon intensity trend

Portfolio Emissions (WACI = tCO_2e/$m revenues)



Weighted Average Carbon Intensity (WACI)
Source: Baillie Gifford & Co, FactSet, MSCI. Scope 1 and 2 data.

Climate audit

The results of our climate audit show just how much work there is to do. Only half of the portfolio by weight has achieved the basic requirement of reporting direct emissions. Even fewer have an emissions reduction target in place – just 25 of our 72 companies – and fewer still have a Science Based Targets initiative (SBTi) accredited 1.5 degree-aligned net zero target, the gold standard of climate commitments. More positively, our analysis of company targets suggests 19 per cent are 'industry leading' in their approach, but even this is below benchmark. In the context of a portfolio comprised of many earlier-stage, innovative businesses, it makes sense that we lag the benchmark across most measures. Put simply, a large business has more resources to direct towards ESG reporting. A small biotech, such as Denali Therapeutics working on a novel treatment for an unmet medical need, for example, quite rightly has the attention of its 216 employees elsewhere. Our view is a pragmatic one – Denali can have a huge societal impact through its treatments for neurodegeneration. If successful, it will have plenty of resources to get its emissions disclosures in order. We are supportive of this long-term approach.

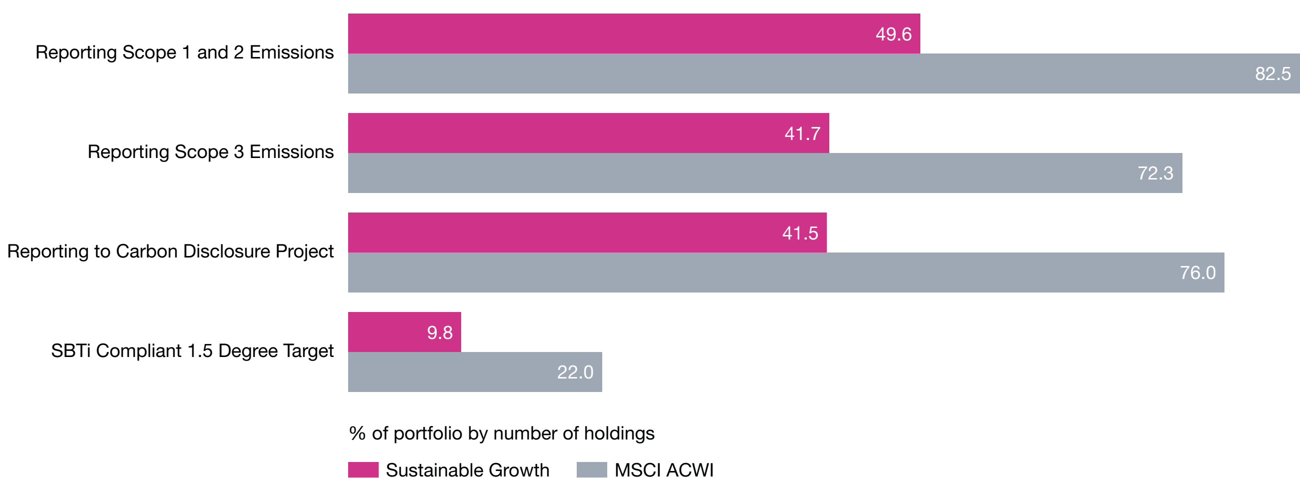
Our engagement with Denali and many others over the past year has shown us that companies are generally very amenable to introducing emissions reporting and adopting targets once they realise how important it is to our clients, their shareholders. Notable progress was made in 2021 in our conversations with a range of companies, from the climate laggards to the climate leaders. Perhaps most notable in the former category is the increasing attention paid to the topic by Chinese holdings, with Alibaba, Baidu and Tencent all consulting us on their plans for enhanced ESG reporting.

Some of the companies that were lagging are now among the most ambitious, spurred on by encouragement from both the government and their long-term investors. The carbon neutrality target announced by Alibaba soon after our engagement is a case in point.

At the other end of the spectrum we had altogether more complex conversations with climate leaders such as Shopify, which runs its operations on 100 per cent renewable power, and with heat pump manufacturer NIBE Industrier and Zoom Communications, both of which are grappling with the problem of reporting avoided emissions. Zoom, for example, estimates use of its video conferencing facilities avoided 55 million tonnes of CO_2e emissions in travel during the first year of the pandemic. As an illustration of the complexity of carbon accounting, that's greater than the direct emissions of the entire Sustainable Growth Portfolio.

