Keystone Positive Change Investment Trust Positive Conversations

2022

Baillie Gifford | Investment managers

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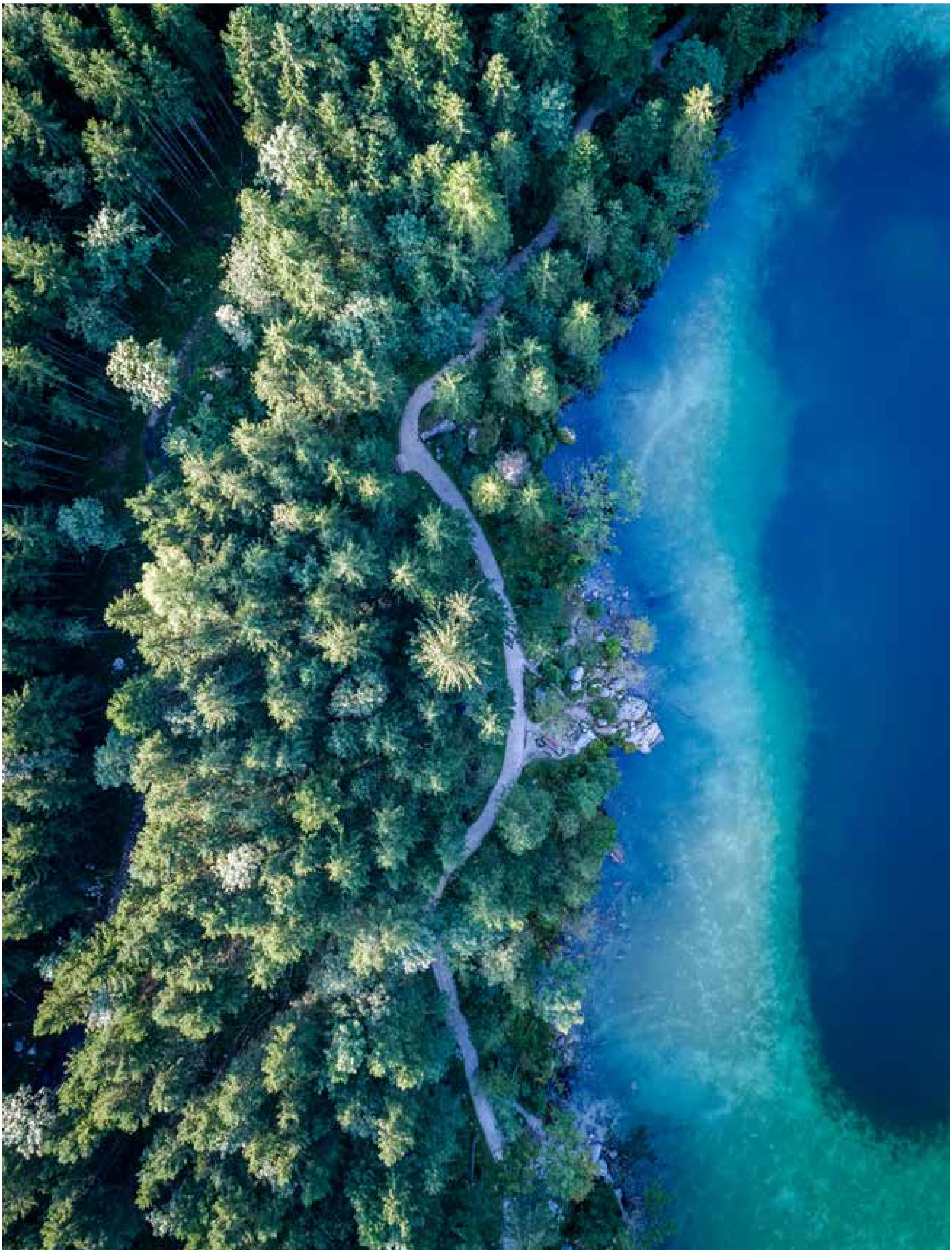


Welcome

Welcome to *Positive Conversations,* our Environmental, Social, and Governance (ESG) and Engagement report.

Keystone Positive Change Investment Trust's Positive Conversations is an accompaniment to the annual Impact Report. The Impact Report focuses on the impact of the products and services of the companies in the portfolio. In contrast, Positive Conversations focuses on the business practices of these companies, essentially how they operate. It also details our engagement, or positive conversations, with management teams as we seek to support and influence companies owned within the portfolio over the long term.

Please see below for a snapshot of the areas covered in the report.

Environment

— Positive Change's carbon footprint and the highest contributors to its emissions
— Baillie Gifford's Net Zero Asset Managers (NZAM) commitments and the underlying progress of each company towards net zero alignment
— Summary of our climate related risks and opportunities
— Our efforts to understand the portfolio's exposure to biodiversity loss
— Our participation in the Taskforce on Nature-related Financial Disclosures (TNFD) pilot

Social

— Two case studies to illustrate our outcomes-based approach to engaging with management teams on social issues during 2022:
  — **Nu** and financial inclusion in Brazil
  — **Deere** and the 'right-to-repair' debate

Governance

— Our approach to governance from pre-buy analysis to portfolio monitoring and proxy voting, including an example from **Moderna**'s AGM and a carefully considered shareholder proposal filed by Oxfam

Engagement and Voting

— Company Conversations – an overview of reasons for engagement with detailed examples
— An overview of all engagements and voting over the 12 months to the end of December 2022

We hope you find this report an interesting reflection on our ongoing conversations.

How we think about business practices

When assessing the impact of the companies we invest in, we look at their business practices as part of our impact analysis. Responsible business practices are fundamental to delivering sustainable long-term growth and addressing global challenges.

As with all parts of our process, our understanding of a company's business practices is based on bottom-up fundamental research and covers the company's entire value chain. It considers the following areas.

Environment

— What contribution does the company make to the wider environment?
— Is the company committed to reducing its environmental footprint and intensity?
— Is it ambitious with its targets and commitments?
— Are its emissions aligned with a 1.5°C warming trajectory?
— How does the company impact and depend upon nature?

Social

— What societal contribution does the company make through its interaction with stakeholders, including employees, customers and suppliers?
— Are employees respected and treated fairly, and is it a good workplace?
— Will customers share in the success of the company?
— How is the company's supply chain managed and vetted for responsible social and environmental practices?
— We also look at the broader contributions to society by analysing approaches to issues such as paying taxes, human rights, diversity and inclusion.

Governance

— How do governance structures support the company's responsible, long-term sustainable growth through independent oversight, incentives and shareholder alignment?
— Does the board composition, experience and diversity support long-term growth?

What is good practice?

What constitutes good practice is subjective and varies by company. For example, while high insider ownership and dual-class share structures are commonly seen as harmful governance practices, they can be beneficial in maintaining focus on a long-term vision in the right circumstances. We also need to set different expectations for private companies which operate in very dynamic and resource constrained environments.

Companies will not always perform well across all value chain components: there are significant differences in market practice between geographies, industries and levels of company maturity. However, our constructive engagement and sharing of best practice help companies develop further.

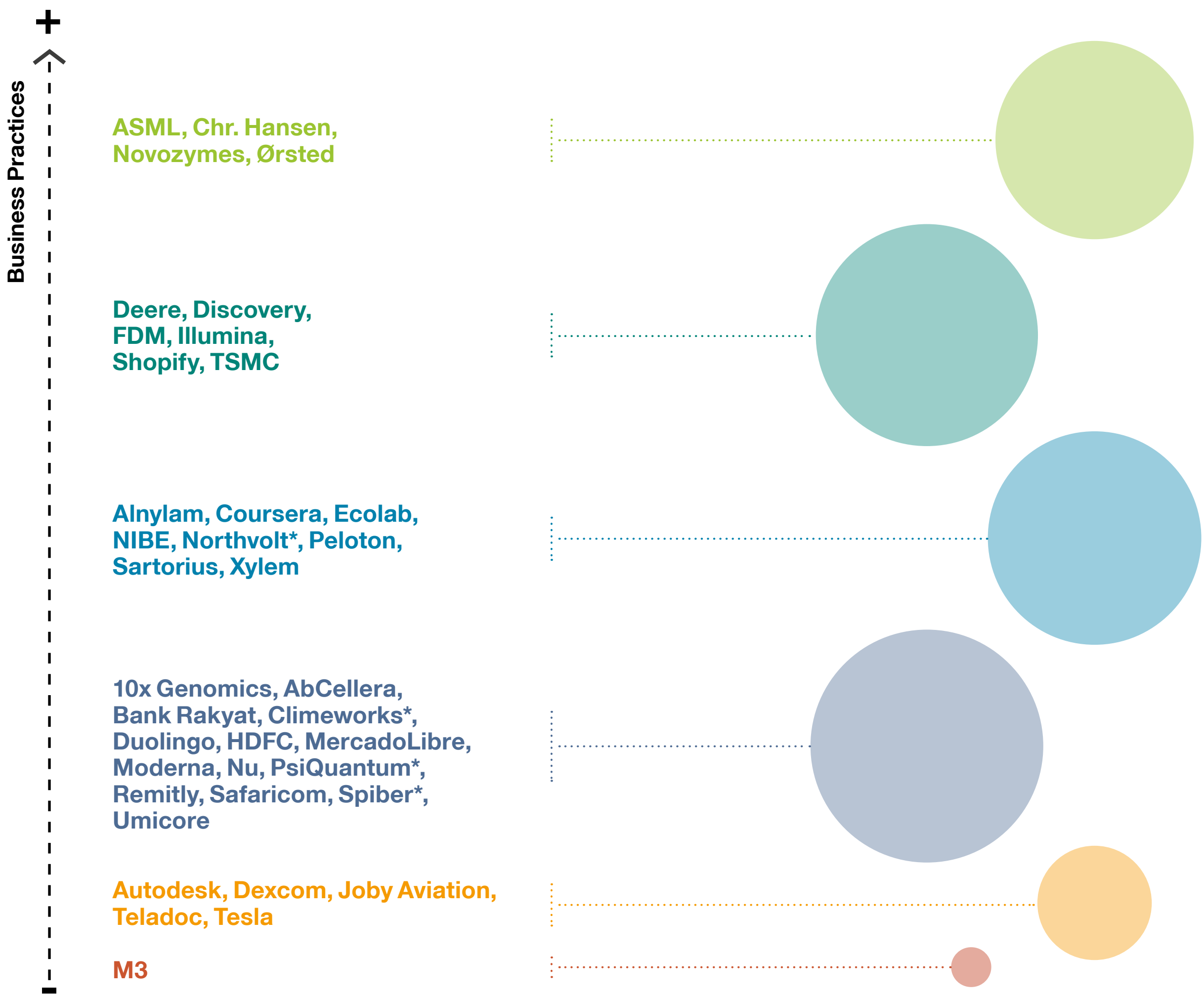
While there may be variation at a detailed level, in general, exceptional companies perform well as individual organisations and can drive industry-wide improvements, constantly raising the bar on what is considered best practice.

What is our role?

As long-term investors, we aim to be supportive shareholders of exceptional companies by helping management teams achieve their objectives over meaningful periods. However, an exceptional company is not a perfect company, and our role is crucial in helping steer companies to make good decisions over the long term. There are times when we need to provide constructive challenge to the companies in which we invest; we firmly believe that challenge is most likely to be successful when positioned within the context of a long-term and supportive shareholding. We also believe a positive and proactive approach to ESG issues can be a competitive advantage. Good governance can support better decision-making; good social performance can create a more productive workforce, and good community relations can secure the social license to operate. Social performance and good community relations can provide resilience in bad times, while good environmental performance can lower operating costs and secure long-term access to natural resources.

The portfolio

The diagram below illustrates the relative performance of companies within the portfolio based on our assessment of their business practices. While this is a static representation, the reality is much more fluid – our understanding of business practices changes over time as we engage with companies. As governance structures evolve, transparency increases, incidents occur, and performance against key metrics develop. The size of the circles represents how many companies are in it.



* Private Companies.

E – Environment

A focus on carbon

“We are in the fight of our lives. And we are losing. Greenhouse gas emissions keep growing. Global temperatures keep rising... We are on a highway to climate hell with our foot still on the accelerator.”

These are the words António Guterres, Secretary-General of the UN, delivered in a powerful speech to delegates at the 27th UN Climate Change Conference of the Parties (COP27) in Sharm El-Sheikh, Egypt in 2022.

Held in a year which was wrecked by extreme weather events, supporting vulnerable countries as they try to adapt to climate change became so central to the negotiations that the conference was seen by many to signal a shift away from mitigation and towards adaptation.

While funding for loss and damage is essential, the need to decarbonise is becoming ever more pressing. As investors, we need to accelerate our efforts on this front and encourage portfolio holdings to do the same. Borrowing once again from Mr Guterres’ impassioned plea to the international community;

“The global climate fight will be won or lost in this crucial decade – on our watch. One thing is certain: those that give up are sure to lose. So, let’s fight together – and let’s win.”

Portfolio carbon footprint: Scope 1 and 2

In the figures below, we represent the carbon footprint of the portfolio. This only includes direct operational emissions, otherwise known as Scope 1 and 2 emissions, which arise mainly from burning fuel and using electricity.

As with previous years, we report our emissions against the MSCI ACWI Index, which is the index for our investment performance, and the MSCI ACWI Climate Paris-Aligned Index, which is a more accurate reflection of where emissions need to be to meet the Paris Agreement. This index starts from a baseline of emissions 50 per cent lower than its parent index. It then decarbonises approximately 10 per cent year-on-year to align with the trajectory of a 1.5°C climate scenario.

We do not aim to beat the Paris-Aligned Index since doing so risks becoming an empty numerical target without considering the context of the companies we hold. However, by comparing the portfolio's footprint to this additional index, we gain a much better understanding of where the carbon footprint is in relation to where it needs to be to meet the ambitions of the Paris Agreement and avoid the worst impacts of climate change.

Both the Keystone Positive Change Investment Trust portfolio's Weighted Average Carbon Intensity (WACI) and carbon footprint are below that of the Paris-Aligned Index. The portfolio's WACI is notably lower than in 2021 due to several factors. The most important of which is TSMC's large revenue growth (WACI is calculated by dividing tCO2e by revenue), and a lower estimation of Tesla's carbon intensity using company reported data rather than estimated data. As of at 31 December 2022, the total financed emissions of the portfolio are estimated to be 1,570.14tCO_2e.

	Carbon footprint (financed emissions) tCO_2e/£m invested	**Weighted Average Carbon Intensity tCO_2e/£m revenue**
Keystone Positive Change Investment Trust	9.72	49.73
MSCI ACWI Index	77.84	204.21
MSCI ACWI Climate Paris-Aligned Index	13.22	59.19

Source: Baillie Gifford and MSCI. As at 31 December 2022. Footprint excludes AbCellera Biologics, Inc., Abiomed CVR Line, Climeworks AG Non-Voting Shares, Climeworks AG Series F Preferred, FDM Group (Holdings) plc, Joby Aviation, Inc., Northvolt AB Ordinary Series A, Northvolt AB Preference D1, Northvolt AB Preference E2, Northvolt AB Promissory Note, Nu Holdings Ltd. Class A, PsiQuantum Series D Preferred, Spiber, Inc.

Highest contributors to emissions

Conducting a carbon footprint allows us to understand the companies for which carbon emissions are most material in the context of the portfolio as at 31 December 2022, reflecting both emissions and holding size. The figures below show the five most significant contributors to the portfolio's carbon footprint.

