Baillie Gifford™

Stewardship Report
Year ended 31 December 2023

Long Term Global Growth

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Risk factors

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

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

Any stock examples, or images, used in this paper are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style.

Baillie Gifford™

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Contents

Introduction

The Long Term Global Growth (LTGG) strategy aims to generate exceptional long-term returns for our clients by investing in a concentrated portfolio of what we consider to be the world's most compelling growth companies.

2021 ESG Report

2022 ESG Report

Investing in such companies for five to ten years or longer (some have been held for twenty!) means that our investment cases for each may be materially enhanced, or derailed, by ever-evolving environmental, societal and governance expectations. Those diverse expectations may include, for example, the low-carbon transition, the treatment of workers, the design of remuneration packages, impacts on biodiversity, and the composition of boards. Those companies that can align with and lead on such expectations will have higher odds of success over our investment horizon; those that don't are more likely to fossilise or fail.

Consideration of potentially material environmental, societal and governance issues (ESG) has therefore been embedded into our LTGG company research framework since the inception of the strategy in 2004. We do this not for altruistic reasons and not because it is a 'nice-to-have'. We do it first-and-foremost because it is essential to doing what our clients have entrusted us to do: deliver exceptional long-term returns for their portfolios.

In the following pages, we share examples from the past year of our approach to analysing such ESG issues. For a deeper dive into how we conduct this analysis, we refer you to our 2021 and 2022 ESG reports. As always, should you have any questions or require further detail, please do not hesitate to ask your Baillie Gifford client contacts.

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The LTGG Team

Company engagement examples

Shopify

Following the decision to sell its logistics arm, we met with Shopify's CEO to further understand how this constituted prioritising long-term value creation. A changed cost of capital environment increased the cost of building a logistics network beyond feasibility. A leaner and software-focused Shopify will be better placed to attract more merchants and capture the substantial opportunities available from AI.

Roblox

Roblox's Chief Scientist explained how the company is innovating to improve its product and "age up" its user base while maintaining safety standards. The company has invested substantially in safety measures, including using AI for content moderation and monitoring user behaviour. Online safety is a priority for Roblox as it is crucial for their social license to operate.

Samsara

Our discussions with Samsara during the year reinforced our view that concern for safety and the environment are inherently integrated into the company's culture and business model.

Joby Aviation

We met with the CFO to understand the company's progress toward regulatory certification and approach to workplace safety and wellbeing. Joby has been cooperating closely with the Federal Aviation Administration, even helping develop required tests given the nascency of the technology.

Cloudflare

We engaged with the board regarding its disappointing decision to reprice options following a fall in the share price. The board explained the move as essential for retention of key executives, however, we felt the targets were insufficiently stretching and lacked operational metrics. We subsequently wrote formally to the board of directors to outline our preferred structure for aligning executive pay with long-term value creation.

NVIDIA

Our meeting with the CEO and CFO was valuable for understanding how the company's strength and successful product iteration are largely owed to its organisational structure and culture, which encourage foresight. We also met with the head for South Asia and learnt how NVIDIA's mission translates across its international footprint.

MercadoLibre

We met with the company's sustainability team to discuss their initiatives to make MercadoLibre's business model adaptive to climate change. Increasingly, we are finding sustainability topics an area where we can assist by sharing learnings across the portfolio.

Adyen

We held several meetings with Adyen throughout 2023. After a notable share price drawdown in August, management asked for our feedback on improving market communications. We advised that they strike a better balance between the long-term and near-term in their communications. This should reduce misinformation and market extrapolation without interfering with their resolutely long-term focus.

Alibaba

We held several engagements to understand the progress and next steps in Alibaba's organisational restructure, including the reason for cancelling the IPO for its cloud business.

BioNTech

We discussed BioNTech's executive remuneration approach with the Chair and Chief Strategy Officer ahead of the 2023 AGM. The 2018 award resulted in significant pay-outs; we viewed this as equivalent to 15 years' worth, given the company's lack of equity remuneration in the first 10 years of operations. The next set of awards has been capped and includes a minimum holding period.

Hermès

Our meeting focused on the progress Hermès is making against its ambitious targets for positive impacts on carbon emissions and biodiversity. These include two new workshops in France, among the first to be certified energy and carbon-positive. Vertical integration is being extended across the supply chain, and the board is showing clear commitment to integrating ESG metrics into remuneration beyond top executives.