We also witnessed strong climate commitments from companies as diverse as St James's Place, adidas and Netflix during the year, with the latter targeting carbon neutrality across its operations by the end of 2022. Despite the fears of many, climate moved up the agenda for a lot companies during the pandemic. However, even for the firms that are relatively early adopters of climate commitments this represents the start of the journey – those commitments must now be acted upon. There remains much to be done for the laggards *and* the leaders, and we relish the challenge of supporting progress through sustained company engagement as we seek to fulfill our net zero pledge.

Progress to Net Zero



Source: Baillie Gifford & Co, FactSet, MSCI.

Diversity matters

One element of our investment research process is to consider the culture of businesses. We place great emphasis on the behaviours of the firms we invest in, and not just because it is the 'right' thing to do. Rather, we believe that company culture is one of the factors where ESG analysis intersects with investment research, and investing in businesses with a strong, positive culture increases our chances of investing in long-term winners. As Gary Robinson, Sustainable Growth portfolio manager, puts it:

> *"Corporate culture is one of the things which separates exceptional growth companies from the merely good or average ones... (but) in spite of evidence to support the contention that culture is a critical driver of long-term stock returns, it is routinely ignored by most investors."*

Diversity is one factor that gives us an insight into the corporate culture and business practices of the companies we hold on behalf of our clients. It feeds into our overall assessment of how effective a board is in providing strategic challenge to company management, and how it ensures that key stakeholder voices are heard and considered in strategic decision-making. First Republic Bank is a notable example of a company that embraced diversity as a competitive advantage a long time ago, with founder Jim Herbert establishing a leadership team in 1985 that was 40 per cent female. We have no doubt that this has been a fundamental strength of the company in the nearly forty years of success that have followed.

We try to understand board diversity from a range of angles, including (but not limited to) experience, tenure, background and independence. Many of these are not readily observable characteristics, and so our analysis is necessarily qualitative and inherently subjective. For this reason, we rely on the experience of our investors and ESG specialists to build a comparative picture. However, one readily observable characteristic we can present to illustrate the degree of diversity at our portfolio companies is the gender balance at board level.

This has been an area of focus in recent years. For example, in the UK, pressure by groups such as the FTSE Women Leaders Review has seen the proportion of board positions held by women at FTSE 100 companies rise to 40 per cent, with a target for the wider FTSE 350 to reach the same level by 2025.

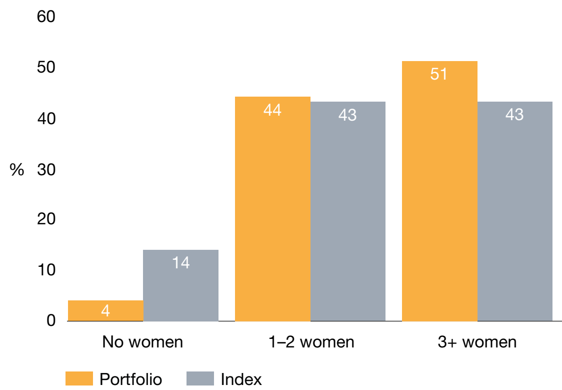
So, how does the Sustainable Growth portfolio compare on that basis? We share the relevant data below, as at 31 December 2021, and relative to the strategy's index, the MSCI ACWI. We are supportive of non-binary gender identification and accept the limited and binary nature of this analysis.

Percentage of female directors

Source: Baillie Gifford and Co, MSCI.