In 2022, Umicore and Deere received validation for their emission reduction targets by the industry leading Science Based Targets Initiative, and Moderna committed to being net zero by 2030 in Scopes 1 and 2, and to setting science-based targets for its Scope 3 emissions (definition of scope 3 on page 08). This means that all of the portfolio's highest emitters, apart from TSMC, have committed to targets that are consistent with what's required to keep global warming to 1.5°C.

This year, we engaged with TSMC on various issues, including climate change and its goal to be net zero by 2050. The company faces a great deal of complexity in achieving its sustainability ambitions. This includes local competition for water, sourcing high-risk minerals, and being based in Taiwan, where the technical potential for renewables is very low compared to demand. Given that we believe requirements from customers for greener semiconductors will only increase in the coming years, we emphasised our support for TSMC's efforts to meet its net zero target and to push for higher standards in materials sourcing and carbon offsetting.

Scope 3

In most sectors, the largest sources of a company's emissions lie upstream and downstream of its core operations, for example, producing the raw materials to make a product. This makes it vitally important to reduce these emissions, known as Scope 3 emissions, but significantly more challenging to measure.

Below is the portfolio's footprint, including the Scope 3 emissions of the four holdings (Chr. Hansen, Novozymes, Ecolab and Umicore) from certain material sectors, in accordance with guidance from the Portfolio Carbon Accounting Framework (PCAF). Scope 3 data has been estimated by our data provider and includes all relevant Scope 3 categories covered by the Greenhouse Gas (GHG) Protocol.

	Carbon footprint (financed emissions) tCO_2e/£m invested	**Weighted Average Carbon Intensity tCO_2e/£m revenue**
Keystone Positive Change Investment Trust	143.35	193.23
MSCI ACWI Index	335.93	654.69
MSCI ACWI Climate Paris-Aligned Index	25.77	113.50

Source: Baillie Gifford and MSCI. As at 31 December 2022. Footprint excludes AbCellera Biologics, Inc., Abiomed CVR Line, Climeworks, FDM, Joby Aviation, Inc., Northvolt, Nu Holdings, PsiQuantum, Spiber as the MSCI does not cover them.

The portfolio's footprint is larger than that of the Paris-Aligned Index due to higher exposure to PCAF-defined material companies – 11.3 per cent in the Positive Change Portfolio compared to 3.4 per cent in the Paris-Aligned Index. Each of the four companies considered material have set science-based targets to reduce their Scope 3 emissions, in addition to providing products that enable their customers to reduce their Scope 1, 2 or 3 emissions.

Net Zero Asset Managers initiative

In November 2021, to formalise our commitment to supporting a net zero aligned economy, Baillie Gifford joined the global Net Zero Asset Managers (NZAM) initiative. The Keystone Positive Change Investment Trust has set out its commitment to net zero through a series of expectations related to the performance of each holding, rather than the emissions of the portfolio as a whole, with progress towards net zero-alignment being measured by the underlying alignment of the investee companies themselves.

Our expectations are primarily focused on the next five years as we feel strongly that action on climate change cannot wait until 2050 or even 2030. We set out our key expectations below and our progress to date. At this time we have omitted companies that were private in 2022 from Baillie Gifford's NZAM commitments because they are at such an early stage of growth that disclosure is limited and the emissions of the companies are likely to be insignificant when compared to the larger companies in the portfolio.As at 31 December 2022, 5% of the portfolio was held in private companies.

More information on our commitment can be found on our website.

Specific commitments of the portfolio within this framework include:

(i) All holdings are being actively assessed and prioritised for engagement for alignment on an ongoing basis

(ii) 90% of holdings will demonstrate robust strategic alignment with appropriate 1.5°C/net zero pathways by 2030. All holdings will be so-aligned by 2040. New buys will have an extra two years to meet this commitment.

Also, we have the following expectations for our listed companies over the next five years:

		Status	Target
2023	By the end of 2023 (or within two years of entering the portfolio), we expect 90% (by number) of the portfolio to be reporting their Scope 1 and 2 emissions	76%	90%
2024	By the end of 2024 (or within three years of entering the portfolio), we expect 75% (by number) of the portfolio to be reporting material Scope 3 emissions	71%	75%
2026	By the end of 2026 we expect 90% of companies to be reporting material Scope 3 emissions	71%	90%
2026	By the end of 2026 (or within five years of entering the portfolio), we expect 75% (by number) of the portfolio to have appropriate net zero aligned targets	32%	75%

32 per cent of holdings have validated near-term Science Based Targets initiative (SBTi) targets

The following table outlines the progress of each listed company in the portfolio towards net zero alignment:

Company	Scope 1 and 2 reporting	Scope 3 reporting	Near-term targets validated by SBTi	Scope 1, 2 and 3 net zero date
10X Genomics				
AbCellera				
Alnylam	Yes	Yes		
ASML	Yes	Yes	Yes	2040
Autodesk	Yes	Yes	Yes	2021
Bank Rakyat	Yes	Yes		
Chr. Hansen	Yes	Yes	Yes	2050
Coursera Inc				
Deere	Yes	Yes	Yes	
Dexcom				
Discovery	Yes	Yes		2050
Duolingo				
Ecolab	Yes	Yes	Yes	2050
FDM	Yes	Yes	Yes	2050
HDFC	Yes	Yes		
Illumina	Yes	Yes	Yes	2050
Joby Aviation				
M3	Yes			
MercadoLibre	Yes	Yes	Committed	
Moderna	Yes		Committed	
NIBE	Yes	Yes		
Novozymes	Yes	Yes	Yes	2050
Nu Holdings	Yes	Yes		
Ørsted	Yes	Yes	Yes	2040
Peloton Interactive	Yes	Yes		
Remitly				
Safaricom	Yes	Yes	Yes	2050
Sartorius	Yes	Yes		
Shopify	Yes	Yes		
Teladoc				
Tesla	Yes	Yes	Committed	
TSMC	Yes	Yes		2050
Umicore	Yes	Yes	Yes	
Xylem	Yes	Yes	Committed	2050

As at 1 February 2023.

Climate-related Risks and Opportunities

Global efforts to address the emissions responsible for climate change and its physical impacts pose potential 'transitional' and 'physical' risks and opportunities for every portfolio company. Transitional risks and opportunities arise from the shift towards a zero-carbon world and can come from changes in consumer demand or legislation. Physical risks and opportunities stem from the physical impacts of a changing climate, such as rising sea levels or extreme weather events.

The managers of Keystone Positive Change Investment Trust are compiling a report outlining our approach to addressing climate-related risks and opportunities through our investment process. We will produce this report, due to be available by June, in line with Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. Below is a summary of Positive Change's governance of climate-related risks and opportunities and what we believe the near-term implications to be.

Our governance of climate-related risks and opportunities

Responsibility for identifying and assessing climate-related risks and opportunities is shared across the Keystone Positive Change Investment Trust's managers, including with our dedicated impact analysts. The Trust's managers are also supported by Baillie Gifford's central climate team. During our bottom-up company analysis, the Trust's managers assess climate-related risks and opportunities as they relate to the investment and impact case.

Oversight of this process sits with the Trust's managers, consisting of both investment managers and senior impact analysts. They are responsible for making investment and portfolio management decisions. Baillie Gifford's Investment Risk and Compliance functions provide additional oversight. You can find further detail about Baillie Gifford's firm-wide governance of climate related risks and opportunities in its TCFD-aligned Climate Report.

Implications of climate change for our portfolio

Over the medium term (3–10 years), we think the impact of an orderly vs a disorderly transition will diverge. Under an orderly transition, we expect significant opportunities for companies providing climate solutions and for those that can reduce their emissions substantially this decade. However, under a more disorderly transition, we expect these opportunities to be more muted as regional diversity in climate policy introduces additional complexity. Smaller, regional companies will face different challenges from those seeking to operate globally. Some may be able to continue to earn returns from high-emitting activities for longer. Others will need to accelerate to low-carbon operations.

Over this timeframe, we also expect the physical impacts of climate change to become more systemic, albeit with slight variance between the scenarios until the 2030s. The geographical and sectoral diversity of holdings across the portfolio may provide some resilience to regional climate impacts. However, the portfolio holds some businesses with higher levels of potentially significant geographic concentration in regions with low adaptive capacity (such as HDFC in India, Safaricom in Kenya and Bank Rakyat in Indonesia) and others reliant on complex international supply chains (such as TSMC). Additionally, there are several holdings (such as Deere, Novozymes, Chr. Hansen and Spiber) with exposure to the agricultural industry. Given this industry's direct dependence on stable ecosystems and weather patterns, its exposure to physical climate risks over the next 10 years will likely be more significant than our other holdings.

The portfolio is also exposed to opportunities, mainly through those holdings providing technologies that enable societies to adapt to the physical impacts of climate change, such as the precision agricultural technology of Deere, the water efficiency technology of Xylem and the enzyme technologies of Novozymes. Our analysis has concluded that by weight, just over a quarter (Climeworks, Deere, Ecolab, Joby Aviation, NIBE, Northvolt, Novozymes, Ørsted, Spiber, Tesla, Umicore) of the portfolio is made up of companies directly contributing towards climate change mitigation through their products and services.

Biodiversity

Biodiversity refers to the enormous variability and variety of life on Earth. It encapsulates every species and ecosystem on our planet. This intricate web of life underpins our very existence. It freely supplies all the services we need, from oxygen and food to medicine and clean water, while protecting us from extreme weather and regulating our climate.

Our planet's biodiversity is now facing a cataclysmic collapse. Human activity has eroded the living world at such a rate to have tipped us into the sixth mass extinction event in the Earth's history. Sir David Attenborough stated that this "would irreversibly reduce the quality of life of everyone who lives through it, and of the generations that follow... humankind, for as long as it continues to exist on this Earth, might be living on a permanently poorer planet[1]."

Awareness of the issue and attempts to tackle it have progressed hugely since we first reported on biodiversity loss in Positive Conversations 2020. Most notably, the hotly anticipated 15th UN Biodiversity Conference of the Parties (COP 15) took place in Montreal at the end of 2022. At COP15, 188 governments adopted the Kunming-Montreal Global Biodiversity Framework (GBF), which will guide global action on nature through to 2030. Among the 23 targets of the GBF was a clear message that the private sector has an important role to play in halting and reversing the loss of nature. As impact investors, we can most directly contribute to Target 15, which calls for companies and financial institutions to assess and disclose their risks, dependencies and impacts on biodiversity.

> *Human activity has eroded the living world at such a rate to have tipped us into the sixth mass extinction event in the Earth's history.*

Our Approach

Net zero emissions technologies and development pathways do not always equate to being nature-positive. As impact investors, the onus is on us to integrate biodiversity into our research and engagement. Our influence is two-fold: we can engage with our portfolio companies to encourage a more considered environmental approach, and we can direct capital towards companies that are positively impacting nature.

For instance, **Deere**, a world leader in precision agricultural technologies, is significantly reducing the amount of artificial fertiliser and pesticides used on farmland, which benefits marine and terrestrial ecosystems. **Spiber** is producing an alternative to cashmere using genetically modified bacteria. This should offset cashmere production in the Mongolian-Manchurian steppes, 70% of which is currently degraded primarily as a result of overgrazing by cashmere goats. In addition to these companies, nine other holdings are helping to mitigate climate change, a key driver of biodiversity loss in itself.

We must also be aware of the risks arising from biodiversity loss. We are still in the early stages of identifying these risks and how they affect portfolio companies. As there is no perfect solution, we are experimenting with different approaches that could deepen our understanding of individual companies' impacts and dependencies on nature.

[1] *A Life on Our Planet: My Witness Statement and a Vision for the Future*, David Attenborough.

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Following on from the research noted in Positive Conversations 2021, we conducted biodiversity and water audits of the portfolio during 2022. The biodiversity audit was valuable to understand how companies are starting to report in this nascent area and in total, 11 companies mention their relationship with nature in their reporting. Only two, **Illumina** and **Ørsted**, have conducted work to understand the risks and opportunities that the relationship creates, with Ørsted going one step further and setting targets to reduce its impacts on biodiversity.

As reporting on water use is far more developed, we used it as a proxy to identify companies exposed to biodiversity through their relationship to the water cycle. The water audit highlighted that **TSMC**'s high water usage may equate to high impacts on biodiversity. In our correspondence with TSMC over the year, we learned of its plans to construct water reclamation plants in Taiwan, which will reduce its water withdrawals from nature.

We are also experimenting with reporting tools, for instance, trialling different providers of biodiversity footprints to quantify and standardise the impacts of individual companies across the portfolio. We are seeing Mean Species Abundance over Km^2 (MSA. Km^2) beginning to be adopted as a standardised unit to measure biodiversity impact, just as CO_2e is for climate change. However, we are eager to see further progress in the MSA methodology and data accuracy before utilising this as a metric for reporting.

© Ørsted.

Taskforce on Nature-related Financial Disclosures

Baillie Gifford is a Taskforce on Nature-related Financial Disclosures (TNFD) Forum member. Through this forum, we participated in the United Nations Environment Programme Finance Initiative (UNEP FI) pilot of the TNFD LEAP (Locate, Evaluate, Assess, Prepare) framework for financial institutions, focusing on the pre-defined sub-industry of offshore wind farms. The purpose of this pilot was to test the framework and feedback insights on its relevance, practicality, and usability.

Ørsted, as a global leader in offshore wind energy, was identified through this framework as having operations that were likely to impact important areas of biodiversity. However, the company has set an ambitious target: all new projects commissioned from 2030 must have a net-positive impact on biodiversity. Although there is a lack of clear information on how this will be achieved, Ørsted is methodically experimenting with many different approaches for biodiversity restoration in partnership with several marine non-governmental organisations. Its track record of setting ambitious goals and sticking to them provides some reassurance that it is giving this target the due attention and resources it deserves.

We believe that in achieving its target, Ørsted will be a leader in its industry and will benefit from a closer relationship with regulators, environmental groups and, possibly, local communities. Given these opportunities and the potential negative impacts of its operations on biodiversity, we plan to engage with the company in 2023 to learn more.

This pilot process was very useful in developing our awareness and understanding of some of the techniques, tools and datasets used to assess nature-based risks. While the steps we undertook were relatively straightforward yet time intensive, the main difficulty we faced was in determining the size and scale of the impact on nature in each priority marine location. Biodiversity impacts are highly complex and location dependent, so identifying the actual size and scale of impact would require site-specific monitoring over time. We fed this back to UNEP FI and the TNFD and look forward to working on a solution together.

S – Social

We believe that encouraging responsible social practices is not only ethically sound but will benefit our investment and impact cases for companies over the long term. We regard the materiality of social factors through three primary lenses: how poor social practices destroy value; how good social practices create value; and how companies solving social problems present attractive investments for our clients. While we cover the latter in our Impact Report, we focus on our work on the first two areas here.

Researching and engaging on social business practices is complex and multi-faceted, not least given the vast differences in attitudes towards disclosure worldwide. In 2022, through our research and engagement with companies, we have continued to deepen our understanding of some of the issues which we believe have enduring relevance to the portfolio as highlighted in the table below. We believe that engagements will have the most impact and chance of success if underpinned by a strong understanding of the issues and the context. We believe that agreement on what is good and bad practice is much less mature for social areas than for environmental and governance topics. It is, therefore, beholden to us to bridge that gap with contextual research.

As you will see from the Engagement section of this report, we have discussed a wide range of social topics pertinent to portfolio holdings this year.

Alibaba*	Bank Rakyat Indonesia	Coursera	Deere	Discovery	FDM
Social impact and jobs in the gig economy	Offline and digital banking in rural areas	Increasing accessibility	Right-to-repair union action; smallholder farmer customers	Ambition for social impact	Workers' pay amid inflation; flexible working
Moderna	**Nu Holdings**	**Ørsted**	**Tesla**	**TSMC**	**Umicore**
Vaccine access and global health	Social impact and customer protection	Attracting and retaining talent; diversity and inclusion	Labour rights and working conditions in China	Mineral supply chains	Material sourcing and human rights

*Alibaba was sold August 2022.