Sea Limited

We have identified board composition as an area for potential improvement for Sea and, therefore, met with the CEO to encourage the addition of directors with requisite skills and independence. Through our engagement, we discussed the importance of a more constructive and purposeful board to provide independent input into strategic decisions – such as on technology and macro developments.

Engagement case studies

Amazon

Online retail and computing infrastructure company

Ever since first taking a holding in Amazon in 2004, we have been engaging with the company on a variety of issues. In the past several years, two areas of engagement deserve particular mention: working conditions and climate change.

Working conditions

Amazon has been criticised for its lack of disclosure regarding its employee health and safety performance. Based on available data, its injury rates have historically exceeded the industry average and working conditions for warehouse workers are reported to be demanding. Based on disclosed company documents, progress to improve working standards and practices was slow for many years. We engaged directly on this topic. In 2019, for example, we visited Amazon's Dunfermline fulfilment centre to help us understand the environment in which warehouse workers operate. We also held discussions with the company's Senior Independent Director and Head of ESG Engagement to encourage greater disclosures and better practice. Amazon acknowledged that its reporting with regard to social issues, particularly employee health and safety information, could be improved. We were encouraged by the company's willingness to engage with us on this issue and we were reassured that work was underway behind the scenes to improve standards across the business, including the appointment of a Director of Health & Safety.

In 2022 Amazon significantly improved transparency with its first annual Safety, Health and Well-being Report. One element this demonstrated was the company's rapidly dropping injury rate. With nearly 40% of work-related injuries at Amazon classified as musculoskeletal disorders (MSDs), such as sprains or strains due to repetitive motions, the company also joined the National Safety Council and signed the MSD Pledge – an Amazon-led and funded initiative.

While there is tangible evidence of progress from Amazon with regard to health and safety, this remains a priority area for engagement. In October 2023, we visited one of Amazon's newest fulfilment centres, alongside Amazon's ESG team, located in Dartford, UK, which operates the highest volume in Europe. We saw how robotics is being used to meaningfully reduce physically laborious tasks. We also saw the technological solutions in place for employees to directly engage with management. In December 2023, we were able to speak directly with the head of global workplace health and safety. She presented convincingly on efforts to make the company an exemplar for safety excellence and transparency. There is similar ambition for the "career choice" training programme, which some 150,000 employees have joined so far.

Keeping employee satisfaction high is almost certainly required if Amazon is to continue with its preference to keep its locations union free. This goal is not without controversy, but the company clearly views this as critical to maximising the operational flexibility it believes it needs for continuous improvement in process and automation.

Climate change

In recent years, Amazon has made several steps to align its operations with the low-carbon transition. In 2019, for example, it co-founded The Climate Pledge together with Global Optimism (an NGO), committed to be net zero carbon across its business by 2040, deliver half of its shipments with net zero carbon by 2030, and power its operations with 100 per cent renewable energy by 2025. As part of these efforts, it became the world's largest buyer of renewable energy, rallied other companies to join The Climate Pledge, and committed to report through the Science Based Targets initiative (SBTi).

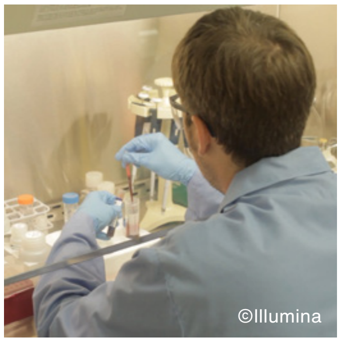
We were therefore surprised by Amazon's decision in 2023 to step back from the SBTi. While sector methodologies remain in evolution, we continue to view the SBTi as a credible and reliable standard. Indeed, checking SBTi verification of company climate targets is a core part of our LTGG climate audit process, which informs our assessment of our holdings' preparedness for climate change. Moreover, Amazon did not disclose which organisation(s) it would be considering as an alternative. The change could also create the perception that Amazon is shifting its goalposts. We raised these concerns during an engagement with the company in September 2023 and again in December 2023.

Additionally, in the context of its net zero goal which Amazon set in 2019, we have engaged with the company on the extent of its chosen Scope 3 emissions boundary. In our most recent engagements, we have expressed that it is drawn too narrowly to reflect the genuine extent of the company's supply chain dependencies and its associated potential for influence. At present, its Scope 3 emissions accounting only represents approximately 1-2% of sales on Amazon's platform, which are mostly private label products. By taking this approach, Amazon is neither incentivised to engage with a sufficiently broad range of its suppliers, nor to support them in the conversation with end customers.

