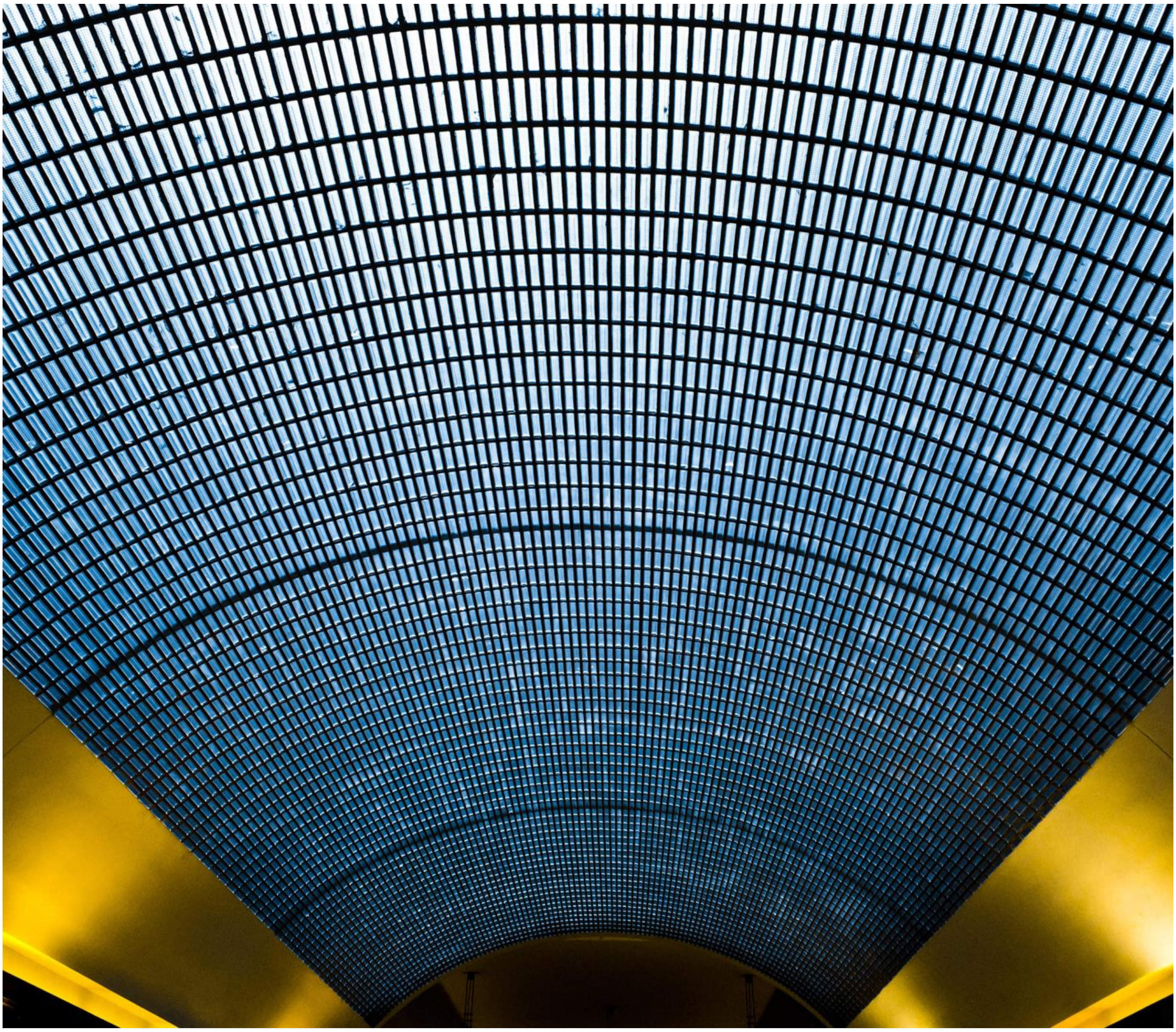
Baillie Gifford™

# Sustainable Growth Quarterly Update

31 March 2025



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Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction costs and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results.
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All investment strategies have the potential for profit and loss.

## Stock Examples

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## Product Overview

Sustainable Growth is an actively managed, global growth equity strategy. We seek stocks that are sustainable in both senses of the word, enduring growth and enduring good.