Nu Holdings – leveraging financial inclusion research for engagement

Why we are engaging

We invested in Nu, the Brazilian neobank, at initial public offering in 2021, encouraged by its role providing financial inclusion and its disruption of an exclusive banking system which works for the few, not the many. With more than 70 million customers in Brazil, Mexico and Colombia, Nu has a chance to change this and to further contribute to financial inclusion and financial health across Latin America. To maximise this opportunity and reduce the risk of unintended negative consequences, Nu must maintain its customer-centric approach, especially for its more economically vulnerable customers.

As a digital-only financial services provider, deeply understanding the needs and vulnerabilities of all customers is vital when aiming to contribute to financial health. A robust approach to customer protection and considered product design is essential. Through our initial research, we identified that Nu appears committed to achieving these aims, but given its importance, we wanted to learn more through engagement. In addition, we wanted to emphasise to Nu that while its higher-income customers may provide the early path to profitability, its millions of lower-income customers require serving with care. After all, promoting financial health among the customers that will drive future investment returns is in the interest of long-term shareholders.

Our research

Our research over recent years has developed our understanding of what good practice looks like in delivering financial inclusion. Leveraging networks among organisations like CGAP, the Consultative Group to Assist the Poor, and the Center for Financial Inclusion, we have built a better appreciation of where the social risks and opportunities lie. Given our positions in Nu and MercadoLibre, we needed to understand better the unique and fast-moving Brazilian context, which may provide more attractive future investment opportunities.

Having spoken with the São Paolo-based research consultancy PlanoCDE during our pre-investment research on Nu, we commissioned it to produce a report on the current state of financial inclusion in Brazil. Comprising of a primary survey and interviews with experts, this study sought to understand the financial health of all Brazilians, particularly the middle- and lower-income earners, and to identify which fintechs and approaches are proving successful in improving lives and livelihoods.

The results were enlightening. There was encouraging data revealing the speed at which account ownership has grown, from 57 per cent in 2017 to 87 per cent in 2022, driven in part by greater levels of digitalisation and digital accounts, like Nu. Of the new users, most of the newly banked are women (62 per cent), of the CDE classes[2] (67 per cent), and use digital banks as their main bank (49 per cent). While this data supports our impact hypothesis, there were worrying trends and emerging risks identified too. Across all income groups, 50 per cent had higher expenditures than income, and 55 per cent of the CDE classes did not have one month of savings available. Most people borrow to pay off other debts or to pay for basic needs. There is a growing indebtedness problem. Additionally, online influences are increasingly peddling cryptocurrencies to many who do not understand the risks.

Our engagement

Combining a September trip to Brazil to meet with a host of potential investments, we met with Nu and PlanoCDE. Our first meeting at Nu's office proved an excellent opportunity to speak with its ESG team about their role, the company's efforts in financial education and customer protection. Having mentioned some of the findings from the study, Nu's ESG team was keen to join a presentation by PlanoCDE at its offices. This was a fruitful discussion where we explored many of the critical findings of the study and challenges facing companies in this sector, along with Brazil's Central Bank, which also attended.

Having not been able to meet Nu in person previously during the pandemic, this was an important step in building a strong relationship with the company and starting a long-term dialogue on its social impact. We believe that a supportive well-informed shareholder emphasising our second objective – to contribute to a more sustainable and inclusive world – will act to encourage Nu's focus on achieving positive social impact and managing risks, such as over-indebtedness and financial illiteracy.

We have been able to continue this conversation with Nu as it works on its formal financial inclusion strategy. We, with the PlanoCDE team, were subsequently invited to speak at a financial inclusion immersion day for managers at Nu where we emphasised the importance of focusing on financial health, not just inclusion, customer protection and promoting financial literacy among customers.

Outcomes

Measuring the success of our engagement with Nu will take time. We will continue to monitor its approach to these areas and encourage its efforts towards responsibly serving its more vulnerable customers, and reducing its reputational and regulatory risks. We may repeat further studies in the future to allow us to see how the situation changes over time in Brazil. We hope that openly publishing the PlanoCDE research will have a broader impact on encouraging action towards addressing the economic precarity faced by millions of Brazilians. The study has since featured on the front page of one of Brazil's most circulated newspapers, indicating this is getting the attention it deserves.

2 – C, D and E classes are the low-income classes, as per the Brazilian government definitions, who have a per capita family income of up to R$2,000 – or US$383.

Deere – Understanding the 'Right-to-Repair' movement

Why we are engaging

The 'Right-to-Repair' movement has been a growing socio-political movement in the USA and EU. It broadly seeks to reduce the monopolistic powers of manufacturers and provide consumers with more choices and freedoms when it comes to the right to repair or modify the products they buy. This movement has a long history with the automotive industry, but over the past decade, it has focused more on consumer electronics and, more recently, farming machinery.

As Deere pushes deeper into precision agriculture and automation, its products have the potential to increase yields and reduce the use of environmentally damaging fertilisers. Yet this also adds increasing complexity to its technology and software. Deere is being targeted by right-to-repair supporters calling for an investigation into allegations of unfair restrictions and high repair prices. We began researching this topic to understand better the risks it presents to our clients' investment, the impact cases for the company and to inform our engagement with Deere.

Our research

The debate is well-covered in the public domain. However, by examining both sides and speaking with key stakeholders, we were able to build a better understanding of the dynamics between Deere, its dealers and its customers.

We gained clarity on one important distinction: the difference between the right-to-repair and the right-to-modify. The right to repair has historically been a request for manufacturers to provide manuals, tools and parts to independent mechanics and consumers, increasing competition in the repair market and driving down costs. Deere maintains that it supports the right-to-repair but has been accused of restricting access to manuals and diagnostic tools for its machinery, monopolising the aftermarket, and inflating costs through dealer consolidation.

There is some truth to these accusations, but the reality is not as severe as right-to-repair advocates argue. Through our research, we identified areas where we believe Deere can improve, such as reducing the cost of manuals and diagnostic tools. These issues are likely to disproportionately affect smaller farmers where the growing costs of repairs, compounded by repair technician shortages, are squeezing their already tight margins. However, our research also found that given the complexity of the technology, many farmers prefer to have their machines fixed by Deere technicians.

As software proliferated across different industries and became increasingly as much of the product as the hardware, with similar (if not more) impacts on the usability/health of the product, the right-to-repair movement has sometimes morphed to encompass the right-to-modify. This is when the request for the equivalent of manuals, tools and parts being available on the software side is conflated with the requirement for software to be modifiable without the risk of litigation or voiding the warranty.

Common modifications made by farmers can make machines non-compliant with environmental regulations and increases the wear and tear of machinery, which goes unseen when resold and reduces the safety of operating the machines. Deere's stance is that, while it supports the right of farmers to repair their machinery, it does not support the right to modify it. After learning about the detrimental impact modifications can have, we support Deere's stance on this issue.

Our engagement

This year we engaged with Deere on four occasions on a range of issues and with various employees, including the Director of Sustainability, the Head of Asia, Africa and the Middle East, and investor relations. Full details of these conversations are at the back of this report. We have predominantly focused on environmental risks and opportunities as our Positive Change hypothesis for investing in Deere is primarily environmental. However, in our latest meeting, we sought to understand the technician shortages within the dealer network and how Deere addresses them. We feel this is important for the investment and impact cases and were encouraged by the steps taken to support the dealers.

Outcomes

In January 2023, Deere announced that it had signed a memorandum of understanding with the American Farm Bureau Federation agreeing to provide farmers and independent repair facilities with software, equipment and documentation to diagnose, repair, maintain and upgrade its equipment under "fair and reasonable terms".

Our extensive research has led us to appreciate the complexity of this issue for farmers, dealers and the company, and we do not believe that there is an easy fix. Over the coming years, we will continue the right-to-repair conversation with Deere, encouraging approaches that will reduce the demand for modifications, streamline repairs and balance dealer consolidation with ease of access for farmers.

Looking ahead

The importance of companies' social impact and behaviour will continue to grow. Cost of living crises, recessions, the impact of the lingering pandemic, demographic changes, migration and geopolitics are bringing social divisions and inequality to the surface. Our focus on social matters will continue to grow and we remain committed to identifying companies driving positive social change through their products and services. We continue to monitor and encourage responsible social practices on the issues described above, those raised in previous versions of this report (eg cobalt and human rights, inequality, diversity and inclusion), and to react to areas of social risk and opportunity as they arise. Some areas in focus for research in the coming year include the human rights risks associated with the massive demand for energy transition minerals and the rights and conditions of the lower-paid workers.

In all cases, after properly considering each issue, we will leverage our networks and resources to consider diverse stakeholder views. On some occasions, this will lead to further engagement or an investment decision. On others, there will be a level of risk that we are willing to accept because of the potential for a company to deliver positive change through its products and services.

G – Governance

Effective corporate governance helps us build confidence that a company will deliver on its financial and impact objectives. It also helps us build trust in management to implement the culture and values required for success. Aligning the interests of management and shareholders is critical for the long-term success of the company.

Just as there is no universally ‘right’ way to invest in the stock market, we believe there is no ‘one-size-fits-all’ approach to corporate governance. We are open-minded about the diverse ways to govern and manage a company, and we are pragmatic about the significant differences in expectations and rules across different countries. Understanding the nuances of corporate governance across separate markets and for companies at distinct stages of development is essential, as we are looking to identify and encourage what works best for individual companies to achieve growth and impact.

Where does Corporate Governance fit into the Positive Change process?

Pre-buy analysis > **Investment decisions** > **Portfolio monitoring** > **Engagement** > **Proxy voting**

It would be disingenuous to say that our search for companies starts by examining whether their corporate governance structures fit a specific mould, or are even considered good practice. We begin by looking at companies whose products and services solve big problems. However, we do believe that a company cannot be financially sustainable in the long run if its approach to business is fundamentally out of step with changing societal expectations. Likewise, success will only be sustained if a business's long-run impact on society and the environment is considered. Corporate governance, therefore, informs our conversations and decisions throughout our process.

Pre-buy analysis

To determine whether we will invest in a company, we always conduct an investment analysis and an impact analysis using our consistent frameworks, reflecting our dual objectives. Corporate governance is considered in both. In our investment analysis, we specifically ask ourselves the question:

> *What attributes of the culture, governance and management attitude will support or detract from the company's ability to capitalise on the opportunity?*

In our impact analysis, which covers Product Impact, Intent, and Business Practices (ESG), governance is primarily considered in the latter two sections:

> *INTENT: How committed is the company to delivering impact?*
>
> *BUSINESS PRACTICES (ESG): What about the company's business practices detract from or support it in delivering positive change?*

Within our answers, we consider areas such as:

- how management is incentivised to deliver impact
- how culture is set from the top
- what governance structures support the mission
- what role the board of directors plays.

In addition, governance is considered as we assess our ability to engage and influence companies to maximise their growth opportunity and impact. Rarely do we speak with independent public company board directors at this stage of our research, but we do aim to talk with management and other executives before taking a holding in a company.

Investment decisions

The Positive Change team are diverse by background, perspectives, experience and education, so we expect to have a plurality of views on many topics. We encourage those differences to be aired in our stock discussions as we believe it makes us better impact investors. For corporate governance, the plurality of views is no different. For example, what constitutes appropriate governance at **Tesla** has often been debated within our team. While we have had good conversations with Tesla's Chair throughout this year, we are under no illusion that the CEO retains an outsized level of control. At **Shopify**, this is formalised in a dual-class share structure. That has its risks and benefits, allowing the CEO to maintain his strong strategic intent to serve small merchants amid growing pressure for success among larger merchants. The concentration of control is generally a feature of some of the private companies in which we invest for the Keystone Positive Change Investment Trust. This is to be expected for earlier-stage private companies but it is still beholden on us to make continual assessments on the effectiveness of their governance and engage the company if we feel change is required. We must ask the companies how they expect governance to change over time. A good answer is that it will as the business scales and the demands shift.

The level of risk that individual team members associate with the presence or absence of specific governance dimensions also varies somewhat. That said, while we may disagree on nuances, we agree that independent oversight and control is necessary and can help enable the fair treatment of employees, customers and the environment, and compliance with legal and regulatory requirements. We recognise that no company is perfect in every category, but we want to see, and advocate for, a positive direction of travel towards continuous improvement. Where we identify governance shortcomings or risks, especially if there is no imminent likelihood of progress, this will likely affect our conviction in the investment and impact cases succeeding. We sold our holding in **Alibaba** this year, partly because we felt its growth had outpaced its corporate controls and that this could lead to a deterioration in the impact case in the future.

We recognise that no company is perfect in every category, but we want to see, and advocate for, a positive direction of travel towards continuous improvement.

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Portfolio monitoring

We aim to hold companies for the long term, likely through periods of both uncertainty and success. As good stewards of the companies we invest in, we must promote the correct corporate governance for different stages of a company's growth. This requires careful monitoring of company news and events, regular update meetings with the companies, and our assessment of what is the best corporate governance arrangements for this company at this time.

Today, Positive Change companies have diverse governance arrangements and quirks. As bottom-up investors in a concentrated portfolio, we refrain from being too focused on portfolio-level data. We occasionally compare key metrics across the portfolio because this can identify companies for further assessment. About one-third of portfolio companies have dual-class share structures and companies considered 'controlled'. Only around half of portfolio companies have an independent chairman, but several have appointed senior independent directors to provide more objective oversight.

A director in a company held in Positive Change will have, on average, held their position for 4.6 years, and be twice as likely to be a man than a woman. Of course, there are outliers. **Ecolab**'s board has an average director tenure of nine years, but companies that have listed more recently, such as **Duolingo**, have an average tenure of under two years. Only two companies, **Chr. Hansen** and **Ørsted**, have equal numbers of women and men on the board, and **TSMC** has only one female director on its 10-person board.

Times change, and company governance must move with them. Sustainability is a growing focus among the management of all companies. Management and boards have a clear role to play in endorsing sustainable business practices and empowering employees to build better companies. Climate change, environmental impact, social inclusion, tax and fair treatment of employees should be addressed at the board level, with appropriately stretching policies and targets focused on the relevant material dimensions. Rather than a proliferation of committees determining the company's approach to these issues, we would prefer that the board of directors takes the lead on oversight.

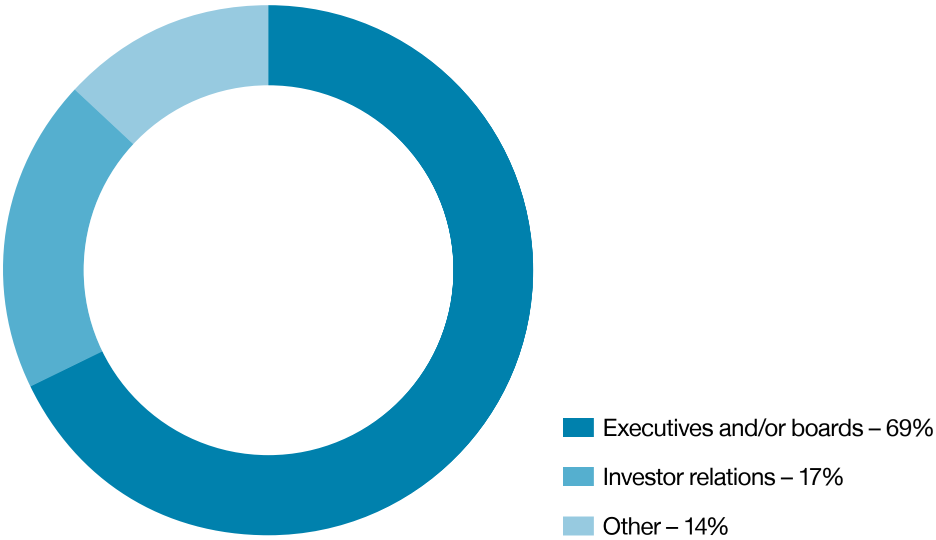
We are generally encouraged by the steps and governance frameworks being introduced to manage and report on environmental and social issues. **Ørsted**, for example, has fully integrated the responsibilities of sustainable business practices throughout its leadership. The Board of Directors sets the strategic direction for sustainability, and the Audit and Risk Committee supervises and oversees ESG performance and reporting. There is clear senior focus, oversight and accountability on key ESG issues. This year, we met with several portfolio holdings to discuss their sustainability governance, including **Umicore** and **Coursera**.