We believe that this risks creating an action and ambition gap in their alignment, and thus the long-term sustainability of a material volume of the flows across the Amazon platform. Through direct conversations and – in October 2023 – a letter to Amazon's Vice President of Worldwide Sustainability, we have encouraged Amazon to expand the boundary to, at a minimum, incorporate emissions from all first-party platform sales (not just private-label). Doing so would extend Amazon's decarbonisation engagement strategy to include international logistics and several large global manufacturers. As long-term investors in the company, we believe leadership in this area makes a critical contribution to enduring competitive edge.

Our engagement with Amazon continues, and in December 2023 we were invited to join their shareholder roundtable on ESG topics at their corporate headquarters (HQ2) in Arlington. We were able to gain reassurance that our feedback on a range of topics was being considered, and are hopeful we will see progress in 2024 – particularly on extended supply chain standards. We were also able to engage with the Public Policy Director for Global AI. We expect this to be the focus of further conversations.

Overall, we are encouraged that Amazon continues to take a considered approach, is open to challenge, and is continually improving its disclosure.



Illumina

Gene sequencing equipment and consumables

We started to develop concerns in recent years about leadership and decision-making at the gene sequencing company Illumina. In particular, we were concerned about two strategic decisions taken by the CEO at the time, Francis deSouza: firstly, to repurchase GRAIL (we questioned this decision with him back in 2020) and secondly, to close the deal before full regulatory approval (which we also questioned with him in 2022). For background, GRAIL, a company that develops non-invasive liquid biopsy tests that screen for multiple types of early-stage cancer, had been initially spun out of Illumina in 2016.

Additionally, our reviews of Illumina and other companies in the genome sequencing market led us to become increasingly concerned about the rising competition facing Illumina. Despite being the global leader in its field, growth in Illumina's core genome sequencing business appears to have decelerated in recent years, in part due to a lack of internal innovation and (again) as a result of poor strategic decisions. Given our concerns about the possible consequences for our long-term investment thesis, we reduced the LTGG portfolio's holding in Illumina in late 2022.

Activist investor Carl Icahn then took a stake in the company in February 2023, proposing three nominees to the board and the rapid resolution of the GRAIL acquisition. Illumina reached out to us to discuss the matter, and after conducting our own research we agreed to support management on that occasion, albeit we used the occasion to discuss our various concerns about the company. In May 2023, we met with various directors and executives, including the chair of the audit committee, the chair of the nomination and corporate governance committees, and the CEO and chief financial officer (CFO). The discussion was broad, but we again addressed our key concerns around leadership and growth.

Not long after, the CEO and Chair stepped down and new directors joined the Board. With signs of intensifying competitive pressures and ongoing regulatory challenges relating to the GRAIL acquisition, we further reduced the LTGG portfolio's holding in October 2023. We then engaged with various directors and executives, including the new Chair, the co-chair of the nomination and corporate governance committees and the co-chair of the compensation committee.
The purpose of our engagement was to discuss the recent appointments, changes to executive compensation, and the latest regulatory deliberations concerning GRAIL.

In summary, we patiently engaged with the company over multiple years with the expectation that the core business, which remains important to the gene sequencing revolution, would prove its strength and that the situation with the poorly executed acquisition of GRAIL would ameliorate. While the subsequent change of management and Board shake-up were belated recognition of a poorly run business, we remain concerned about the erosion of Illumina's competitive position in the sequencing market. We therefore decided to sell the holding from the LTGG portfolio in late 2023.

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Tencent

Technology conglomerate

Violation of human rights, in addition to the harm they cause to victims, can damage the reputation and value of companies. At a minimum, we believe all Baillie Gifford portfolio holdings should operate in accordance with the principles and standards set out in the United Nations Global Compact (UNGC). For LTGG, we examine whether human rights issues may have a material bearing on our long-term investment thesis in our research process for every stock. For several years, we have therefore been considering allegations of human rights violations in Xinjiang, China, and their potential materiality to our investment cases for Chinese and non-Chinese holdings. Then, in August 2022, the UN Office of the High Commissioner for Human Rights published an assessment of human rights concerns in Xinjiang, concluding that serious violations had been committed. In October 2022, the ESG research provider Sustainalytics reclassified Tencent as being non-compliant with the second principle of the UNGC that businesses should ensure they are not complicit in human rights abuses. Sustainalytics reported concerns including complicity in state censorship and surveillance of the Uyghur population in Xinjiang via Tencent's WeChat social messaging app.