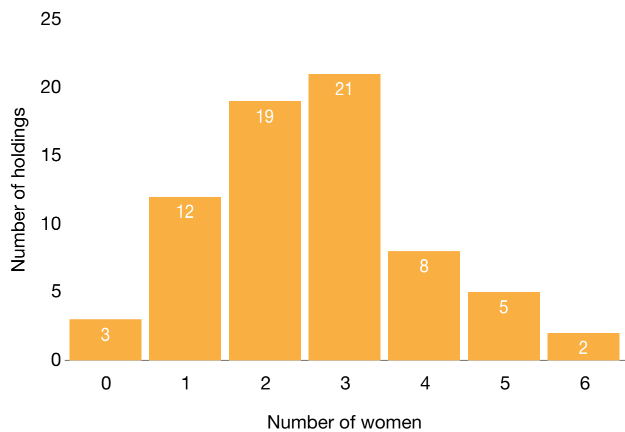
It is disappointing to note that the Sustainable Growth portfolio lags the market in terms of the average number of women on the boards of our holdings. However, our comparative weakness on this point is partly a function of our relatively high weights in Japanese and Chinese companies, as firms in these two countries have relatively low levels of female board representation. Moreover, this headline statistic masks a large variation within the portfolio as the following charts demonstrate.

Portfolio breakdown by number of women on the board



As shown adjacent, the portfolio has a relatively low proportion of holdings with no women on the board, and a correspondingly higher proportion with three or more women. The next chart breaks this down still further.

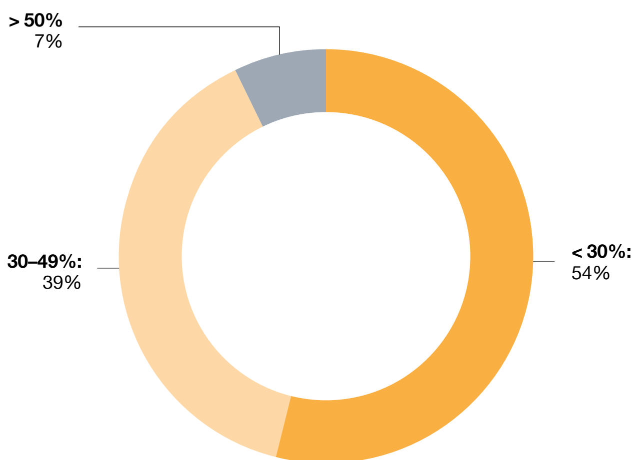
Number of female board seats in the portfolio



Data not available for Spotify and Warby Parker.

It is a source of frustration that there are three firms with no female representation - namely Baidu, Misumi and Meituan. We have already made our feelings on the benefits of diversity known to some of these companies, even making suggestions of suitable candidates in the process.

Portfolio breakdown by percentage of women on the board



Figures may not sum due to rounding.

Finally we look at how individual boards are split female/male. Although Sustainable Growth has just one holding (Zalando) with a majority female board, four other companies have a 50/50 split. Moreover, we are encouraged that approaching half of the portfolio has a reasonable level of female representation (30 per cent or above). We will monitor this trend, at both an individual company and overall portfolio level.

Again, this will be a feature of our future programme of engagement, although we recognise that the male/female split is just one, narrow measure of wider cognitive diversity.

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 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.

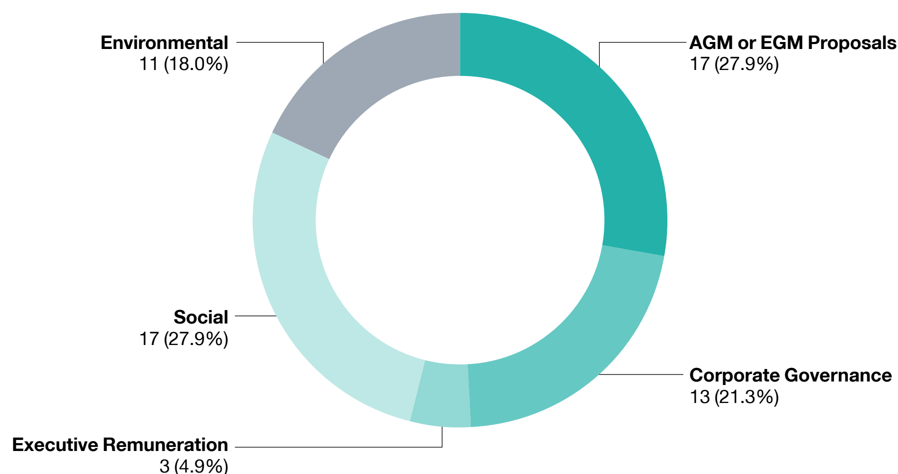
It would be wrong to assume that our engagements with portfolio companies are always about challenge and criticism. Offering support can often be just as important, particularly when a business faces a difficult operating environment or during periods of volatility in equity markets when there is a risk that management teams are overly influenced by a falling share price.