Engagement

As you will see on pages 30–48 of this report, we engage extensively with portfolio companies throughout the year on a wide variety of topics, including corporate governance. Where possible, we aim to discuss these matters with the appropriate company representatives. In 2022, we had eight meetings with non-executive board directors, which we hope to do more of in the future. Often AGMs and corporate actions are catalysts to engage on specific aspects of a company's governance.

Changes in the board and management are also catalysts for engagement. Over the last eighteen months, we have spent time considering the culture and governance that the new CEOs at **Novozymes** and **Umicore** will set from the top, meeting with both in 2022. We also met with Umicore's Chair, which allowed us to ask about the board's view on what the new CEO will bring. When **Moderna**'s new CFO quickly departed following public allegations of impropriety in a previous role, we spoke to the company to understand better how and why this happened. We also aim to encourage appropriate positive change in the board too, emphasising to Moderna the importance of a strong audit committee now it is a much larger and more complex company than when we first invested in 2018.

Who we met with



Proxy voting

Corporate governance considerations are central in deciding how we will vote on behalf of our clients. Supported by our central ESG Team, which has been bolstered in recent years, and collaborating with other holders at Baillie Gifford, we consider and decide on each agenda item at every shareholder meeting of portfolio companies. Where we vote against management, we communicate our rationale to the company. If we have governance concerns or areas we would like to influence, we often seek to arrange calls and meetings with the company.

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We do not believe our opposition to management should be viewed as an indicator of our interest in corporate governance or as a badge of honour. We would rather not have to, but we will oppose resolutions where, following our discussions and pre-AGM calls with a company, we feel that a management proposal is not aligned with long-term shareholder return and impact. We did so at the AGMs of **Abiomed**, **Discovery** and **Xylem** in 2022, because we did not believe that the incentivisation in the executive remuneration plans would suitably encourage a long-term mindset at the company. We look for remuneration policies that are simple, transparent and reward superior strategic and operational endeavour. We believe incentive schemes can be important in driving behaviour, and we encourage policies which create genuine long-term alignment with external capital providers.

Proposals filed by shareholders at portfolio companies have become more common in recent years. In 2022, we supported just two shareholder proposals, both at **Tesla**'s AGM, which we thought had merit. However, we opposed the majority because we either felt that they did not support our clients' investment and impact aims or that they did not address a legitimate issue in the right way.

One such shareholder proposal, filed at **Moderna**'s AGM in April, required careful consideration. We hold shares in Moderna because it is developing an entirely new modality, through mRNA, to treat and prevent a wide range of diseases, which we believe can reduce health inequity over time. However, a resolution filed by Oxfam and several shareholders sought to force the company to commission a third-party report analysing the feasibility of promptly transferring IP and know-how to facilitate the production of Covid-19 vaccine doses by qualified manufacturers in low-and-middle-income countries (LMIC).

Because we shared the goal of ending the pandemic as soon as possible, we initially thought that this was something we may want to support. However, we ultimately opposed this resolution after deep research and a comprehensive series of engagements with the CEO, Chairman, experts in the field and the proposal's proponents. We concluded that even if a report was commissioned, the likelihood that it would help end the pandemic within a reasonable timescale was very low. By the time of the AGM, last-mile delivery and overcoming vaccine hesitancy were the key bottlenecks, a fact that experts in the field corroborated.

We also gained comfort that Moderna's leadership had deeply explored the feasibility of safely licensing its technology and to whom, in consultation with stakeholders such as the World Health Organisation. We trusted in management's view that further technology transfer to companies in LMICs was not the best use of its limited resources at that time, and we were assured that the company would continue to consider this. We also trusted management's decision to take a cautious approach to enabling the safe proliferation of the mRNA platform worldwide, thereby ensuring its enormous potential can be realised over the long term. That is firmly in the interests of the world and, importantly, our clients.

The steps Moderna is taking to expand access to mRNA technologies in the future and ensure the world is better prepared for future pandemics are commendable. However, we will continue to scrutinise this subject and have since engaged with UNICEF, the United Nations Children's Fund, to build our understanding of the main issues.

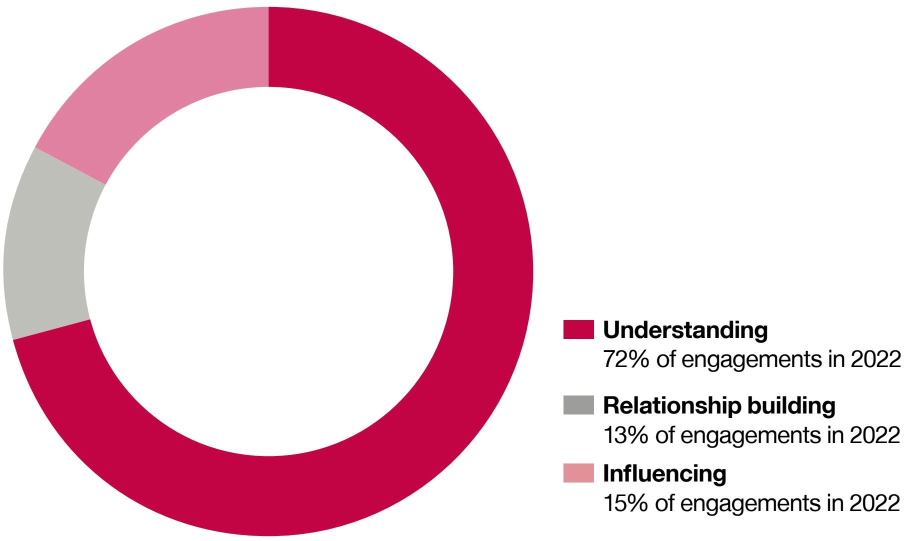
Engaging for Positive Change – Company Conversations

Engaging with companies is fundamental to our role as investment managers, impact analysts and stewards of our clients' capital. We think deeply about what to engage with portfolio companies on, the best methods for doing so, and how we should prioritise our engagement efforts. Knowing that our time with company management and board members is precious, we focus our resources on the most pressing companies and relevant topics. In 2022, we had 102 engagements with 39 companies, 69 per cent of which were at the executive level, reflecting our good access to companies and strong relationships with management teams.

Our approach

Mirroring our approach to investing, we aim for our company engagements to be thoughtful, long-term, and based on bottom-up analysis to maximise our impact. As we invest in companies that we are excited about and are run by people we admire, most of our meetings are 'positive conversations' about important topics. We believe these interactions are relevant to both the future success of the business and society. Many of our company engagements are ongoing, reflecting our multi-year approach and the nature of complex topics that won't be changed overnight or even over a few quarters. Our engagement objectives fall into three categories: Understanding, Relationship Building and Influencing. Detailed examples are given of each, followed by a summary of all engagements with portfolio companies over the year.

Objective of engagement



1. Understanding

This objective is the most common reason for us to engage with companies. It is vital to help build our insight and conviction into the investment and impact potential of the portfolio holdings. Where possible, we aim to meet with investee companies every 18 months. We often collaborate with other Baillie Gifford strategies, and we have systems for sharing insights across our investment department.

Joby Aviation

Objective: Joby develops electric vertical take-off and landing (eVTOL) aircraft. Having met the Founder and CEO in Edinburgh in June, we had a video call with the CFO in November to further understand the milestones the company has set out.

Action: We discussed the company's progress in certifying its aircraft with the Federal Aviation Administration (FAA) in the US, following a decision by the FAA to revise the certification requirements for electric vertical take-off and landing aircraft. We also discussed the company's plan for commercialising its service, including its recently announced partnership with Delta Airlines and companies providing ground infrastructure.

Outcome: Ongoing. The company has a long road ahead in its journey to build its eVTOL aircraft and build out an Urban Air Mobility market. We will continue to monitor its progress.

Peloton

Objective: To gain a deeper understanding of recent management changes and the implications for the business as it navigates several operational challenges.

Action: We had a series of calls with Peloton and spoke with the former CEO, CFO, new CEO, and board members. The calls were helpful in understanding some of the internal discussions and team dynamics that had preceded the change in management, as well as the strengths of the new CEO in relation to the challenges that Peloton faces. The call with the recently appointed CEO was particularly enlightening. We were encouraged by his ambition and how he intends to help Peloton capitalise on the growth opportunity.

Outcome: Ongoing. Our conversations with the CEO have provided comfort around the recent turmoil and, crucially, the next steps for Peloton. We will continue to monitor certain milestones at the company as it enhances its financial discipline and aims to grow its customer base further.

2. Relationship building

Building the right relationship with investee companies is a key objective because it helps to achieve our other engagement objectives. From our experience, strong relationships help enable impactful engagement. That is why we prefer to engage directly with companies rather than through external investor collaborations – although we consider each of these on merit and frequently speak with other investors on key issues in addition to our own company conversations.

Moderna

Objective: Over the year, we have sought to deepen our relationship with Moderna to support good practices relating to vaccine equity.

Action: We had a call with the CEO to discuss, among many things, the company's approach to pricing products. While his thinking continues to evolve, the company is not afraid to break with traditional industry models regarding its pricing strategy. It continues to balance fairness, value to the system, and profitability.

Outcome: Ongoing. We are encouraged that Moderna is devoting so much time to its pricing strategy and we will continue to actively engage with it on this subject. This will become more significant as it progresses through its strong pipeline of vaccines and treatments, most recently highlighted by its successful clinical trial results for a personalised cancer vaccine.

Spiber

Objective: To build a relationship with Spiber, a private company based in Japan which is using synthetic biology to create low-impact fibres for the fashion industry.

Action: We were very grateful that the Founder, Chief Marketing Officer and a board member visited us in Edinburgh during a trip to identify business opportunities within the European fashion industry. The meeting was an excellent opportunity to meet members of the management team in person for the first time, hear how the team managed through the pandemic, and learn about recent and upcoming developments. We were also fortunate to sample Spiber's incredibly soft Brewed Protein™ fibres, the output of many years of hard work.

Outcome: Ongoing. Relationships with our private holdings will take time to build, but have the potential to be very rewarding for both parties. We look forward to supporting and learning from Spiber over the coming years.

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3. Influencing

While our primary impact is through capital allocation to companies achieving positive change, we also aim to have a positive impact by engaging with investee companies. We will offer our insight by identifying actions that might maximise a company's potential to pursue growth and impact. Where we believe a company's behaviour is detrimental to either, we will engage, offering our views and encouraging change where appropriate. If we take voting action against management, we tell the company our reasons for doing so, as we did after the Xylem AGM in 2022. Measuring the progress of these engagements, many of which will take place over several years, is challenging but is something we are actively working on.

Climeworks

Objective: We wanted to understand the company's ambitions for the USA, which we believe will be a large market for direct air carbon capture.

Action: We had a video call with the co-CEO and CFO of the Swiss direct air capture company. We learnt more about the company's strategy in this key market and encouraged Climeworks' ongoing development in this geography.

Outcome: We have been pleased by Climeworks' progress since our investment, but also encouraged the company to invest aggressively and further its competitive advantage.

Coursera

Objective: In line with Baillie Gifford's NZAM commitments, we wanted to encourage online education platform Coursera to start reporting its carbon emissions and set Paris-Aligned targets over the next few years.

Action: We had a call with Investor Relations to inform Coursera of our net zero commitments, to learn how it views its role in meeting the Paris agreement, and to encourage the measurement and reporting of Scope 1 and 2 emissions as a first step. We later participated in a stakeholder engagement call linked to the production of Coursera's first ESG report, where we advocated for emissions reporting and target setting.

Outcome: Ongoing. We will observe the progress Coursera makes in reporting and target setting over the next two years and plan engagements accordingly.

Company engagement

R Relationship building U Understanding I Influencing

10x Genomics	March U	We welcomed 10x Genomics' CEO in Edinburgh to learn more about the long-term market opportunity and key unlocking features for its platforms, especially on the spatial transcriptomics side with Visium and the newly announced Xenium. Importantly, we discussed how culture has evolved and what 10x needs to do in order to retain a focused, nimble and innovative culture. We also talked about some short-term operational challenges for the business as a result of the pandemic.
	April R	We visited 10x Genomics' offices in Pleasanton and discussed a range of subjects. The meeting was particularly helpful in improving our understanding of the culture of the company, especially as it scales. We also gained a deeper understanding of management's intent to deliver impact.
AbCellera	June I	We had a video call with the CEO and CFO of antibody discovery company AbCellera. We discussed how AbCellera is embedding computation science and information systems into its discovery workflow to improve efficiency and speed, and to generate more data for machine learning. We also discussed some recent progress, including the work on CD3 antibodies, ion channels and GPCR targets. Finally, we engaged on GHG emissions measurement and reporting and were pleased to hear that AbCellera are open to moving forward on climate disclosure. We will provide them with some guidance to help them start their journey.
	December U	We held an update call with AbCellera's CEO and CFO. AbCellera has been in the Positive Change portfolio since March 2021 and has been subsequently purchased for other Baillie Gifford strategies, so this was a good opportunity to further our relationship with the company. We explored the business model and heard how AbCellera retains the option to invest in drug development programmes as it progresses. This has the potential for greater revenue generation and impact for AbCellera in successful drug candidates. We also heard about AbCellera's own pre-partner pipeline of drug development where it is going after some particularly difficult targets. This has required a lot of upfront investment but will be hugely additive in the long run and helps AbCellera learn more, to the benefit of its partners. Finally, we covered company culture and were reassured that morale remains very strong despite a challenging time since its IPO in December 2020 and a trebling in employee numbers.
Abiomed	February U	We had a call with Abiomed's CFO and Investor Relations to discuss the company's ability to overcome the barriers to adoption of its heart pump Impella. Overall, Abiomed seems well positioned to generate long-awaited randomised controlled data and to address concerns about vascular access and closure within the next five years. We also discussed and commended the company's role in supporting hospitals during the pandemic via its 24x7 remote support.
Alibaba	January I	We met with Alibaba's director of ESG engagement and Investor Relations in order to encourage improved ESG reporting and to explore how sustainability is managed across the Group. Alibaba recognises that its ESG reporting has not been comprehensive enough in the past and has committed to significantly improving it in 2022. The ambition to target ESG improvements was evident on the call and we commended the ambition in Alibaba's recently published carbon neutrality action plan, which seeks Scope 1 and 2 emissions neutrality by 2030. We also focused on the Group's social responsibility strategy and discussed its new Common Prosperity committee which, chaired by the CEO, aims to establish accountability across the Group for delivering on a number of social initiatives, including improving the quality of jobs provided and enabled by Alibaba. We followed up our call with further communications illustrating good sustainability practice and reporting.