We promptly engaged with Sustainalytics to understand its concerns, followed by a separate engagement with Tencent to ask the company about its response. Tencent's openness was encouraging. The company provided us with details pertaining to its approach to data governance and privacy, including its policies and procedures to protect user data and comply with local laws. Nevertheless, we informed Tencent that we felt the company could do more to improve public disclosure of how it approaches user data awareness and privacy. We therefore developed an engagement plan for our enhanced due diligence of such issues going forward.

In early 2023, under the auspices of Baillie Gifford's Investment and Human Rights Working Group, we commissioned a study by leading human rights theorist Professor Jack Donnelly at the University of Denver, to assist us in assessing complex human rights cases such as Tencent. To enhance our analysis further, we invited another distinguished academic with deep expertise in the UN process, as well as a leading university research institute, to provide us with additional independent challenge and insight.

We met again with Tencent in December 2023 to monitor its progress. Encouragingly, the company has been increasing transparency and public disclosures on its approach to user data awareness and privacy. We understand that Tencent has at times turned down government requests for user data, albeit further details such as frequency or examples could not be disclosed to us. Tencent claims that it insists on receiving legal documentation, such as a court order, to evaluate the necessity of such data release requests. We continue to encourage greater transparency on this front.

The UN Guiding Principles for Business and Human Rights state that enterprises are expected to respect the principles of internationally recognised human rights to the greatest extent possible in the circumstances and to demonstrate their efforts in this regard. Thus far, our research and engagement has led us to conclude that Tencent is taking action to the greatest extent possible to ensure compliance with domestic legislation while also attempting to align with international norms.

Monitoring the climate fitness of LTGG holdings

The LTGG team expects the companies in which we invest to be “climate fit” for the low carbon transition. This is because investing in companies for the next decade and beyond means that LTGG holdings may face specific risks, but also be able to unlock important opportunities, as a result of the likely disruption ahead.

Risks might include environmental regulation and taxation, resource availability, business and/or supply chain disruption or changing customer expectations. Associated financial impacts may be experienced through increased capital expenditure, reduced revenues, or expenses relating to property/asset adaptation or repair. Conversely, opportunities include new products and services, growth into new geographies and advantaged alignment with cohorts of customers or suppliers. Indeed, a particular benefit of our engagement conversations on this topic with portfolio holdings has been additional insight into their perceived sources of competitive advantage.

In other words, the low-carbon transition presents a likely material issue to our investment cases for all LTGG holdings. It must therefore feature in our stock-specific investment analysis. Companies must demonstrate that they can adapt and thrive in the new era of climate change. This is essential if we are to continue to deliver on our LTGG objective to generate exceptional long-term investment returns for our clients.

We therefore expect that all our holdings undertake steps to understand and manage the related technological, market and environmental changes confronting their business. Specifically, companies should take appropriate steps to reduce direct and indirect greenhouse gas emissions, to integrate the related challenges into business strategies, and to enhance disclosure on climate change and other significant environmental issues so that investors can reliably assess related investment risks and opportunities. This culminated in our proactive development in October 2021 of a set of climate ambitions and commitments for the LTGG strategy.

Our first commitment states that “*As of now, we commit that 100 per cent of our companies are aligned, or under engagement for alignment, with an appropriate net zero pathway”*. Of course, we do not expect that 100 per cent of LTGG portfolio holdings will, *at all points in time*, be aligned, or under engagement for alignment, with an appropriate net zero pathway. As of 31st December 2023, for example, we have not had substantive engagements on climate change with Affirm, AMD, BeiGene, Intuitive Surgical or Sea Limited (i.e. around 10 per cent of the portfolio by name). Whenever new holdings enter the portfolio, such as AMD, Datadog and Enphase which were purchased in 2023, we expect to engage those companies on a prioritised basis. Indeed, we engage all holdings on a prioritised basis according to the materiality of net zero alignment to our investment thesis. For example, while we first purchased Sea Limited in 2022, we purposefully waited as the company focussed on adapting to severe financial headwinds, requiring retrenching from several of its markets and undertaking staff layoffs. With those difficult challenges behind it, we are now in the process of initiating a climate-focussed engagement discussion with the company. Put simply, we always carefully consider what issue(s) should be the focus of our discussions with a holding. Engagement on net zero alignment for new holdings may typically occur within a matter of months, barring any extenuating circumstances. All things equal, we expect to hold engagements with all outstanding holdings in the course of 2024.

Our assessment of progress against each of our other commitments and expectations is shown on the next page.