Our long-term investment horizon gives us the ability to provide such support during tricky times for portfolio companies, and this can be a great opportunity to deepen our relationship with management teams that we admire. We hope our meeting with the online education provider Chegg at the end of 2021, following a tough year for the business as its progress slowed post-pandemic, will ultimately fall into that category. We certainly appreciated Chegg's take on slowing growth in its core US college business, as well as its enthusiasm for the opportunities in newer areas for the company.

Over the course of 2021, we engaged with portfolio companies on a wide range of issues. Some of these were in relation to specific topics, for example speaking to Hargreaves Lansdown to encourage improvements in the company's ESG practices and disclosures. Others were more thematic in nature, with climate strategy an obvious area of interest. But the majority were part of broader, ongoing conversations, as we seek to extend our understanding of a company's culture and goals.

Over the next few pages we have highlighted four interactions from 2021, broadly under the headings of Environmental, Social and Governance. For more information on our ongoing programme of company engagements, we provide updates on all noteworthy meetings in our regular client reports.

Number of Engagements



Source: Baillie Gifford & Co.

Environmental

Bridgestone and DENSO

Bridgestone Corporation is a Japanese company that manufactures and sells tyres and other rubber products. Although the manufacturing process uses significant amounts of carbon and chemicals, our investment in the company was predicated on our belief that Bridgestone could reduce both its own environmental impact and play a leading role in making the wider industry less carbon-intensive.

We first invested in Bridgestone at the end of 2020, and soon after met with members of the company's sustainability and technical development teams to discuss their approach to reducing carbon emissions. Emphasising the environmental significance of improving the circularity of the tyre life cycle, we encouraged Bridgestone to continue to invest in technologies that would enable this change. We were pleased with Bridgestone's response; the company understands the importance of this matter and shared our ambition of driving systemic change in this essential industry.

Bridgestone has subsequently continued to make improvements to the tyre manufacturing process. The company has recently agreed to a new venture with other industry-leading companies and academic institutions which has the aim of developing innovative recycling technologies for end-of-life tyres. If successful, this will be a significant step towards reducing carbon emissions in this industry.

Less positively, towards the end of 2021, we met with auto components manufacturer DENSO's sustainability team to discuss its climate aspirations. The company is aiming for carbon-neutral manufacturing by 2035 but there is less progress on value chain emissions. Although DENSO is no longer pursuing research and development (R&D) in combustion technology, it has yet to state clear targets for zero-emission sales (and, by proxy, its Scope 3 footprint). This caused us to question the company's opportunity in the shift to electric vehicles. The engagement, combined with separate conversations with DENSO's major customer and shareholder Toyota, contributed to our decision to sell the holding in DENSO in early 2022.

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Social

Amazon

Baillie Gifford has been invested in Amazon for over a decade, and over that time our dialogue with the company has covered issues such as employee pay, data privacy and corporate culture. During 2021, we engaged with the company on succession plans (specifically the handover of the chief executive role from Jeff Bezos to Andy Jassy) and following the unionisation vote at Amazon's fulfilment centre in Bessemer, Alabama. On the latter issue, we repeated our request for better disclosures on social practices, including health and safety statistics. Although the company had made significant progress from an environmental perspective through its new annual sustainability report, in our view Amazon still lags on its disclosures relating to social issues.

The context here is that Amazon has dedicated significant time and resources to improving the working conditions for its staff. For example, the company raised its starting wage for all US employees to $15 per hour in 2018, significantly ahead of the $7.25 federal minimum wage, before further increasing pay for over half a million employees in 2021. These actions almost certainly contributed to broader wage increases for unskilled labour across industries. However, we believed that the company's reporting of health and safety information was lacking, preventing shareholders from assessing the success of its investments and policies in this area.

© imageBROKER / Alamy Stock Photo.

We stressed our view that transparent disclosure of health and safety statistics would be a big step forward, helping to fill an information vacuum that did not meet the expectations of stakeholders, and providing fertile ground for criticism and activism. In addition, we emphasised that disclosure was necessary regardless of whether the data was 'good' or 'bad', as we feared that Amazon's decision to not publish workplace injury data could be an indication of substandard results, opacity or, worse, unsuitable working conditions. Regardless of the reason for suppressing the data, our primary concern was that this was a potential missed opportunity for behavioural change that would be to the benefit of all employees.