Alnylam	February U	We had a video call with Alnylam's CEO Dr. Yvonne Greenstreet and President Dr. Akshay Vaishnaw. We discussed Alnylam's role in driving the development and commercialisation of RNAi therapeutics, including the company's approach to risk-taking, partnerships and capital allocation. We also discussed company culture and innovation, in particular the research Alnylam is doing in Alzheimer's and other more prevalent diseases which is encouraging from a growth and impact perspective.
ASML	January I	We had a call with the remuneration committee chair, Terri Kelly, to discuss proposed changes to the remuneration policy. Following the call we asked for more information on the reason for switching from one financial metric to another (ROAIC to CCR). Kelly provided some additional information on ASML's rationale which made us more comfortable with the change. In addition, we fed back our preference for ASML to use a smaller more direct list of comparators in future for benchmarking total remuneration.
	June U	Our meeting with CEO Peter Wennink, Head of Extreme Ultraviolet (EUV), Board Member Christophe Fouquet, and Investor Relations Marcel Kemp was an opportunity to learn more about ASML's culture and adaptability, particularly against a changing geopolitical backdrop. We learnt that Wennink believes that success for the semiconductor lithography machine manufacturer is almost entirely about people – both those within the company as well as the companies upstream and downstream. He has instilled the view that 'nobody is more important than the company' as a common trait within the senior management team, while more broadly all ASML employees are encouraged to 'challenge, collaborate and care'. Overall, we were encouraged by senior management's commitment to ASML's culture, its adaptability and long-termism.
	December U	We met with Investor Relations to discuss ongoing sustainability efforts. We spent some time discussing its move to increase the compatibility of machine parts between generations, which has positive benefits for the economics and the sustainability of the machines. We also discussed how sustainability considerations complicate the standard engineering approach of optimising for cost, quality and speed to market. One example is the consideration of alternative KPIs for customer success, such as energy used per successful die-cast rather than just per wafer. We also discussed ASML's role in the semi-industry and its capacity for driving radical and incremental change. The conversation deepened our understanding of an influential company and opened avenues for further in-depth engagement.
Bank Rakyat	May U	We met Bank Rakyat Indonesia's CFO in our Edinburgh office. Competition from fintech companies and digital disruptors is increasing in Indonesia, so we were interested to learn how it is responding to this. The CFO argued that a combination of physical and digital offerings is required to succeed, especially in rural areas. For instance, with the help of loan officers, 16 per cent of Bank Rakyat's 100 million-plus depositors now use the bank's mobile app. We also discussed its relationship with the government, including the influence of the Ministry of State Owned Enterprises (as the government has a ~55 per cent stake in the company) and the compensation and incentives of senior management teams. Finally, we discussed ESG, including Bank Rakyat's lending criteria for palm oil plantations.
	September U	Following on from previous meetings, we wanted to learn more about the bank's digital strategy and requested a call with its Director of Digital Banking and IT. We learnt about Bank Rakyat's digital journey, which started with using IT to improve the efficiency of the bank's own operation – such as Customer Relationship Management software to increase the productivity of its loan officers and advanced data analytics for risk modelling – but is now increasingly focused on providing digital banking products that can widen the accessibility of financial services. We noted the progress of Bank Rakyat's mobile banking app, which seems to be gaining traction. We also discussed the opportunities and challenges for Bank Rakyat as part of its digital transition. We believe having strong digital competencies is important for Bank Rakyat's long-term investment case and will continue to monitor the company's progress on this front.

Company engagement (continued)

Berkeley Lights	January U	We met with the management of Berkeley Lights to discuss the recent announcement that the CEO will be stepping down. While Eric Hobbs was the CEO he grew the company revenue from $5m to $85m, but it now needs a CEO with a different set of skills in order to grow to $1bn. Hobbs will stay on as the President of Antibody Therapeutics given his relationships with customers and technical expertise.
	March R	We visited Berkeley Lights at its HQ in Emeryville, California and met with Dr. Siddhartha Kadia, the company's new CEO and Eric Hobbs, President of Antibody Therapeutics. We learnt about Dr. Kadia's background, his motivation for joining the single cell equipment manufacturer, and his long-term ambitions for the company. We also visited Berkeley Lights' impressive BioFoundry lab, where the company conducts services for partners.
Beyond Meat	March R	We visited Beyond Meat's HQ and research and development (R&D) facility in Los Angeles and met with various members of the executive management team. We discussed the operational challenges Beyond Meat has been experiencing and were reassured by the explanations, as well as the plans to reinvigorate growth. Despite those near-term challenges, Beyond Meat continues to invest for the long term, including in manufacturing and supply chain, which we view positively. Finally, we were impressed by the scale of the company's R&D facility during our tour of it.
	May U	We had a video call with Beyond Meat's CEO and CFO. We discussed in detail the challenges the company has faced recently, especially in the first quarter. While the long-term growth opportunity remains attractive and Beyond Meat still has a leading position in the plant-based meat market, the company's execution has not been perfect. Ethan Brown, CEO, believes that the new Chief Operating Officer and Chief Supply Chain Officer will help Beyond Meat improve its operating performance. We will continue to monitor this area for progress over the coming quarters.
Chr. Hansen	April U	We met Chr. Hansen's CEO in Edinburgh for an update on the business after a period of acquisitions. We were reassured by the integration of the new businesses, which bolster Chr. Hansen's Health and Nutrition segment, as well as the retention of talent. Separately, we discussed the recent announcement of a change in Chief Science Officer, which seems like a well-managed internal progression. We also discussed the challenges of managing rising input costs with Chr. Hansen's already premium pricing. Although the inflationary environment creates pressures, we are encouraged by the company's leading market position and strong customer relationships.
	October U	We met with Investor Relations at our Edinburgh office following year-end results. It has been a tough year but the company has demonstrated adaptability. We used this opportunity to explore many different parts of the business, such as the scaling out of Plant Health products in Latin America; customer demand and international growth opportunities in Fermented Plant Bases; and how the company is responding to the opportunity, or threats, posed by the early-stage synthetic biology industry. We also discussed progress made by Bacthera, the joint venture with Lonza Therapeutics, which is of particular interest to our impact case for Chr. Hansen.
Climeworks	August U	We had a video call with carbon capture company Climeworks' CFO and met the Head of Corporate Finance at a conference in San Diego. We learnt about Climeworks' progress in fixing some of the mechanical issues for its Orca plant in Iceland. Orca is a First-of-a-Kind direct-air capture plant, so some teething issues are to be expected. We were reassured by the higher availability factor for the capture containers that have been repaired. We also discussed Climeworks' plan for its next two plants, which will be 10x and 100x bigger than Orca respectively. Finally, we received an update on the demand for voluntary carbon removal from corporate and individual customers.

Climeworks (continued)	November U	We had a video call with the co-CEO and CFO of Swiss carbon capture company Climeworks' to discuss the company's ambition in the US. We believe that the US will be a large market for direct air carbon capture with significant corporate demand and government support so encouraged Climeworks' ongoing development in this geography. We also took the opportunity to learn more about some of the recent hires that Climeworks has made. We have been pleased by Climeworks' progress since our investment, but also encouraged the company to invest aggressively and further its competitive advantage.
Coursera	March U	We met with online education platform Coursera's CEO and CFO at its Mountain View, California HQ to learn more about the opportunities available to the company as education changes rapidly. We discussed Coursera's views on accreditation and its professional certification programs as well as the Degrees business and how different universities are adapting to the move online.
	May U	We had a video call with Coursera's CFO. We discussed the Degrees business, both the near-term headwind due to the strong US labour market, and the long-term opportunity as more universities start to embrace online degrees. We also discussed the Consumer business, where the performance of the Professional Certificates business has been impressive. We learned more about how Coursera works with corporate partners and its pipeline for Professional Certificates.
	August U	We met with Coursera's CEO, CFO, and Investor Relations at our Edinburgh Office. We discussed Coursera's product evolution over time as the company attempts to navigate the vested interests in the education industry and find product-market fit. We noted some positive progress such as its partnership with the Milken Center for Advancing the American Dream. We believe that learning requires more than just a piece of technology, and having partners like Milken who can provide support, access to job opportunities, and other services will be important for Coursera to unlock the growth opportunity. We also discussed Coursera's competitive advantage and management's strategy to continue expanding its catalogue of Professional Certificates.
	September I	We spoke to Investor Relations to delve deeper into how Coursera is improving both its product impact and business practices. We learnt more about how the company is enhancing the mobile experience to increase the accessibility of its courses, and how it is experimenting with its data to create features that ultimately improve the employment prospects for learners. We also took the time to communicate our Net Zero Asset Manager's commitments during a conversation on the company's initial efforts to produce an ESG report. We were pleased to see that the company intends to put the same thoughtfulness into this report as it has put into its Impact Report.
	December I	We took part in a stakeholder ESG materiality assessment for Coursera as part of its efforts to formalise its ESG strategy. We strongly advocated for the company to take a thoughtful approach to prioritising the most relevant issues, rather than pursuing a tick-box approach. We emphasised the importance of providing exceptional and inclusive education which we believe should be a high priority given its alignment with Coursera's mission and ability to create value. We also picked out several ESG topics associated with maintaining trust among customers and educational partners which we believe is critical to avoid value destruction. Finally, we reemphasised the need for emissions reporting and net zero alignment.

Company engagement (continued)

Deere	January I	We met with agriculture equipment manufacturer Deere's Director of Executive Compensation, Director of Sustainability, and Investor Relations ahead of the AGM. We gained a better understanding of Deere's philosophy around compensation and encouraged more stretching targets under its long-term incentive plan.
	March R	We met with the Director of Sustainability to discuss Deere's recently published sustainability report, which has progressed significantly over the past two years. We expressed our support for the new focus on product impact, greater transparency around ESG governance, measurement and disclosure of Scope 3 GHG emissions, science-based targets for GHG emissions, and a new range of sustainability targets focusing both on business practices and product impact. We spent most of our time understanding the details of the targets related to product impact, including how baselines are set and how Deere plans to measure progress. In doing so, we gained a deeper understanding of Deere's software and data business, and have greater faith in the intent of Deere to deliver impact through its products. We also voiced our support of the recent moves the company has made to expand software to farmers, and in reaching an amicable agreement with the trade union.
	October U	We covered a range of topics in our call with Deere's Investor Relations. In addition to discussing the quarterly results, we learned of the short and long term steps Deere is taking to respond to the shortage of technicians across the dealer network, and in overcoming some of the supply chain challenges which remain from the Covid-19 pandemic.
	November U	At a conference on creating sustainable agricultural systems in Asia, we met with Deere's Head of Asia, Africa and the Middle East. We discussed the customer base and long-term opportunities in emerging markets; the efforts Deere is taking to bring mechanisation and precision agriculture to the region; and what can be done to improve the lives of smallholder farmers. Overall, we left this meeting very impressed by the depth of knowledge Deere has when it comes to smallholder farmers, and its intent to deliver social impact for those who most need it.
Dexcom	September U	We met with the CFO to understand if and how the company's vision to improve health outcomes expands beyond the immediate patient group of intensively managed diabetics to also include non-diabetics, in both the US and internationally. We spent time learning about the new hardware and software improvements that Dexcom believes it can use to unlock new opportunities and came away with a strong impression of the company's devotion to helping sufferers of diabetes.
Discovery	October U	We had a video call with Discovery's CFO to discuss the company's Full Year 2021–22 results. The core businesses of life and health insurance in South Africa and the UK have shown robust performance, especially under a difficult operating environment. The health insurance business in the UK was a particular bright spot as Discovery continued to gain market share with its innovative shared-value offering. The international businesses of health insurance in China and licensing of its Vitality platform to global insurers had a mixed year. While growth continued, restructuring at Ping An (Discovery's joint venture partner in China) and a new set-up with AIA added uncertainties. We discussed these uncertainties with the CFO and noted his optimism for the long-term prospects of both businesses.

Discovery (continued)	November U	At a conference in London we met with Discovery's CFO, Investor Relations, and the Head of Sustainability at Vitality, its wellness insurance brand. The meeting was wide-ranging, covering how Discovery is recovering from the pandemic and some of the challenges it has faced in Asia, which management expects to be rectified as Amplify Health, its partnership with AIA gains traction. This also proved a useful opportunity to explore how Discovery is progressing with its impact ambitions. The pandemic has reduced the breadth of impact Discovery can achieve in the near term, but it also was further validation of its Vitality product whose users saw much lower hospitalisation rates from Covid-19 than the general population. It was emphasised to us that the company remains very much committed to its long-term mission to make people healthier through incentivising healthy behaviour. We also questioned Discovery's executive remuneration plan which we believe to be too short term. We subsequently opposed the plan at the AGM and communicated our reasons to the company.
Duolingo	August U	Our call with the CEO of language learning app Duolingo centred primarily on culture, a subject about which he clearly thinks deeply. A particular focus was on how the company tries to reinforce long-term thinking and customer-centricity as it scales, competes, and monetises. The call was full of anecdotes of occasions when the company has had to make tough decisions, as well as details on team structures and processes that try to embed values.
	November R	We visited Duolingo's management team at its office in Pittsburgh to get to know the company better. In our long meeting, we developed our understanding of the competitive advantage of the company in the app and testing space, and the culture and benefits of being based in Pittsburgh. We also dived deeper into the opportunity that AI brings in advancing the learning experience and increasing customer stickiness – a subject that the CEO was clearly very excited about. The features unlocked through AI will significantly enhance the capabilities of the app and inevitably lead to better outcomes for customers.
Ecolab	March U	During a call with Ecolab's CEO Christophe Beck, we continued to explore the growth opportunities and competitive edge for the hygiene products and water treatment solutions company. The company will benefit from favourable tailwinds such as growing net zero commitments, as well as its ability to catalyse positive change through product and program development while its investment in digital capabilities will strengthen its competitive edge. In a rising cost environment, it was helpful to explore the company's pricing power which remains strong given its cleaning and hygiene products make up a small portion of expenditure for its customers.
	May U	In this wide-ranging meeting we learnt how the Covid-19 pandemic had affected hygiene product and water treatment company Ecolab and the markets in which it operates, which have proven to be surprisingly resilient. We also talked about Ecolab's approach to innovation, both in terms of the use of digital technologies and in localising business strategies, such as its activities with expanding into China.
	November U	We had a call with the CTO of Ecolab to deepen our understanding of the company's approach to R&D, an area that we have previously identified as a competitive advantage. We learned more about how the function is organised, what inspired R&D, and how the company prioritises the deployment of resources accordingly. The key learnings were 1) that the CTO believes Ecolab is a very innovation and technology-driven company; 2) that solving problems for customers is key (the R&D team spends 20% of its time with customers); 3) economics matter most to customers, but increasingly so do sustainability and reputation; and 4) the company monitors emerging technologies through venture capital investing and working in partnership with start-ups. The commitment to R&D is encouraging not just from a competitive position perspective but also in terms of the company's intent to help customers operate safer, more efficient, and environmentally sound facilities.