## Risk Analysis

| Key Statistics | |
|---|---|
| Number of Holdings | 57 |
| Typical Number of Holdings | 55-80 |
| Active Share | 91%* |
| Rolling One-Year Turnover | 27% |

*Relative to MSCI ACWI Index. Source: Baillie Gifford & Co, MSCI.

We have enhanced risk and portfolio construction processes, improving resilience and adaptability in an unpredictable market environment

Stock-specific drivers, rather than broad themes, dominate performance this quarter, with the portfolio underperforming a falling index

Taking advantage of more favourable valuations amongst high-growth names in the US, we have added Sweetgreen, Cadence and Synopsis to the portfolio

## Baillie Gifford Key Facts

| | |
|---|---|
| Assets under management and advice | US$254.3bn |
| Number of clients | 586 |
| Number of employees | 1670 |
| Number of investment professionals | 372 |

*"Don't think of them as stuck up there, they consider us to be stuck down here in our 2D world"*
*Chris Hadfield, Retired Canadian Astronaut*

Last summer, 58-year-old Suni Williams and 60-year-old Butch Wilmore blasted off on a mission to the International Space Station (ISS). However, the capsule they arrived on suffered technical difficulties, leaving them unable to return eight days later as planned. This March, a full nine months later, the pair splashed down off the coast of Florida. While they found themselves with fewer changes of clothes than they might have liked for their extended stay, their more essential needs were well catered for. That's because the ISS always carries plenty more food than it requires, one of many contingencies it considers in extensive scenario planning that means it's always prepared for unexpected events.

In the past three months we've had a taste of a new world order set to last at least four years. One where geopolitics, global trade and, by association, stock markets, can change markedly day-by-day if not hour-by-hour. This increasing unpredictability makes the adaptability and resilience of the companies our clients hold all the more important. It also makes it crucial that we manage the overall portfolio in such a way that it is set up to cope with unexpected events. It's against this backdrop that we've been considering enhancements to our risk management and portfolio construction processes, so this quarter we'll update our clients on our progress on those fronts, alongside the usual summary of performance and positioning.

## Risk Management and Portfolio Construction

In the past two years, we've made the portfolio significantly more resilient and better diversified. However, our risk guidelines have remained the same throughout this transition. This means that we now find ourselves in a position where the guardrails we place around portfolio construction are no longer aligned with how we think about the concentrations and correlations of risk present within our portfolio.

We've long defined true risk as the permanent loss of capital. However, we also recognise that excessive volatility is both unexpected and undesirable for our clients. Our job is to maximise expected returns while maintaining moderate risk levels. As portfolio managers, we take full accountability for risk management - it's our core responsibility, not something we outsource to mission control at our central risk team.

For a truly active manager, stock selection should drive both risk and return. As such, our risk process focuses on two pillars: fundamental risk (where we aim to reduce the likelihood of poor stock selection) and portfolio risk (where we look to minimise the impact of any such selection errors).

## Fundamental Risk

We've been making enhancements throughout our risk management process, from idea generation to portfolio construction and ongoing monitoring. For example, our quarterly risk reviews now include correlation analysis to help us identify blind spots in sectors, countries, and themes. This structured approach helps us explore our entire opportunity set and avoid unintended bets, with priority given to names that bring diversity to the portfolio.

Within our research framework, we explicitly focus on resilience - how much control a company has over its own success - alongside growth and valuation considerations. We now also express our conviction levels and scenario analysis in the form of a probability distribution. This has been hugely helpful for capturing and communicating the range and skew of possible outcomes, as well as identifying milestones and warning signs for ongoing monitoring.

We consider ESG risk as an integral component of fundamental risk, recognising that flawed sustainability analysis can result in material controversies or behaviours that are inconsistent with our investment thesis, thus derailing a company's journey to improved profitability.

## Portfolio Risk

While volatility isn't synonymous with risk, we consider it in portfolio construction for two reasons: it provides an external perspective on company risk, and it impacts client outcomes and their ability to manage their wider portfolios. Our position sizing explicitly considers both correlations with the broader portfolio and stock-specific volatility, along with return potential and resilience.