Following our meeting, we were pleased that Amazon disclosed its injury rates for 2020. Although it was disappointing to see that Amazon's injury rate was worse than the industry average, the report also showed that injury rates are decreasing and that the company continues to invest heavily in safety improvements. As investors, we can now better hold Amazon to account on its approach to health and safety in the future.

We've also been encouraged to see Amazon add two new leadership principles recently: "Strive to be the earth's best employer" and "Success and scale bring broad responsibility". Our understanding of the company's culture and the importance it places on these 16 principles suggests that these are not added lightly, and we should expect them to be adhered to by all employees going forward.

Governance

Abiomed

Abiomed is the medical devices firm behind the Impella®, the world's smallest heart pump, which can assist or replace the pumping function during life-saving surgeries. We admire the management team's 'patients-first' approach and wider ambition to improve the standard of care for all patients with heart conditions.

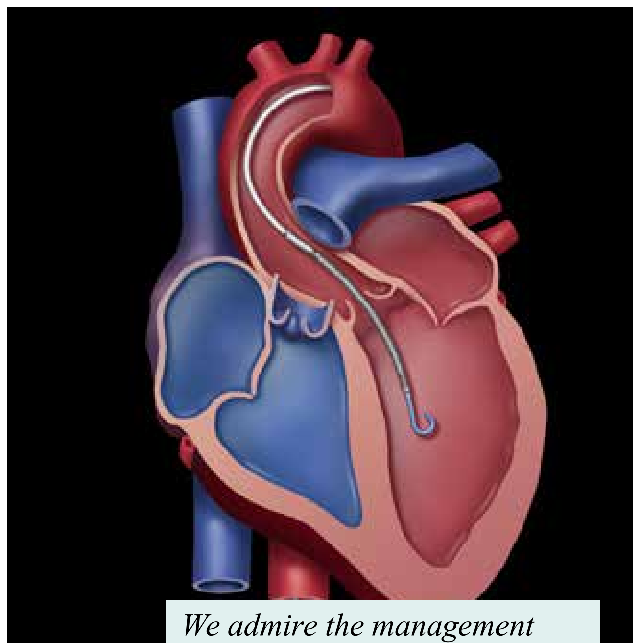
However, we were less impressed by the proposed changes to the management team's pay plan. The company's compensation committee proposed awarding one-off additional performance grants to executives which would serve to significantly boost their compensation package despite missed operational targets.

We challenged the company on the additional awards. We believed they undermined the integrity of the existing compensation policy, and that they would lead to a misalignment between senior management and external shareholders. We made clear our intention to oppose the executive compensation resolution at the company's Annual General Meeting (AGM).

Abiomed acknowledged our points but argued that the decline in operational performance was a result of the Covid-19 pandemic, and not due to poor management. As a result, the company ultimately decided to continue with the proposed changes to compensation.

As we had explained to the company, we proceeded to oppose the plan at the following AGM. Sadly, the pay proposal narrowly passed with 51 per cent support. While a disappointing outcome, we believe that the strong oppose vote will encourage Abiomed to think carefully about further changes to its pay practices and will continue the conversation in future meetings.

We should also note that although frustrated by the result of the vote on pay, we remain supportive of the management team's broader efforts. Abiomed continues to offer the potential for societal benefit by saving lives, alongside the generation of fantastic returns for its shareholders. We look forward to improved performance from the company on governance topics from here.



© Abiomed.

We admire the management team's 'patients-first' approach and wider ambition to improve the standard of care for all patients with heart conditions.