Company engagement (continued)

FDM	March U	We had a call with the CEO and CFO of UK-based training and recruitment firm, FDM. Overall, they were extremely upbeat for the year ahead and are seeing unprecedented levels of demand in all regions, including the USA where the trend of 'onshoring' is providing a strong tailwinds. Another important development is that FDM has removed the training fee requirement for Mounties in the UK and Canada, and has halved the fee in the US, with a view of eventually removing it entirely. This means that Mounties no longer have to pay a fee if they leave training early. While this clawback provision was rarely ever enforced, it has been an area of controversy in the past and a subject which we have spoken with the company about many times.
	July U	We spoke with the CEO and CFO of FDM where we explored the market backdrop and how the company is adapting to changes in the workplace. With the disruption of Covid-19 reducing, the longer-term trend towards digitalisation in many industries should support investment in technology expertise and the FDM model of 'try before you buy' remains popular. Pleasingly, the recruitment model is gaining traction outside the UK and the company is growing and diversifying its customer base, as well as further penetrating existing customers. It is difficult to establish with certainty how the company might fare in an inflationary environment which, on the one hand, might be a headwind as customers tighten belts but could also provide a tailwind with clients preferring not to take on permanent employees. It was also an opportunity to discuss how the company is addressing inflation through salary increases for its consultants and how it is adapting to hybrid ways of working which makes its training courses more accessible.
HDFC	May U	We were delighted to have the CEO of HDFC Ltd, the Indian mortgage provider, visit our Edinburgh office so we could explore the rationale for the recently announced merger of HDFC Ltd and HDFC Bank. Having considered merging on several occasions over the years, changes to the regulatory system and the interest rate backdrop mean that it now makes good financial sense to merge the two businesses. The CEO outlined several reasons as to why it is a positive development for both businesses; in particular, it is striking that the merged entity will have a much bigger distribution footprint from which it can sell mortgage products. The merger is still subject to regulatory approval and won't be completed until May 2024.
	June U	We had a climate-focused call with HDFC's Head of Business Responsibility to explore how the company is approaching addressing its own carbon footprint and the physical risk of climate change within its business. On the former, despite a lack of regulation, HDFC has been applying more stringent environmental and social criteria on its construction loans and has increased the amount of on-site project auditing. The direction of travel is positive, and reporting has improved, but HDFC is still not accounting for the 'financed emissions' of its loan book; something that we believe is important and we will continue to encourage. While Indian companies are less mature in this area, and on assessing the implications of the physical risk of climate change to their loan books, it is pleasing to hear that HDFC is working with partners in both areas.
	November U	We attended a Group Meeting with the Vice Chair and CEO of HDFC held in Mumbai at the CLSA India Forum. It had been sometime since the team had been able to visit India and we took advantage of the chance to see how the Indian property market has evolved during and post the Covid-19 period, and the implications of interest rate cycles for the company's evolution. The merger with HDFC Bank was also high on the agenda, and we gained clarity on the timeline, intentions for the two large subsidiaries, and how distribution is likely to evolve following integration.

HDFC (contiuned)	December U	We met with the CEO of HDFC to discuss how its merger with HDFC Bank will affect its high-quality culture. The discussion covered several areas of governance and culture at both organisations and insight into what cultural elements should endure. It was interesting to hear about the role of ownership and recruiting fresh graduates and how that contributed to a collective focus on success. The company's stock option plan has a wide breadth, enabling all employees to have buy-in and responsibility for the company's success. The low turnover rate and low loan losses were both positive outputs that were attributed to this culture and ownership. It was positive to hear that no senior executives had left the company in the previous year, a sign perhaps that they have confidence that the merger will be successful.
Illumina	June U	We met with the CEO and CFO of Illumina at its offices in California. The conversation explored each of the three pillars the CEO views as the future of Illumina: Tools (sequencers), Diagnostics (Grail), and Drug Development. Illumina's competitive edge and market position in its core business of developing and selling next-generation sequencers remains strong, but competition is increasing, especially in long-read applications.
	September U	We had a call with the CEO, Francis deSousa, and the new CFO, Joydeep Goswami. We discussed Grail, a liquid biopsy company whose acquisition by Illumina in 2021 was under review by the European Commission, and the options open to Illumina should the European Commission prohibit the acquisition.
	December U	In our meeting with the CEO and CFO of Illumina we sought their views on the Grail acquisition following the European Commission's decision to block the deal, a decision which Illumina is looking to appeal. Illumina continues to believe that the merger is the best option going forward. Of the three pillars of future growth CEO deSouza outlined in June, diagnostics and data appear to be underpinned by Illumina gaining access to the population genomics data from the Grail acquisition. That being said, deSouza noted that Illumina walked away from the 2019 acquisition of PacBio following regulatory concerns and will act pragmatically again if necessary. We also enquired about healthcare systems readiness for Grail's pan-cancer screening by liquid biopsy as while there are obvious benefits for patients, employers and insurers, there is still a need for Grail to focus on educating medical practitioners.
Joby Aviation	June U	We met the Founder and CEO of Joby Aviation at our Edinburgh office. We received an update on the company's progress for electric vertical take-off and landing (eVOTL), including certification, manufacturing, and commercialisation.
	November U	We had a video call with the CFO of electric vertical take-off and landing aircraft company Joby Aviation. We discussed the company's progress in certifying its aircraft with the Federal Aviation Administration (FAA) in the US and explored the new milestones that Joby has disclosed in its quarterly reports. We also discussed the company's plan for commercialising its service, including new partnerships with airlines and companies providing ground infrastructure.
M3	March U	In a call with Japanese healthcare company M3's Head of Diseases and Investor Relations, we explored the company's plans to leverage its relationships with key stakeholders in the healthcare system to help it address specific disease areas. Through its own business divisions, joint ventures, and investment in innovative start-ups, M3 is driving social impact by solving challenges for pharmaceutical companies and healthcare professionals.

Company engagement (continued)

M3 (continued)	April U	We had a call with the CEO of M3 USA & Europe to help further our understanding of this division which accounts for around a fifth of group sales for the Japanese medical platform company. It is a collection of autonomous businesses that are all trying to make healthcare systems a bit more efficient in different ways, whether it be through physician recruitment, clinical research or market research. This decentralised approach helps attract and retain people with entrepreneurial flair who are incentivised to deliver profit growth, both organically and through mergers and acquisitions.
	September U	M3's long term strategy (aka 'the Sagrada Familia') is an ambitious plan to create efficiencies through applying digital technologies within the global healthcare system. We had a helpful discussion on progress towards this and the runway for growth with M3's President and founder, Itaru Tanimura, in Tokyo. International expansion is the most ambitious part of the strategy, and with recent acquisitions expanding M3's reach in Spain and Latin America, it is progressing well and now comprises a quarter of sales. It was clear that Tanimura-san remains focused on building a company for the long term and is very focused on talent development and fostering a culture to deliver on the company's strategy. We also used the visit to Japan to meet with several other companies, experts in local ESG dynamics and industry bodies which all aid our understanding of M3's business.
MercadoLibre	September U	We met with the VP of Strategies at Latin American ecommerce company MercadoLibre's office in Brazil. We discussed the company's investment and strategies in logistics and fulfilment which will not only strengthen their moat, but also allow the company to serve lower-income customers and expand into lower-ticket items more profitably. The good news is that MercadoLibre doesn't believe that it will be CAPEX-intensive because its logistics strategy is very software and data driven, with 1,500 developers working on solving the optimisation for logistics. We also discussed the fintech business and while MercadoLibre's non-performing loans are optically high, we now understand that the underlying underwriting is actually improving rapidly. Finally, it was an opportunity to hear the company talk about what it does from both the board and organisational perspectives to avoid complacency and continue to look out for potential disruption.
	October U	We had a video call with the CFO of MercadoLibre to discuss the company's ESG and sustainability policies. We covered a wide range of topics, including the company's effort to reduce its environmental impact by adopting electric vehicles and low-carbon fuel for its logistics fleet, as well as the company's effort to increase its social impact through the provision of accessible financial services to more merchants and consumers. We learnt that nearly 1 million families derive their primary income through MercadoLibre. At times, we noted the CFO's frustration that obtaining buy-in from different stakeholders on sustainability can be challenging, but he was also optimistic that the direction of travel is positive, due to the rising awareness of sustainability and MercadoLibre's own effort to educate on this topic. We ended the call by providing our support and encouragement on MercadoLibre's sustainability journey.

MercadoLibre (continued)	December I	MercadoLibre contacted us to introduce and gain feedback on its new disclosure format called an 'ESG Tear Sheet'. We conveyed that MercadoLibre's long-term approach naturally harmonises with an authentic consideration of material ESG issues. We also explained that environmental and social considerations need to be forward-looking; as a company grows, so too do its environmental and social consequences, both positively and negatively. Therefore, it makes sense from a strategic perspective to start addressing these early and be open about where tensions exist to help build understanding and trust. Companies are under pressure to conform to various interpretations of ESG, but we encouraged MercadoLibre to do what it believes is most important for the company, its ecosystem and stakeholders, even if that deviates from standard ESG practices.
	December I	We met with the CFO and the lead sustainability manager to learn more about the company's climate and energy strategies. The main focus covered (a) logistics and fleet decarbonisation, (b) opportunities to influence producers and consumers to more sustainable choices, (c) forestry projects, and (d) progress towards full science-based emissions targets. The detailed nature of the conversation and the discussion of senior management motivation and intent left us impressed with the depth of the company's thinking. We agreed to meet again to give specific feedback on elements of the vehicle transition plan and to learn more about offsets and the regional impact of emerging physical risks.
Moderna	January R	Following the 2021 publication of the World Health Organisation's (WHO) roadmap to achieving global Covid-19 vaccination in 2022, we wanted to discuss the feasibility of the recommendations the roadmap outlines for vaccine manufacturers with Moderna. We wanted to emphasise our continued support for steps that will improve global vaccine access. We spoke with the company's General Counsel about this in January. We are confident that Moderna is meeting the recommendations and spirit of the WHO's roadmap in most areas. On this call, we requested more detail about its manufacturing ambitions on the African continent and encouraged further ambition in its Global Public Health strategy. More public announcements are likely on this in the near future, but we see these as very positive developments which will improve access to mRNA vaccines and therapeutics over the long term. There are, however, elements of the WHO's roadmap that Moderna does not believe it can meet in full, such as the rapid transfer of know-how and technology. We continue to build our understanding of this very complex area of global vaccine equity and will continue to encourage appropriate steps towards achieving this at Moderna.
	March R	We had a call with Moderna's CEO Stéphane Bancel to discuss the significant change and progress at Moderna over the last two years as well as his priorities for the future given there is a great deal more to Moderna than its preventative Covid-19 vaccine. We also explored how the company is thinking about pricing, its ambitions to further its AI capabilities and the reasons behind choosing Kenya for its African manufacturing facility.
	April I	Ahead of the AGM we had a call with Moderna's Investor Relations and Associate General Counsel to discuss the agenda, give our view and to clarify management's position on certain agenda items, including a shareholder proposal on technology transfer. We discussed executive pay and how the board will develop over the next few years. We took the opportunity to emphasise that bolstering the audit committee should be a particular focus given the scale of change to the company's financial position and profile and pressed them on the high non-audit fees provided to its auditor, which has the potential to undermine auditor independence. However, we are satisfied this is down to extraordinary circumstances and will be rectified next year.

Company engagement (continued)

Moderna (continued)	April U	We had a meeting with the Chair of Moderna's Board of Directors to discuss the agenda of the AGM and to request more information on Moderna's approach towards supporting vaccine equity. This was one of several meetings we held with various parties in advance of voting on a shareholder proposal to commission a third-party report analysing the feasibility of transferring intellectual property and know-how to facilitate the production of Covid-19 vaccine doses by manufacturers in low- and middle-income countries. This meeting reinforced our comfort that Moderna's leadership has deeply explored the feasibility of safely licensing its technology and to whom, in consultation with stakeholders, such as the WHO. It also helped us understand that the main bottlenecks to ending the pandemic are no longer in vaccine supply, but in last mile distribution. We share the goal of supporting vaccine equity and will continue to encourage Moderna's efforts to achieve this, in particular its plan to manufacture vaccines in Kenya, in addition to engaging with stakeholders in global health.
	April U	On a call with Moderna's Investor Relations we explored the shifting dynamics of the global vaccine market which, since the pandemic, has become a much more attractive market for Moderna. The speed of approvals and the renewed focus of public health systems on vaccines have fundamentally changed. We also discussed innovations in vaccine delivery mechanisms and Moderna's partnership with genetic editing company Metagenomi. Combining gene editing tools with Moderna's expertise in lipid nanoparticle delivery and mRNA has the potential to treat an increasing number of genetic diseases.
	May U	We had a brief call with Investor Relations to discuss the sudden departure of the newly appointed CFO due to an internal investigation at his prior place of work. We appreciated the company reaching out to provide some context around these unfortunate circumstances. He had only been in the role for one day and the retiring CFO agreed to return until a permanent replacement is found.
	June R	We met with Moderna's Investor Relations to exchange ideas and perspectives as Moderna continues to develop its stated target to reach net zero across its value chain emissions by 2030. While Moderna's direct footprint is relatively low, it can have tangible impact in the creation of sustainable manufacturing and by demonstrating demand for sustainable chemicals. More intangible is its public voice and clear awareness in its R&D programme (patterns of disease will shift with the climate). We had a good discussion across these issues, including some sharing of practice around reporting, emissions boundaries and physical risk disclosure. Moderna intends to add to its climate disclosures and provide detail on its pathway to net zero. We will hope to make a positive contribution by connecting the company with others and sharing our knowledge.
	November U	Moderna's CEO visited our Edinburgh office and we further explored the potential for mRNA, how Moderna prioritises its efforts and its competitive edge. The CEO talked us through his ambitions to provide a range of respiratory vaccines and, ultimately, a combination vaccine to protect against flu, Covid-19, and Respiratory Syncytial Virus (RSV), which infects the lungs and breathing passages. mRNA has tremendous potential to transform healthcare systems – vaccines are a great example: guesswork could be removed if vaccines can be designed for specific strains in specific regions to provide protection against viruses such as flu. Moderna adopts a systematic approach to prioritising resource allocation, considering the scale of the problem and the complexity of the disease. Ambitions don't stop there – vaccines against latent viruses such as HIV and CMV are in the pipeline, along with treatments for rare diseases and a personalised cancer vaccine. The CEO thinks Moderna stands out among other companies in the mRNA space for its focus, long termism, portfolio approach to risk and for being digitally native.

NIBE	February U	We met with NIBE's CEO and CFO to discuss the long-term demand for heat pumps in Europe which, while it is expected to be strong and enduring, does face challenges including consumer awareness and education as well as cost and space for installation. We explored NIBE's decision not to go into air-to-air heat pumps – they are not central heating systems and pricing is unattractive – and the merits of its three main heat hump technologies – ground source, air-to-water, and exhaust air. As the world increasingly moves to a model whereby emitters pay for their pollution, the cost of using fossil fuels to heat one's home will rise, making heat pumps an increasingly attractive option over the long term.
	June R	We visited the company's headquarters in Sweden to meet with the CFO and tour one of its production facilities. The CFO was optimistic about the growth outlook for heat pumps and it was encouraging to hear about the investment the company is making to increase capacity to meet the growing demand for its products. Supply chain challenges were evident on the factory tour, and the company is working on addressing these challenges through engineering as well as product sourcing.
Northvolt	October R	We attended battery manufacturer Northvolt's online investor advisory update in October 2022. The meeting provided a comprehensive update from management on its operational and R&D progress and outlined clear momentum in scaling Northvolt's battery manufacturing operations. The macro-environment presents difficulties, but Northvolt remains focused on execution and has strengthened its customer partnerships. A key milestone was the first delivery of its lithium-ion battery cells to a customer in May. The presentation reinforced the numerous sustainability benefits of Northvolt's vertical integration compared to the outsourcing model that is common among its peers and provided an indication of future ambitions for the company.
Novozymes	February U	We had a call with the Danish enzymes manufacturer Novozymes's CEO, Ester Baiget, and the VP of Strategy & Business Transformation, Amy Byrick. We discussed how Novozymes can develop its core competencies in enzymes in order to expand into new, but related, areas; how its competitive edge will develop as this strategy unfolds; and how to overcome the bottlenecks the company faces.
	March I	Following the Novozymes AGM in which we supported all proposals, we held a call with Investor Relations to communicate a few aspects of company governance that we believe should be addressed in the future. In particular, we noted the long auditor tenure, queried the classification of board members and requested improved disclosure of executive remuneration targets. We continue to monitor these areas which are important for the long-term governance of the company.
	June U	We visited senior management to hear their perspective on the changes that the CEO has been implementing as the company becomes more commercially focused. Through meetings with the Chief Science Officer and the Head of Strategy and Business Transformation we learnt more about the changes in structures, processes and culture to bring greater focus and agility to R&D. Changes include the commercial and R&D teams working more closely and collaborating more closely with customers to understand their needs.
	August U	We had a video call with the Executive VP of Agriculture & Industrial Biosolutions and the VP of Agriculture Marketing & Strategy. The purpose of the call was to learn more about enzyme producer Novozyme's strategy for its agriculture business and its competitive advantage. Supported by regulators and changing customer attitudes, the financial and impact opportunities in this space are large. There remain substantial scientific and technical barriers to overcome, however Novozyme's experience in fermentation, its extensive databank of microbes and enzymes, and its reputation puts the company in a good position.