Commitments and expectations (as of October 2021)	**Progress** (as of 31 December 2023)
By the end of 2023, we expect substantially all (90 per cent-plus) of the companies in the portfolio to report scope 1 and 2 emissions. If they do not, they will be on a specific engagement pathway for such disclosure. Any new companies entering the portfolio will have two additional years to meet this expectation.	89%
By 2025, we expect that at least two-thirds of the portfolio by number will be positively aligned with global net zero goals. For most, their preparedness, or indeed leadership, will be demonstrated through public net zero aligned targets and strategies encompassing scope 1 and 2 and material scope 3 emissions. However, if we own an exceptional company that does not yet have net zero aligned targets but already has or possesses the potential to be a transformative enabler of successful decarbonisation, we will provide specific research demonstrating this element of its alignment while we continue to work with it around the appropriate level of disclosure.	32%
By 2030, we commit that over 90% of the portfolio will be net zero aligned. Any new companies entering the portfolio will have two additional years to meet this commitment.	32%

With regards to our expectation that by the end of 2023, we expect 90 per cent or more of holdings to report scope 1 and 2 emissions, four companies had yet to do so by the end of December 2023: Coupang, Pinduoduo, Roblox, and The Trade Desk. However, companies disclose information on differing reporting schedules. The years cited in our commitments and expectations refer to companies' fiscal year ends, not calendar years. While currently 89 per cent of the portfolio by name has reported scope 1 and 2 emissions (up from 67 per cent since the start of 2023) at time of writing, we expect to see further progress before the end of the 2023 fiscal year reporting period.

Digging into the stocks

Progress in 2023

We assess and chart the 'climate-fitness' of each LTGG holding over time through our annual portfolio climate review. This is conducted by our LTGG team with the support of Baillie Gifford's Climate and Environment team of experts. Specifically, we look at two things:

01

We assess companies' alignment to achieving net zero emissions by 2050, by examining their respective targets, business strategy, and (increasingly over time) actual emissions performance. Holdings are categorised as being either 'lagging', 'preparing' or 'leading' on such alignment. Implicit in our assessment is pathways for emissions reduction will vary from one company to another, technologies will likely present new solutions, and we also acknowledge that the very concept of alignment will itself evolve over time.

02

We examine companies' business models to determine their respective roles in the low carbon transition. Holdings are categorised as being either:

- 'materially challenged' (i.e. core business very unlikely to witness growth in the low carbon transition);
- 'potential evolver' (i.e. carbon-heavy businesses but starting to see viable pathways to transition);
- 'potential influencer' (i.e. businesses that happen to be carbon-light but have an opportunity to accelerate the transition through their influence); and
- 'solutions innovator' (i.e. companies whose primary purpose is to enable the transition).

The chart on the next page shows our assessment of LTGG portfolio holdings as of 31 December 2023.

	Lagging	Preparing	Leading
Solution innovator Key enabler of decarbonisation	Enphase Energy Gingko Bioworks Joby Aviation NIO	Tesla	CATL Samsara
Potential influencer Carbon light with an opportunity to be part of the solution	Adyen Affirm BeiGene Cloudflare Datadog Dexcom HDFC Intuitive Surgical PDD Holdings Roblox Sea Limited The Trade Desk	Moderna	Atlassian BioNTech Netflix Spotify Tencent Workday
Potential evolver Environmetally challenged with opportunity to be part of the solution	Coupang Meituan MercadoLibre	Shopify NVIDIA Advanced Micro Devices	Hermès Alibaba Amazon ASML Kering
Materially challenged Environmetally challenged with limited scope for adapting			

Source: Baillie Gifford. Based on a representative portfolio. As at 31 December 2023.

Positive progress

We first engaged **Dexcom**, the maker of continuous glucose monitoring devices (CGMs), about its carbon disclosures in August 2021. We discussed the company's potential for system-wide emissions reductions by encouraging healthier diets. We also suggested the company consider the full lifecycle footprint of its monitoring units. We are encouraged that, as of 2023, the company now reports full value chain emissions. We recently engaged again on improving the material traceability of its products.

Disclosure at **Ginkgo Bioworks, NIO, Sea** and **Meituan** has also improved, and we're continuing to support these companies in the development of strategic alignment with net zero operations. Similarly, we've had positive conversations with several newer holdings in the LTGG portfolio. We have for example offered detailed feedback on **Joby's** inaugural ESG report, learned about **Samsara's** approach to reducing its customer's emissions and supported **Roblox** in estimating its emissions for the first time, with a particular focus on the opportunity presented by decarbonising the energy for their own data centres.