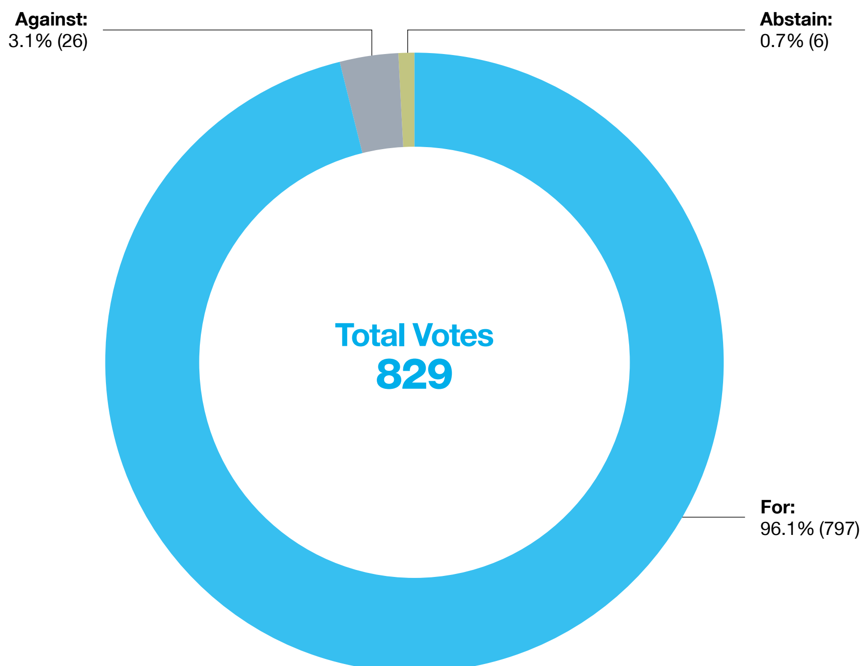
Voting: report on 2021

One important element of our programme of engagement with portfolio holdings is proxy voting. At company meetings – typically Annual General Meetings (AGMs) or Extraordinary General Meetings (EGMs) – voting your shares is a key tool that helps us to support, influence or challenge the management teams of companies in which you are invested.

Where possible, we seek to vote all shares 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. When we decide to vote against management, we endeavour to discuss our concerns and communicate our decision with them before submitting it.

In 2021, Sustainable Growth voted at 80 company meetings on a total of 829 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 that exhibit a culture of responsible business, and where the internal management team is well-aligned with external shareholders.

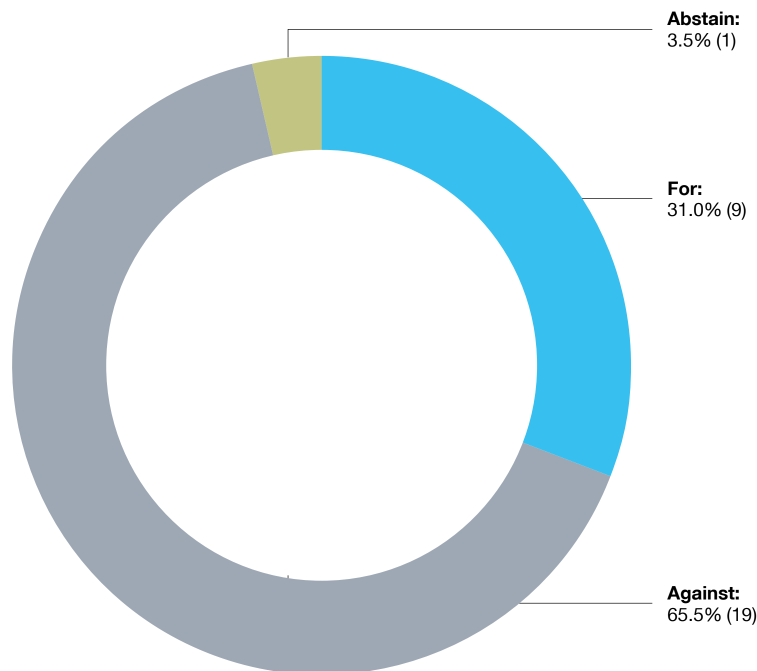
Voting Record



Source: Baillie Gifford. Data from 1 January 2021 to 31 December 2021.
Figures may not sum due to rounding.

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 below shows, we supported and hence voted against management in almost a third of these over the year, an increase on 2020 and reflective of the increasing importance and relevance of these votes.

Shareholder Proposals



Source: Baillie Gifford. Data from 1 January 2021 to 31 December 2021.
Figures may not sum due to rounding.