To reflect these process enhancements, we've streamlined our portfolio guidelines as follows. These new guidelines will be effective from year-end 2025.

| | Current Guidelines | New Guidelines |
|---|---|---|
| Companies | 55-80 | 50-80 |
| Stocks | Max position size of 5% absolute<br>Top 10 holdings <40% of capital | Index weight +5% |
| Industry/sector | Top 5 industries <50% of capital<br>No single industry >20% of capital | Sector index weight +/- 18% |
| Geography | Minimum 10 countries<br>No single country >15% above index weight | Country index weight +/- 15% |

We've changed our stock size limit to relative rather than absolute, giving us more flexibility to express our conviction against an increasingly concentrated and top-heavy index. This allows us to take meaningful active positions in companies like Microsoft, for example, which is nearly 4% of the benchmark. As such, our previous rules would have constrained our active position to less than a per cent.

While the formal guidelines are fewer and simpler, that should not be mistaken for a loosening of risk controls. Back testing reveals that these controls are indeed more stringent and would have triggered during the periods of extreme volatility we saw in 2020 and 2022.

We are supplementing these guidelines with a list of indicators that we will monitor on an ongoing basis ('nudges'). These are a mixture of portfolio characteristics (for example valuation and growth metrics) and outcome metrics (such as tracking error) where we have identified an expected range consistent with our investment approach. This empowers our colleagues in Investment Risk to provide specific challenges and hold us accountable if the portfolio appears to be diverging from our own expectations or those of our clients.

We think the combination of guidelines and nudges will deliver the risk-return outcomes we know our clients desire, balancing adequate diversification with appropriate flexibility. However, ultimately, we expect the enhancements to our risk management and portfolio construction processes to really make a difference. It's about having a better pilot controlling trajectory rather than thicker heat shields on the shuttle.

## Performance

One output of the enhancements made to our risk process is that performance is increasingly driven not by broad themes but by stock specifics. In the first three months of this year over- or underweights in particular countries or sectors have not been the dominant driver of relative returns, instead it has been the companies within those categories. We've seen this rebalancing play out over the course of the past two years. At one point the portfolio's tracking error (a measure of benchmark-relative volatility) showed thematic risk contributing more than 80%. Today it's closer to 50%.

Of course, one big theme that's been at play in those two years has been the dominance of a handful of mega-cap US technology companies. We've been unwilling to own these 'magnificent seven' stocks in the size they feature in our comparative index because of concentration risk, stretched valuations and opportunity cost. That discipline has begun to pay off this quarter, with three of the top five contributors being 'Mag 7' stocks we *don't* own performing poorly (Apple, Tesla and NVIDIA).

More broadly, US companies have underperformed this quarter as the market digests the events of Trump's first 100-odd days in office. While he was initially seen as good for business, there are now concerns about the impact of policy uncertainty on growth and investment, as well as the potential inflationary impact of trade restrictions. This was compounded by the emergence of China's low-cost AI model Deepseek in January, which challenged the narrative of US technological dominance. Our largest detractors this quarter were indeed US companies, though stock-specific factors played a significant role as the portfolio underperformed a falling index.

When it reported results in February, The Trade Desk detailed impressive year-on-year growth of 22%. However, this was short of guidance by 2% and the shares fell by a third in US dollar terms. This was the first time the company had missed estimates in 33 quarters as a public company, with the extreme reaction reflecting something of a 'fall from grace'.

Founder/CEO Jeff Green admitted to execution missteps rather than any structural change to the company's competitive position. Half of its sales and engineering roles were reorganised in December, and the new advertising platform with AI forecasting capability ('Kokai') experienced teething problems. While disappointed by the unforced error, we are reassured that the company is prioritising long-term client satisfaction over short-term profitability. The opportunity for The Trade Desk remains vast, with gross spending on its platform of ~$12 billion just a small fraction of the ~$1 trillion advertising market.

After a difficult couple of years, Illumina shares were by no means priced for perfection but still experienced a punishing drawdown. This was in part due to policy gyrations: academic research comprises about a third of revenues for the firm, so scrutiny of US federal budgets casts some doubt over demand from public sector customers. Now the firm finds itself caught up in the trade war, with its machines placed on China's 'unreliable entities' list, putting up to 7% of revenues in jeopardy. Our enthusiasm for Illumina lies in the clinical market where it is extremely dominant and where the opportunity is much larger than in academic settings. One biotech we spoke with recently told us their new Novaseq X machine replaced 16 older sequencers. It cost four times as much but its improvements in throughput added several percentage points to gross margins. These advantages give Illumina an edge even in an increasingly competitive market. With the shares trading on a low multiple of depressed earnings, the odds are tilted in favour of good returns for clients from here. Illustrating the swings in market sentiment over the past six months, this quarter's top contributor to relative returns was our bottom contributor when we last wrote to our clients.