Company engagement (continued)

Novozymes (continued)	November U	The CFO visited our Edinburgh office and in our discussion, we explored the company's pricing power in an inflationary backdrop and the long-term opportunity for its biologic products. Novozymes is being bolder with its pricing, something which started a few years ago and is clearly helpful in an inflationary environment. Its products help customers increase yields and yet are a small part of overall costs which means most customers have been comfortable accepting structural price increases. The long-term opportunity for Novozymes is unchanged and is based upon the continued adoption of biologics across a range of industries to help customers do more with less in a more environmentally sustainable way. In particular, the scope to increase penetration of biologics in detergents and other household care products in emerging markets is exciting, as is the opportunity in the agricultural sector. With several start-ups emerging in the latter, we encouraged the company to be bold in investing so it can capitalise on its ability to produce products at scale, something which remains rather unique.
	December U	We held a meeting with the management team of Novozymes in Edinburgh to begin to assess what its merger with Chr. Hansen will mean for our investment and impact objectives. The two companies will combine to create a new company. The CEO sees this merger as an acceleration of Novozymes' goal to be a biotech powerhouse, not a change in strategy. We heard that Novozymes drove the deal as management sees great synergies in health, nutrition and bioagriculture, and its customers have responded very well. The merger will result in significant cost efficiencies, with R&D spend protected. We explored how governance of the new entity will work and the cultural transformation required and were encouraged by CEO Baiget's thought and energy on the latter. We are conscious of the risks that often trouble acquirers in big deals and so we will be watching developments very closely and seeking more clarity on the governance of the new company.
Nu Holdings	September R	We met with the co-founder and CEO of Nu, Cristina Junqueira as well as Investor Relations in Nu's office in Brazil. We explored the culture of the business which centers on providing exceptional customer service. We believe that Nu's customer service is a real differentiation point versus other players in the market, especially incumbent banks. We also discussed Nu's underwriting model and its use of data to allow the company to serve lower-income customers profitably, something which incumbents still struggle to do. There is good data suggesting that the lower the income bracket that Nu target, the greater the data advantage asymmetry. This is very important to enable financial inclusion in Brazil. We also discussed the more difficult macro environment, and Nu is willing to slow its lending business, suggesting appropriately prudent lending practices.
	September R	During a visit to Brazil, we held two meetings with the Head of Impact and ESG at Nu. This proved an excellent opportunity to explore the many initiatives that the company is working on to expand and measure its social impact, but also to improve its environmental and social footprint. Nu is particularly focused on supporting its staff diversity, which is important in a country with very high inequalities. We took the opportunity to emphasise what we believe are priorities for Nu to achieve positive impact over the coming years. Crucial will be responsible lending practices and striking the right balance between profitability and providing affordable services, particularly for lower-income groups that make up a large part of its customer base. Our second meeting involved a discussion with academics and the financial inclusion team from Brazil's Central Bank where we explored the findings of proprietary research that we commissioned into financial inclusion among lower income groups in Brazil. We believe this research revealed important areas for us, Nu, and other financial services providers in Brazil to focus on.

Nu Holdings (continued)	November I	Following our previous engagements with Brazilian bank Nu on financial inclusion, we were invited to speak at the company's Financial Inclusion strategy day. We presented to several managers from across the company and gave a shareholders' perspective on why we believe that protecting and improving the financial health of its lower-income customers will be beneficial in the long run. In the Q&A session we also shared some experiences from around the world which may be helpful for Nu as it considers expanding its impact in this area. We look forward to the launch of its financial inclusion strategy in the coming months.
Ørsted	February U	The offshore wind industry is continuing to gain momentum as an increasing number of governments integrate offshore wind into their long-term energy roadmap. This growth has inevitably attracted competition. We met with Ørsted's Investor Relations, Rasmus Hærvig, to discuss how the company is dealing with intensifying competition. We were reassured by Ørsted's discipline on generating economic returns rather than chasing growth. In the long term, Ørsted's scale and expertise should help it to better manage risk and generate value. Beyond offshore wind, we also discussed the opportunities in green hydrogen, where we have noted positive progress from the industry and Ørsted.
	May U	We joined a group call with Ørsted's CEO and Deputy CEO. We discussed how the renewable energy company is responding to supply chain disruptions and the more challenging macro-economic environment. Ørsted is confident that its experience in offshore wind and its large Engineering Procurement and Construction team help the company to better manage the challenging environment. More than half of Ørsted's revenues are inflation-protected, and despite rising interest rates, there is still healthy demand from investors who want to finance Ørsted's wind farms. We also discussed Ørsted's approach to attracting and retaining talent. We were reassured by proactive initiatives on areas such as diversity and inclusion, as well as the fact that voluntary turnover continues to be below 10 per cent.
Peloton	March U	We had a series of calls with Peloton, meeting the former CEO, CFO, new CEO, and members of the board to help further our understanding of past actions that have been unhelpful to the investment case and to gain insight into how the company plans to rectify the situation. The call with the recently appointed CEO was particularly enlightening. His ambition and intended approach to help Peloton capitalise on the growth opportunity was encouraging to hear, but we will continue to monitor the situation at the company.
	September U	We had a call with the CEO to discuss recent changes to the board and the management team. The changes were intentional and are part of Barry McCarthy's bid to upskill the management team and ensure there is alignment over long-term ambitions. It was also an opportunity to discuss how the company grows the business with an investment approach that is in keeping with cash management objectives.
Safaricom	May U	We had a video call with Kenyan telecoms company Safaricom's CEO and CFO. We discussed Safaricom's continuing effort to build a more comprehensive financial services business building on the success of its MPesa payments service. We also discussed Safaricom's new initiatives, including those around agriculture, education, and health. Finally, we discussed the ongoing progress of expansion into Ethiopia.

Company engagement (continued)

Sartorius	June U	As well as speaking to Investor Relations, we had a separate meeting with the combined Chairman/CEO of laboratory equipment manufacturer Sartorius, Joachim Kreuzburg, who has been on the Sartorius board for almost twenty years. We discussed the growth profile of the business, now Covid-related revenues are expected to subside. We noted that there may still be an 'air pocket' of orders from the pandemic but were encouraged by the company's diversified and durable growth across regions and business areas. We also discussed how Sartorius is working to make the biologic manufacturing process more efficient, in particular through automation and data analytics.
	June U	We spoke to Sartorius's Investor Relations to understand the current adoption of single-use equipment in biologics manufacturing. We learnt that the penetration of single-use equipment in large-scale biologics manufacturing is still quite low, which is encouraging for Sartorius's growth runway. We also asked about governance and succession planning, as the Sartorius family shareholding is due to evolve in 2028. While this is an ongoing conversation, our questions did not reveal any red flags and we were reassured that Sartorius remains well-managed and long term in its thinking.
	November U	We met Sartorius in our Edinburgh office, where we discussed inflation. Sartorius has strong pricing power as its products are ingrained in biological manufacturing processes and we were reassured that Sartorius retains strong relationships with customers, who appreciate that price increases are to defend rather than expand margins. We also asked for an update on Sartorius' China business, which counts for just over 10 per cent of sales. Sartorius explained that it has a local-for-local approach in China, which should help contain the risk of any deterioration in trade relations.
Shopify	May U	We had a video call with Tobias Lütke, Shopify's founder and CEO. The conversation was wide-ranging, but we spent a significant part of the meeting discussing Shopify's culture – especially as the company goes fully remote – and its strategy for fulfilment. During the meeting, Lütke's commitment to addressing the pain points of entrepreneurs is clear, as well as his goal for Shopify to focus on creating value rather than extracting value.
	May U	We had a call with Robert Ashe, Lead Independent Director and Chair of the Nominating and Corporate Governance Committee, and Gail Goodman, Chair of the Compensation and Talent Management Committee and member of the Audit Committee at Shopify, to learn more about the proposed introduction of a new Founder share class. Through the conversation we learnt more about the intentions behind the proposal and the thoroughness of process behind making it and, in the end, decided to support the resolution at the AGM.

Shopify (continued)	December U	During our meeting with the COO and President of ecommerce platform Shopify, we sought to learn more about the company's work culture in a challenging operating environment. This follows significant management changes and reductions in headcount. The company has now fully embraced a 'work from anywhere' model, which has enabled the hiring of talent that was previously unwilling to relocate to Ottawa, such as the incoming CFO Jeff Hoffmeister. Recognising that a different operating environment can require different skill sets, Shopify requires executives to requalify for their job every year (including the founder CEO), with the understanding that they should step aside if they're no longer the right person. The company also thinks of 'tours of duty', whereby executives are given roughly five years to achieve specific goals. As such, executive turnover reflects skillsets more than cultural problems. Turning to Shopify's 10 per cent headcount reduction, the President noted that senior management tried to handle this responsibly and empathetically, with a call from one's manager, a generous severance package, and help to find a new role. Additionally, senior management has increased transparency and town halls to ensure that remaining employees feel secure, and a new slider compensation scheme has been introduced to enable employees to choose their preferred split between cash and share-based compensation. We were encouraged by examples of Shopify's adaptability and focus on the company's long-term vision and culture. We will continue to monitor and engage on these issues.
Spiber	October R	We were privileged to have a long meeting with the Founder, Chief Marketing Office and a board member of Japanese sustainable material company Spiber, during their trip to identify business opportunities within the European fashion industry. The meeting was a great opportunity to meet members of the management team in person for the first time, hear how the team managed through the pandemic and sample its incredibly soft Brewed Protein™ fibres. We also learnt of recent and upcoming developments around Spiber scaling its production, new facilities and potential products in the future.
Teladoc	June R	We visited the CEO, Jason Gorevic, at Teladoc's office in New York, where we discussed how the business operated during the Covid-19 pandemic, the broad opportunity for telehealth and how the company can capture the most value from moving into the mental health space. Visiting the office also gave us an opportunity to experience the culture of the company and build a relationship with the CEO.
	July U	We met Teladoc's CEO, Jason Gorevic at our Edinburgh office to discuss some of the challenges the company is facing, from rising competition to macro uncertainties to some execution hiccups. While it was encouraging that Teladoc's vision remained the same, we think it might take a while for the company to convince its large customers of the benefits of whole-person virtual care. We remain shareholders for now but our conviction is lower, and we need to see more evidence of the success of Teladoc's whole person care to differentiate from competitors.
Tesla	February U	On a call with Investor Relations we discussed how Tesla is navigating short-term cell supply constraints and how it continues to invest and innovate to remain competitive. While excitement for new models has recently been less than the rapacious demand Tesla has experienced in recent years, the company has major levers it can pull, such as adjustments to leasing and pricing models, which means it is well placed to generate new demand if required. On the technology side, we also explored how Tesla's product portfolio will be aligned with autonomy and the further developments planned to overcome some of the challenges of Full Self Driving (FSD) technology. The timing for FSD to become mass market is very uncertain but Tesla remains at the forefront of commercialising this technology.

Company engagement (continued)

Tesla (continued)	March U	We engaged with Tesla to learn more about its decision to open a showroom in Xinjiang and a recent legal case against the company alleging racist behaviour at its Fremont factory. We received helpful clarity regarding Tesla's operations in Xinjiang where we are cognisant of human rights concerns involving the Uyghur population. The company explained that the new site is in fact a service centre for existing customers. Tesla has been investing in its responsible supply chain team and has been completing upstream audits of suppliers. Reassuringly, all work done so far shows no sign of forced labour. The second half of our discussion focused on the Department of Fair Employment and Housing case against Tesla alleging black workers experienced pervasive racism. There are a few similar cases outstanding against the company which raise concerns. While it is difficult to prejudge the outcome of these processes, we have seen over consecutive years that Tesla is increasing its investment in human capital management and employee engagement. This includes better terms and conditions for staff, improving health and safety statistics, and a more diverse employee base across the organisation. We will continue to monitor these issues going forward, including raising them with the board ahead of this year's AGM.
	April U	We spoke to Investor Relations to develop our understanding of a number of different areas of the business. Through the call, we gained a better understanding of Tesla's path towards full autonomy driving; the long-term pricing strategy and what it takes to become mass market; and ambitions for battery recycling.
	December U	We had a video call with Tesla's Chair Robyn Denholm to discuss Elon Musk's acquisition of Twitter, and its impact on Tesla. Denholm argued that there is a discrepancy between how the acquisition is reported in the media and the reality, and that Musk's focus and intensity on Tesla remain unchanged. We explored a range of topics during our call, including Musk's time allocation between Tesla and various other projects, the depth of Tesla's management team beyond Musk, reports of Tesla employees working at Twitter, and the reputational risks to Tesla's brand caused by Musk's activities. The call was reassuring on our most pressing concerns, but there are areas that we will continue to monitor.
TSMC	August U	We had a wide-ranging discussion with the Investor Relations at semiconductor foundry TSMC. We discussed the company's thoughts on the long-term growth opportunities, including the prospects for continued market share expansion. We also discussed TSMC's capital allocation, including the planned expansion in the US and Japan. Finally, we learnt more about TSMC's decarbonisation strategy and expressed our support.
	November U	We met with TSMC's CFO in our Edinburgh office. We discussed TSMC's future technology roadmap, particularly the importance that TSMC places on developing efficient packaging technology and reducing cost per transistor. We discussed TSMC's overseas expansion plans with the company aiming to have around 20 per cent production capacity overseas in five years' time. While there are cultural barriers to overcome in setting up new facilities outside Taiwan, TSMC is confident that customers will value the additional manufacturing flexibility it will be able to offer. We touched on succession planning for the Chairman and Vice Chairman and learned that conversations with the board are ongoing, which was reassuring. We expressed our continued support and encouragement for TSMC to establish sustainable water management and decarbonised energy supply in Taiwan.