Significant votes

The following are examples of significant votes throughout 2021. In determining what would be considered 'significant', we use a range of criteria including where:

— Baillie Gifford's holding had a material impact on the outcome of the meeting
— The resolution received 20 per cent or more opposition and Baillie Gifford opposed
— Egregious remuneration
— Controversial equity issuance
— Shareholder resolutions that Baillie Gifford supported and received 20 per cent or more support from shareholders

Tesla appears five times. We recognise that although Tesla has perhaps done more than any other company to accelerate the necessary transition away from fossil fuels, at the same time there have been several questions raised about its governance. The examples following demonstrate the thoughtful and nuanced approach we take to stewardship, considering each vote on its merits and supporting or opposing management as appropriate.

Significant votes

Company	Date of vote	Summary of the resolution	How we voted	Voting rationale	Outcome of the vote	Implications of the outcome
Cosmo Pharmaceuticals N.V.	28/05/2021	Employee Stock Plan	Against	We opposed the resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.	Pass	We took the decision to oppose the request to issue additional shares under the employee stock ownership plans due to the amount requested and the dilution this would cause for our client's shareholding.
Alphabet Inc.	02/06/2021	Shareholder Resolution – Governance	For	We supported a shareholder proposal requesting the end of the dual class share structure as we believe the company will benefit from a more open control structure.	Fail	We are very thoughtful when looking at companies with dual class share structures as we appreciate that for companies in their infancy, this can provide a level of necessary protection. However, given Alphabet's size and stage, we believe it is in shareholders' best interests for a capital structure where the levels of economic ownership and voting power are aligned. This resolution received over 31% support but, however, failed to pass.
Netflix, Inc.	03/06/2021	Shareholder Resolution – Governance	For	We supported a shareholder resolution for a report on political contributions as we believe enhanced disclosure on the company's policies and procedures is in shareholders' best interests.	Pass	This proposal passed with more than 80% support. Currently Netflix does not disclose any information regarding its political contributions, management or oversight, and it does not disclose information on amounts spent on political contributions or monies given to trade associations, or provide a list of trade associations or other advocacy groups it may support. We supported given the lack of information and continue to engage on this and other topics with Netflix.
Redfin Corporation	09/06/2021	Shareholder Resolution – Governance	For	We supported a shareholder proposal relating to the introduction of a simple majority voting standard for director elections.	Pass	This proposal was passed with 98% support. We believe that in order for a company to have good corporate governance shareholders must be able to hold directors accountable. Under a plurality system, a board-backed nominee in an uncontested election needs to receive only a single affirmative vote to claim their seat. And even if holders of a substantial majority of the votes cast withhold support, the director nominee would be elected. We believe it is best corporate governance for a majority voting standard which would require a director to receive a majority of votes in favour in order to be elected to the board.
Abiomed, Inc.	11/08/2021	Remuneration – Say on Pay	Against	We opposed executive compensation due to concerns with one-off equity awards granted during the year.	Pass	Ahead of voting we had a call with the company to discuss the executive compensation resolution. Following discussions with the company and internally we took the decision to oppose the resolution and following the submission of our votes we communicated this to them. We continue to engage with the company on compensation and other ESG issues.

Significant votes

Company	Date of vote	Summary of the resolution	How we voted	Voting rationale	Outcome of the vote	Implications of the outcome
Tesla, Inc.	07/10/2021	Shareholder Resolution – Social	Against	We opposed a shareholder resolution requesting additional reporting on Tesla's diversity and inclusion efforts. We believe the company continues to make good progress in relation to their diversity, equality and inclusion approach and reporting, and believe this proposal does not warrant support at this time.	Pass	We took the decision to oppose this proposal as we believe the company has made great strides in their approach to diversity, equity and inclusion and associated reporting, and continue to be responsive to our feedback.
Tesla, Inc.	07/10/2021	Shareholder Resolution – Governance	Against	We opposed a shareholder resolution requesting to declassify the board. We believe that full declassification of the board is not in the best interests of shareholders at this time, and have instead supported management's alternate proposal for partial declassification.	Pass	Ahead of the AGM we had a call with chairwoman, Robyn Denholm to discuss the AGM agenda. Denholm explained that currently they wish to retain some of the protectionist governance provisions they have in place to support their ability to focus on the long-term. We were supportive of management's proposal for partial declassification of the board and empathise with Denholm's rationale that the board needs to remain focussed on its mission to acelerate the world's transition to sustainable energy.
Tesla, Inc.	07/10/2021	Shareholder Resolution – Social	Against	We opposed a shareholder resolution requesting the appointment of an independent 'human capital management' committee. We believe the company are making good progress in this area, and are unconvinced that an additional committee would add any value for shareholders.	Fail	We took the decision to oppose this proposal as we believe the company are making good progress in this area, and we were not convinced that the addition of a new independent committee would add any value. We continue to engage with the company on this and other issues.
Tesla, Inc.	07/10/2021	Shareholder Resolution – Social	For	We supported a shareholder resolution requesting a report on the company's use of arbitration to resolve employee disputes. We think additional disclosure and transparency on this provision would be helpful in understanding Tesla's workplace practices.	Fail	This was the second time this resolution was put forward, and at the 2020 AGM is received over 26% support. Last year we also supported and, as we felt nothing material had changed, we continued to support the proposal. We have communicated our opinion to the board.
Tesla, Inc.	07/10/2021	Shareholder Resolution – Social	Against	We opposed a shareholder resolution requesting a report on the company's approach to human rights. We think Tesla's current policies and practices are reasonable and improving, making this proposal unnecessary.	Fail	This is the second time this resolution has been put forward, and at the 2020 AGM it received over 24% support. We continued to oppose the resolution as we believe Tesla continue to make improvements in this areas as noted in their Impact Report.