In India, **HDFC** has ramped up its climate-related ambitions since we started engaging in 2021. Over this period, the company has started disclosing full operational emissions and is now undertaking a pilot project for full loan book (scope 3) reporting. We have also held a series of discussions on physical risk where they have considerable potential for influence among individual mortgage borrowers, housing developers and wider industrials. We met with several members of management in November 2023 in Mumbai, during which we discussed opportunities and challenges in sustainable products and climate change risk across the country.

We also believe in the importance of engaging companies that are key enablers of decarbonisation, recognising the likely materiality of the low carbon transition to their businesses and also their potential to galvanise progress in their respective industries. For instance, in 2023 **Tesla** asked us for feedback on its annual impact report. Our comments focused on improving the quality of Tesla's lifecycle assessment data and the need for clear interim decarbonisation goals that cover the company's full emissions.

We are also working on a wider analysis of the physical risk exposure across the company's global supply chain with the University of Exeter and we hope to discuss this with the company in due course.

Our engagement regularly extends to the integration of wider environmental and social factors into companies' climate goals. In a recent meeting with **Hermès**, we explored the luxury company's approach to monitoring and measuring biodiversity impacts and how management intends to use this information to develop company strategy. As ecosystems come under increasing stress, the company expects to further its vertical integration to protect its supply quality.

However, some of the most significant progress comes from China.

CATL has jumped from 'lagging' to 'leading' within the space of a year, after releasing targets to achieve carbon neutrality in its operations by 2025 and the same for its wider supply chain by 2035. Its focus is on procuring renewable energy, improving operational efficiency, and engaging with its tier 1 suppliers to set targets, of which 8 out of 13 have now made commitments. We recently visited a CATL factory in Yibin, southern Sichuan, where the local grid is already 90% renewable, meaning scope 2 emissions are low. The company is currently achieving carbon neutrality at the site by offsetting the remaining scope 1 emissions of the factory. The overall use of offsets within CATL's long term plans for net zero alignment is a key area of engagement for us. While offsets in some form may have a valid role to play for hard-to-abate sectors and for cross-border flows of development finance, quality and integrity are key.

Tencent is aiming for a 70% reduction in scope 1 and 2 emissions by 2030, mostly through renewables procurement, and a 30% reduction in scope 3 emissions. Its targets have already received validation from the Science Based Targets initiative (SBTi). We recently engaged on its target to achieve 100% renewable energy by 2030. We intend to discuss Tencent's scope 3 emissions in more detail soon.

Slower progress

We've downgraded both **Adyen** and **Cloudflare** from 'preparing' to 'lagging'. While both companies clearly understand their potential for influence and customer alignment in the low carbon transition, concrete targets have been slower to emerge than we expected. Cloudflare does not yet report scope 3 emissions and has not set the clear emissions reduction targets. Although Adyen has full emissions disclosure, it also lacks decarbonisation targets and we are in the process of engaging with the company again to better understand its new approach to offsetting.

At the end of 2023, and as mentioned earlier in this LTGG Stewardship Report, we were invited to an **Amazon** ESG roundtable with a small number of other shareholders. While the meeting covered a range of topics, it provided the opportunity for direct conversation with Amazon's head of sustainability. We were able to pursue our longstanding request that the company extend the boundary set for its scope 3 reporting beyond its own white-label products. We believe that this is drawn too narrowly to reflect the genuine extent of the company's supply chain dependencies and its associated potential for influence. This risks creating an action and ambition gap in the alignment, and thus long-term sustainability, of a material volume of the flows across the Amazon platform. We reinforced our request in writing in late 2023 and are now hopeful that more detailed supply chain standards planned for release in early 2024 will meet some of our suggestions. Meanwhile, we continue to be impressed by the scale of leadership Amazon is showing in renewable energy, sustainable aviation fuels and, most recently, low carbon maritime fuels.

Looking forward

In 2023, and with greater certainty than ever before, the United Nations Intergovernmental Panel on Climate Change stressed the irreversibility of climate change, even within a 1.5°C global warming scenario. Meanwhile, emissions continued to rise after the Covid-19 pandemic. However, we believe there are still plenty of reasons to be optimistic. The pace of renewables installation in China has been faster than anywhere else in the world. Solar has become one of the cheapest sources of energy globally. Electric vehicle deployment has greatly outstripped expectations. Global policy frameworks for financing the transition have gained more traction. Deforestation of the Amazon has slowed significantly. The United Nations has signed a long-awaited treaty to protect oceans that lie outside of national boundaries. The list goes on.