Umicore	January I	In a meeting with Umicore's chair, Thomas Leysen, we sought to better understand the reasons for the structure of the new CEO's remuneration plan and to emphasise our support for investments that will support Umicore's growth and positive impact. We covered both of these areas and more on the call and it was helpful to hear about recent strategic developments and governance changes from the chair, who has been involved with Umicore for over 20 years. Disclosure of the details of the CEO's remuneration plan represents an improvement on previous years, but we also advocated for amendments in the future that might better reward outperformance. This meeting will help us better consider how to vote on the remuneration plan at the AGM in April, and we continue to monitor and encourage transparency, alignment and long-termism in the plan in the future.
	February R	We met with Umicore's new CEO Mathias Miedreich to better understand his ambitions for the company. His vast experience with original equipment manufacturer relationships was evident on this call where we discussed the different business models that Umicore has adopted for different customers, including VW, BMW and the large battery producers. Why do customers choose Umicore? The CEO believes this is down to technology, the quality of supply and the security of supply. Sustainability is also a key reason which has been evident with Umicore sourcing of cobalt over the last decade and will be very important for nickel sourcing in the coming years. We also touched on Umicore's global expansion plans, potential future businesses and its recycling technology which should play a key role in the sustainability of the electric vehicle market. We expect to hear more about Umicore's long-term ambitions at the capital markets day in June.
	June I	In 2021, Umicore set ambitious sustainability targets, including to become net zero by 2035, and this meeting with the ESG team was an opportunity to follow up on the company's progress. We also wanted to understand Umicore's approach and emphasise our support for minimising its impact on biodiversity. We discussed the array of initiatives that Umicore is considering to achieve its targets, including carbon capture and storage, renewable power purchase agreements and offsetting. We received a commitment to minimise the use of the latter and also to finalise its Scope 3 targets in 2022. Umicore is still in the process of working out how best to measure its relationship with biodiversity, but it is actively considering more advanced methods to integrate biodiversity considerations in decision making. We will continue to monitor and support Umicore's environmental efforts over the next few years, and we also plan to have a further call to discuss human rights within Umicore's supply chain, another very important topic, later this year.
	June U	We attended materials and recycling company Umicore's Capital Market Day in London, where the company laid out its long-term strategy up to 2030. We learnt more about Umicore's plan for battery materials, including how it intends to incorporate circularity through battery recycling and its plan to expand into North America. We also heard more about the company's ESG strategy, including its approach to reduce Scope 3 emissions intensity in-line with Science Based Targets initiative (SBTi).

Company engagement (continued)

Umicore	August U	We had a video call with the CEO and Investor Relations at Umicore. We used the opportunity to ask follow-up questions from the Capital Market Day in the summer. We explored Umicore's role in the battery material supply chain, its bargaining power relative to automotive OEMs and battery makers, and its capacity expansion plans.
	November I	As Baillie Gifford is Umicore's largest shareholder we were asked to discuss with its Investor Relations and Sustainability team what ESG matters we believe to be the important for the company. We emphasised that we invest in Umicore on behalf of our clients for the environmental impact that its core products and metals recycling will enable, and for its leading approach to minerals sourcing. We were pleased that Umicore has improved its operational environment footprint by committing to the initiative, SBTi and announcing an ambitious target to reduce its Scope 3 emissions by working with suppliers. We also encouraged more reporting on Umicore's product impact, and more disclosure on its supply chain and approach to biodiversity. We will continue to monitor how the company is approaching key ESG topics and advocate for responsible business practices.
Xylem	January I	We met with the Chief Sustainability Officer and Investor Relations for a discussion ahead of the water infrastructure company's AGM. We learnt more about how the company integrates sustainability into executive compensation and the reasoning behind the use of third-party ratings as ESG metrics for the CEO and CSO. We conveyed our preference for an internal metric to be developed, tied to the sustainability goals set out, and were pleased to hear that these are being developed alongside a process of obtaining external assurance for the sustainability goals. We explained our general approach of opposing compensation plans which contain a metric where vesting begins at the 25th percentile of performance versus a peer group, which is the case with Xylem's relative total shareholder return (RTSR) metric under the long-term plan, as we view this as under-ambitious. We also indicated our support for the greater use of options in compensations as it tries to attract IT and software talent.

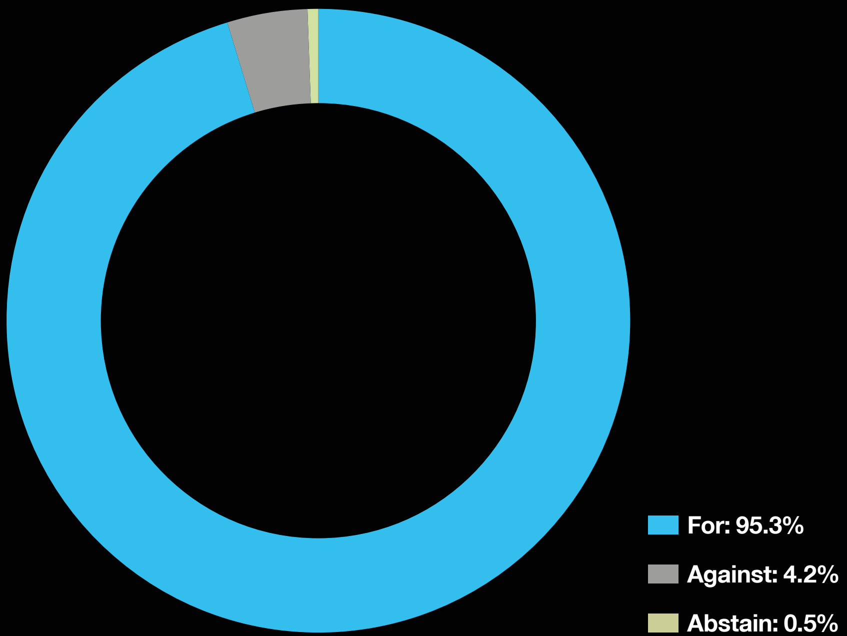
Industry engagement

Deep Transitions Project	Ongoing	We continued our involvement in the Deep Transitions Global Investor Panel. The Deep Transitions Futures Project is an interdisciplinary research project that seeks to develop a new signature investment strategy for transformation, termed 'Transformative Investment', which places sustainability and socio-technical system change at its core. In March this year we discussed tools that will help investors consider how future global systems will change and to identify potential investment opportunities within these. In November, we participated in the launch of the Deep Transitions' Transformative Investment Philosophy, marking the end of Phase 2 of the project. The next phase will focus on disseminating this philosophy and putting it into practice.
Global Impact Investors Network (GIIN)	Ongoing	The GIIN is a non-profit organisation dedicated to increasing the scale and effectiveness of impact investing around the world. In June, we attended the GIIN Listed Equities Working Group meeting to discuss the proposed requirements of a Theory of Change for listed equity impact funds. Like many other attendees on the call, we suggested that reporting on company-level Theories of Change was far more necessary than at the fund-level. In the second half of the year, we responded to the consultation for the GIIN's draft guidance for listed equity impact funds. Overall, we were pleased to see that the GIIN is setting a high standard for these funds but noted that some of the requirements, particularly regarding investor contribution which were to be set out in the philosophy and process document of the fund, were too prescriptive and did not appreciate the relationship between investment funds and investee companies. We also noted the absence of a requirement to report on impact, which we believe to be an important feature of impact investing. This year, we also attended the GIIN Impact Forum, the world's largest in-person gathering of impact professionals. It brought together over 1,500 attendees from 65+ countries to discuss some of the most pressing issues. From the urgency of the climate crisis and the role that investors can play in addressing it, to the latest industry developments in areas such as monitoring, measurement and reporting.
The Investment Association (IA)	Ongoing	Following the publication of the UK Financial Conduct Authority's (FCA) discussion paper, the main purpose of the Investment Association group is to feed into the response to the FCA's upcoming consultation on the UK's Sustainable Disclosure Regulation and investment labels. As a member of the group, we discussed the IA's current impact investing definition, how to make the definition work for public markets, and in particular, what additionality might look like in this context. We also provided final comments on the IA's position on impact investing paper which will be fed back to the FCA. In August we provided a response to the IA on the GIIN's draft guidance on impact investing (in addition to directly responding to the GIIN as detailed above). In January 2023, we will have an opportunity to feed back to the FCA directly on the limitations of the 'Sustainable Impact' category as it currently stands.
International Sustainability Standards Board (ISSB)	Ongoing	We joined Baillie Gifford colleagues on the advisory group for the ISSB, which has been recently incorporated under IFRS, with the mandate of creating and developing sustainability-related financial reporting standards to better meet investors' needs for sustainability reporting. This is in some ways a continuation of the work we began as part of the Impact Management Group advisory group. We attended a full day event in London, aimed at recapping on 2022 progress and providing feedback on the 2023 plan. We suspect much of 2023 will be focused on improving awareness of the emerging standards among companies and investors.
Japanese FSA	September	During a visit to Japan, we met with the Japanese regulator to discuss the best approach to impact investing and how to avoid greenwashing. We learnt about the increased interest in sustainable investment among Japanese investors following Prime Minister Suga's focus on net zero by 2050, and the challenges this brings with an increase in ESG and impact funds potentially leading to greenwashing. We shared our views on the importance of clear objectives and rigorous impact reporting as well as the role of engagement with both portfolio companies and industry bodies to establish and encourage best practice.

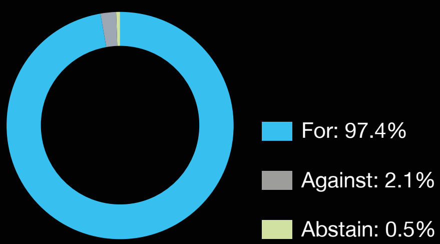
Proxy voting

We voted on all resolutions proposed at AGMs or EGMs for the holdings in Keystone Positive Change Investment Trust. Our internal ESG Services Team, in consultation with investment teams, undertakes all voting. As well as summarising all voting, we show the detail of our voting record where we have voted against resolutions proposed by management, and the votes (for and against) resolutions by shareholders.

Keystone Positive Change Investment Trust proxy voting record



Management votes



Number of meetings

47

Number of shareholder resolutions supported

2

Source: Baillie Gifford & Co.

Resolutions voted for

Company	Meeting type	Res	Proposed by	For (%)	Against (%)	Abstain/ Withhold (%)	Result	Reason for vote
Tesla Inc	AGM 04/08/22	7	Shareholder	46.5	52.6	0.9	Fail	We supported the resolution requesting additional disclosure on the company's efforts to address harassment and discrimination in the workplace. We believe quantitative disclosure would help us understand and monitor the company's efforts.
Tesla Inc	AGM 04/08/22	9	Shareholder	37.5	61.6	0.9	Fail	We supported the resolution requesting a report on the impact of using mandatory arbitration in line with our voting approach in 2020 and 2021. We believe increased transparency would help us better understand the company's use of the practice and any implications for workplace practices and culture.

Resolutions voted against

Company	Meeting type	Res	Proposed by	For (%)	Against (%)	Abstain/ Result withheld (%)	Result	Reason for vote
Abiomed	AGM 10/08/22	2	Management	36.1	63.9		Fail	We opposed executive compensation due to concerns with the structure of the plan including short term performance targets within the long term plan.
Bank Rakyat Indonesia	AGM 01/03/22	4	Management	92.0	8.0		Pass	We opposed the remuneration for the board as independent directors receive incentive-based pay which we believe could compromise their objectivity.
Bank Rakyat Indonesia	AGM 01/03/22	8	Management	70.7	29.3		Pass	We opposed the changes to the composition of the company's management due to lack of disclosure of the changes.
Deere	AGM 23/02/22	5	Shareholder	17.4	82.1	0.5	Fail	We opposed a shareholder resolution requesting the company lower the threshold for calling a special meeting. We believe that the current thresholds are appropriate and balance the rights of shareholders while protecting the company from short term and opportunistic shareholders.
Discovery	AGM 01/12/22	NB1.1	Management	89.5	10.5		Pass	We opposed the remuneration policy due to concerns with the lack of long term performance measures.
Discovery	AGM 01/12/22	NB1.2	Management	90.4	9.6		Pass	We opposed the implementation of the remuneration policy due to concerns with the lack of long term performance measures.
Ecolab	AGM 05/05/22	4	Shareholder	10.1	89.9		Fail	We opposed a shareholder proposal regarding lowering the threshold for shareholders to call a special meeting as we believe the company's current arrangements are sufficient.

Company	Meeting type	Res	Proposed by	For (%)	Against (%)	Abstain/ Result withheld (%)	Result	Reason for vote
Illumina	AGM 26/05/22	4	Shareholder	40.4	57.3	2.3	Fail	We opposed a shareholder resolution requesting the company to change its articles of association to provide shareholders the right to call a special meeting when they own more than 15 per cent of share capital. We supported management's alternate proposal for setting the threshold at 25 per cent, as we agree that this threshold strikes an appropriate balance between facilitating shareholder rights and protecting the company's and shareholders' long-term interests.
Moderna	AGM 28/04/22	4	Shareholder	23.8	76.2		Fail	We opposed the resolution to commission a third party report analysing the feasibility of transferring intellectual property. Following significant engagement with management and the chair of the board we have comfort that Moderna's leadership has deeply explored the feasibility of safely licensing its technology and to whom, in consultation with stakeholders, such as the WHO. As such we do not believe that there is a requirement for a third-party report into this issue. We believe the steps Moderna is taking to expand access to mRNA technologies in the future and ensure the world is better prepared for future pandemics, as outlined it its Proxy Statement, are commendable and we believe that opposing this resolution will better allow management to focus on these, as well as its extensive product pipeline.

Company	Meeting type	Res	Proposed by	For (%)	Against (%)	Abstain/ Result withheld (%)	Result	Reason for vote
Tesla	AGM 04/08/22	10	Shareholder	34.3	64.7	1	Fail	We opposed the resolution requesting a report on how the company's corporate lobbying is aligned with the Paris Climate Agreement. Given Tesla's core mission is to accelerate the world's transition to sustainable energy and its entire business strategy is in alignment with the Paris Agreement, we believe additional disclosures would be a burdensome with no real benefit to shareholders.
Tesla	AGM 04/08/22	11	Shareholder	32.1	64.2	3.7	Fail	We opposed the resolution requesting the company adopt a policy on freedom of association and collective bargaining. These rights are enshrined in the National Labor Relations Act and like any US company, Tesla must comply with the law and this is not a matter for company policy.
Tesla	AGM 04/08/22	12	Shareholder	10.4	88.2	1.4	Fail	We opposed the resolution requesting a report on the company's policies will go on to eradicate child labour in their battery supply chain by 2025. We think the company's efforts have already been very comprehensive in this area and view another report as unnecessary.
Tesla	AGM 04/08/22	13	Shareholder	35.1	64	0.9	Fail	We opposed the resolution requesting a report on the company's water risk exposure. The company already provides detailed disclosure and has stated its intention to continue to increase the level of disclosure in future Impact Reports.
Tesla	AGM 04/08/22	6	Shareholder	50.9	47.9	1.3	Pass	We opposed the resolution requesting the company adopt proxy access. We believe the resolution as stated would not be in the best interests of shareholders and could leave the company open to very small shareholders, with a very specific agenda, to target the company.

Company	Meeting type	Res	Proposed by	For (%)	Against (%)	Abstain/ Result withheld (%)	Result	Reason for vote
Tesla	AGM 04/08/22	8	Shareholder	9.6	89.1	1.3	Fail	We opposed the resolution requesting a report on board diversity. We continue to have good discussions with the company on board refreshment and have confidence in their approach to identify quality directors.
Xylem	AGM 12/05/22	3	Management	87.5	12.5		Pass	We opposed the executive compensation policy as we do not believe the performance conditions are sufficiently stretching.

Resolutions abstained

Company	Meeting type	Res	Proposed by	For (%)	Against (%)	Abstain/ Withhold (%)	Result	Reason for vote
Umicore	AGM/ EGM	A.8.2	Management					We abstained on the election of a director as he is a shareholder representative and sits on the Audit Committee, which we believe should be comprised entirely of independent directors.

Resolutions withheld

We did not withhold on any resolutions during the period.

Please note the voting results data set out above has been provided to us by a third party. No member of the Baillie Gifford group (being Baillie Gifford & Co, Baillie Gifford Overseas Limited and any of their subsidiaries, subsidiary undertakings, holding companies and affiliates from time to time) is responsible for the accuracy or completeness of information supplied by third parties.

Totals may not add due to rounding.

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GIFFORD.
ACTUAL
INVESTORS.

bailliegifford.com/actual-investors

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com