Managing ESG risks: exclusions

Although the Sustainable Growth approach seeks to identify ESG opportunities, we recognise that responsible investors need the reassurance that they will not be exposed to the most significant ESG risks. In addition, we are conscious that there are certain types of company that will never fit our vision of sustainable growth and hence will never appear in the portfolio. For those reasons, we formally exclude 'sin sector' companies from Sustainable Growth portfolios using the following ethical screens:

Rule-based

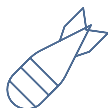
Exclude companies that derive more than 10% of their annual revenue from:

Alcohol

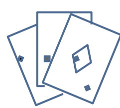
Fossil fuels

Tobacco

Adult entertainment



Armaments



Gambling

Principle-based

Exclude companies that contravene the UN Global Compact Principles for Responsible Business:

Human rights

Labour

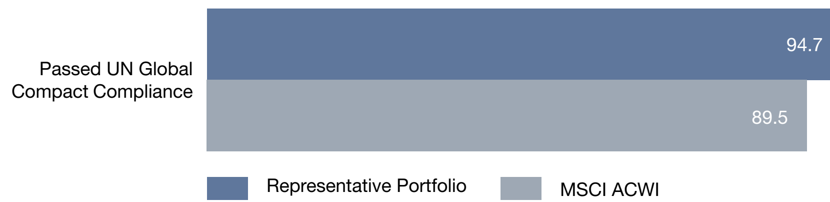
Environment

Anti-corruption

Please see the Prospectus or Offering Memorandum for details of how these exclusions operate for our pooled funds.

As at 31 December 2021, we were in compliance with the rule-based exclusion. Exposure to the six categories was de minimis across the portfolio, with one exception. This was Ocado, the online supermarket, which sells alcohol. The company's revenues from alcohol are currently less than 10 per cent of the total (and hence the company remains in compliance with our exclusions) but we continue to monitor the company's exposure in this area given its proximity to our threshold.

During the year, we sold out of CyberAgent, the Japanese internet conglomerate. While its exposure to gambling currently accounts for less than 10 per cent of revenues, we were concerned about a new business segment that offers users the ability to gamble on *keirin* (track cycling) races, along with broader misgivings about the path to monetisation of online games.



Source: Baillie Gifford and Co, MSCI.

This exclusion takes compliance with the 10 UN Global Compact Principles as a proxy for social performance and exposure to corporate controversies. We use a third-party data feed, supplemented by our own internal research, to monitor compliance.

As at 31 December 2021, no portfolio companies were deemed 'non-compliant' by the third-party data provider. Two firms (Affirm and Warby Parker) have not yet been rated by the provider – both have only relatively recently listed on public markets. Our internal research has flagged no issues.

Three portfolio companies (Amazon, Baidu and Tencent) were on the 'watchlist' according to the third-party provider. In Amazon's case this was due to health and safety issues in its warehouses, and this has been a feature of our engagement with the firm over the recent past (see page 12).

Baidu and Tencent are on the watchlist due to allegations of censorship and surveillance on behalf of the Chinese government. This is a difficult issue, and one which we continue to debate internally.

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