Climate change is more material to our holdings than ever before, from a physical risk perspective but also as a source of opportunity. Companies that stand to prosper in the coming decade and beyond are likely to be those for which climate change is not just about downside risk management, but increasingly about innovation, adaptability, enhancing competitive advantage, and growth. Unsurprisingly, these are exactly the sorts of traits we look for in LTGG portfolio companies.

A brief word on ESG data

In our 2021 article *ESG data: filling in the gaps*, available on our website here, we commented on the many shortcomings associated with such data. Despite an entire industry devoted to ESG scores and ratings, there were still significant data gaps. Quality, comparability, and coverage were often underwhelming. Estimated figures were commonplace. In some industries and geographies, robust data was almost non-existent. It was not uncommon for ESG data providers to reach very diverging conclusions about the same issues.

Following our article, Baillie Gifford formed a dedicated ESG Data team whose initial remit was to collate and inspect the quality of the ESG data available to us. In 2023, the team created several dashboards that assist our investment analysts in visualising ESG factors when examining companies. These dashboards include both internal and external data points on climate change, modern slavery, and corporate governance.

For example, our climate change dashboard marries quantitative emissions data with qualitative data taken from the knowledge gained through continual engagements with our investee companies. Going a step further, we assess a company's stated net zero targets against data sourced from NGO-style data providers such as the Climate Disclosure Project (CDP) and the Science Based Targets Initiative (SBTi). This combination of qualitative and quantitative is used in the creation of a proprietary categorisation schema. This allows us to assess our investee companies in terms of the quality of their net zero commitments and the positioning of each company relative to a successful transition towards global net zero emissions. For more information on how this data underpins our assessment of progress against our LTGG climate commitments and expectations, please see our article on page 8 of this report, "Monitoring the climate-fitness of LTGG holdings".

The challenges we identified back in 2021 remain significant. As illustrated earlier in this report with the case of Tencent, for example, available third-party data lacks nuance and cannot provide us with the more comprehensive information we require for conducting our fundamental analysis of companies. Meanwhile, demand for ESG data continues to grow, spurred in part by regulatory reporting initiatives such as the European Sustainable Finance Disclosures Regulation (SFDR) and the Task Force on Climate-Related Financial Disclosures (TCFD). Our efforts to improve the availability, quality, and comparability of relevant ESG datapoints therefore continue.

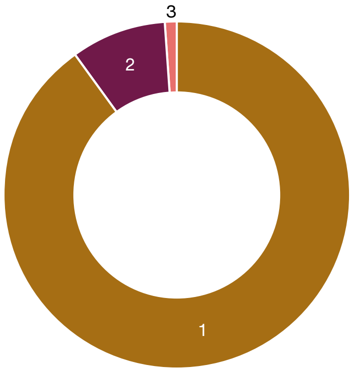
Proxy voting

Voting is integral to our role as responsible stewards of our clients' capital. Where our clients have granted us voting discretion, our voting analysis and decisions are driven by what we consider will promote the long-term prospects of the company, thereby supporting the outcomes we aim to deliver to our clients. In line with our investment philosophy, our voting analysis is bottom-up and led by each investment case. Rather than applying prescriptive policies, we assess every resolution on a case-by-case basis.

For further details, please see our proxy voting guidelines, available here.

Proxy voting statistics

12 months to December 2023



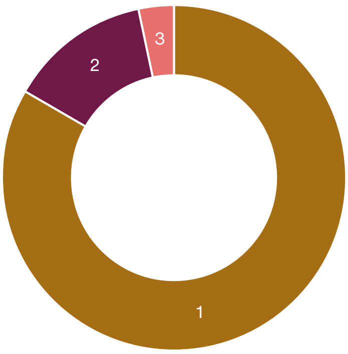
1 For	90.1% (393)
2 Against	8.7% (38)
3 Abstain	1.1% (5)

Total votes 436

Source: Baillie Gifford. Based on a representative portfolio.
Figures may not sum due to rounding.

Examples of voting activity

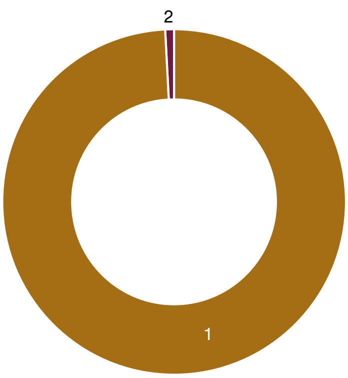
Remuneration



1 For	83.6% (51)
2 Against	13.1% (8)
3 Abstain	3.3% (2)

We decided to oppose three resolutions on executive remuneration at **Kering**. ESG metrics comprise 30% of the annual executive bonus award. However, the vague wording of the ESG metrics and their lack of clear connection to Kering's leading sustainability strategy are notable areas of weakness. It was also surprising to learn that the remuneration committee had not considered the Balenciaga advertising campaign scandal to be a material consideration and therefore paid out a 100% award. Prior to the AGM, we engaged with the company to discuss our concerns. In response to our previous feedback, the company has indicated that achievement of targets will be measured on a progressive scale, meaning a shift away from all-or-nothing outcomes. There is also a new target in next year's remuneration policy to protect the intangible assets and reputation of Kering's brands, which has been established in direct response to the Balenciaga scandal.

Board composition

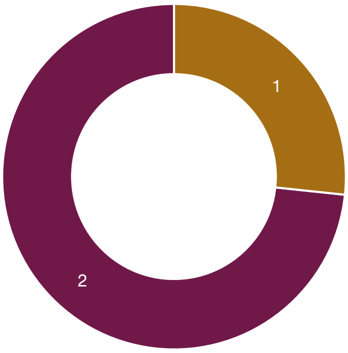


1 For	99.4% (180)
2 Against	0.6% (1)

We voted in favour of all directors at the AGM of **Tesla** in 2023. Ahead of the AGM, we engaged with two independent board directors, James Murdoch and Kathleen Wilson-Thompson. We discussed the decision for JB Straubel, co-founder and former Chief Technology Officer, to succeed Hiro Mizuno on the board given his relationship with Tesla and a desire externally for board independence to increase. The directors explained that Straubel brings engineering expertise and extensive operational experience in senior leadership at Tesla. That provides the board with a unique skillset and institutional memory which commands respect from members of management. While we remain cognisant that a number of independent directors have personal affiliations with CEO, Elon Musk, we were encouraged to hear from Wilson-Thompson, an unaffiliated and newer board director, that these relationships do not hinder discussions but can help foster frank and open discussions between the board and management. Following our engagement, we were therefore supportive of Mr. Straubel's appointment.

Source: Baillie Gifford. Based on a representative portfolio.
Figures may not sum due to rounding.

Shareholder proposals



1 For	26.7% (8)
2 Against	73.3% (22)

When reviewing shareholder proposals, we consider: whether we believe implementation of the requested action would further strengthen the long-term prospects of the business; the relevance and materiality of the issue to the investment case; how impactful the requested action would be, if passed, in making progress on the issue; and whether we believe that the proponent's intention in submitting the proposal is aligned with our priority to promote the company's long-term prospects. With this in mind, we supported a shareholder resolution at the **Netflix** 2023 AGM requesting that the company adopt and disclose a freedom of association and collective bargaining policy. Labour issues are identified as a material risk in the company's financial statements, and we believe that shareholders would benefit from a greater understanding of Netflix's policy and approach to this matter. Its lack of policy lags other large technology companies and may open it up to increased reputational risk, particularly in light of past and ongoing controversies.

Conclusion

This report has illustrated our approach to ESG analysis by using examples from the course of 2023. As a reminder, a more comprehensive description of the way in which ESG issues are embedded in the LTGG investment process is provided in our previous 2021 and 2022 reports (accessible below).

As highlighted at the outset of this report, consideration of potentially material ESG issues is deeply embedded in our LTGG investment analysis of each and every holding. Given the often intangible – and thus difficult to measure – nature of ESG issues, we eschew overly-simplified checkboxes and ESG ratings that are increasingly prevalent in the financial industry. As exemplified in this report, and while we work to enhance the data available to us, our approach is therefore necessarily more qualitative.

This approach means we can delve into the inevitable nuances and unique characteristics of each company, allowing us to better understand implications for each investment case.

This is, of course, a challenging task. We do not pretend to have all the answers. In the LTGG team, we are forever seeking to challenge our contentions and uncover new insights.

We also greatly value hearing from you, our clients. In the same way that we can have candid conversations with company management teams thanks to our longstanding investments, we always welcome similar candour in our longstanding client relationships. So please keep asking questions of us and your other investment managers. Highlight to us what you believe we are doing well. Challenge us on what you believe we can improve upon.

2021 ESG Report

2022 ESG Report

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