Operationally, the e-commerce and fintech platform MercadoLibre continues on an impressive trajectory, with marketplace revenues growing around a third year-on-year last quarter and the credit portfolio expanding by 75%.

Spotify has been a more consistent performer in share price terms, making it a top contributor over the past quarter, past year, and since the inception of Sustainable Growth back in 2023. Again, operational performance continues to impress, with good revenue growth (+18% last quarter) and even stronger profit growth (gross profit was up more than a third while operating expenditures fell by a fifth).

Over the longer term, while absolute performance has been good, the portfolio continues to lag an index dominated by a handful of mega-cap US technology stocks - a concentration we continue to avoid due to the inherent risks and lack of diversification such extreme top-heaviness entails.

## Positioning

We've been turning a more volatile trading environment for high-growth US stocks to our advantage this quarter, using favourable valuations for opportunistic purchases of a handful of companies we've been following for some time. In particular, we're mindful of our relatively modest exposure to semiconductors (we currently have only two direct holdings in this increasingly important industry - TSMC and Texas Instruments). We've complemented these with new positions in two firms that sit further up the semiconductor value chain, Cadence and Synopsis. These additions give us exposure to AI research and development, as opposed to capital expenditure, so they ought to be more resilient to market cycles. Owning both gives us diversified exposure to different skill sets within what is a world-leading duopoly.

These firms operate in the field of Electronic Design Automation (EDA), which Cadence's CFO describes as "the paintbrush of the silicon renaissance". EDA software is where engineers transform the concept of a new chip into a blueprint ready to manufacture. This is getting ever more complicated: today, designers must configure 100 billion transistors for each bleeding-edge chip. By 2034, they'll need a trillion. EDA enables them to optimise this with otherwise impossible speed and accuracy. Other Cadence and Synopsis products test if these designs work and meet specifications, meaning the design is unlikely to fail at the foundry. Without EDA, innovation in semiconductor design is virtually impossible.

A key reason customers pay for EDA is to reduce the power consumption of the chips they are designing. These firms are, therefore, critical enablers of sustainability targets for their customers. These include hyperscalers whose unquenchable thirst for energy means they are investing heavily in renewables to offset their use of fossil fuels. EDA helps reduce the power consumption of almost anything with a chip in it, a benefit that is material on a planetary scale.

At first glance, another new purchase this quarter, US salad chain Sweetgreen, may seem less technologically sophisticated. However, its Infinite Kitchen concept is revolutionising fast casual dining with a robotic assembly line that can easily satisfy the busy lunchtime rush, serving up a salad bowl every three minutes. The US faces a nutritional crisis, with 95% of Americans getting inadequate fibre in their diets, a deficiency linked to heart disease, diabetes and cancer. Sweetgreen's farm-to-table approach offers an alternative to fast food for a demographic that is increasingly concerned with what they eat and where it comes from (>80% of customers are Millennials or Gen Z). The company has just 240 locations in 18 states at present, but its ambitious plans to get to 1,000 stores by 2030 imply rapid growth in the years ahead.

These purchases were funded by the sales of three lower conviction positions in Exact Sciences (cancer diagnostics), Staar Surgical (implantable lenses for vision correction) and Kubota (agricultural machinery). Details on each can be found in the transactions section of this report. We also completed our annual exercise of testing the remaining upside in our largest, best-performing companies. This led us to trim positions in Spotify and Workday and contributed to our decision to sell the holding in Amazon.

Our engagement with Amazon over the past decade has focused primarily on two key areas: working conditions and climate change. On working conditions, we've seen some progress, including improved transparency through its first Safety, Health and Well-being Report in 2022, declining injury rates, and technological solutions to reduce physically demanding tasks. However, our climate change engagement has been less successful. We were surprised by Amazon's 2023 decision to step back from the Science Based Targets initiative and were concerned about their narrow Scope 3 emissions boundary, which represents only about 1-2% of platform sales.

Despite our efforts to influence Amazon on both issues through direct conversations and formal letters, we've found their responses to be consistently reactive rather than proactive. While we have been influential on some issues, for every battle that was won another emerged. Our concern is that these issues may become financially material over time, so we decided to take advantage of a substantial share price increase over the past two years and sell the position. This allowed us to reallocate capital to companies where we maintain stronger conviction in the long-term viability of the business model and in the management team's approach to sustainability challenges.

We may well be at the point of maximum pessimism for sustainable investing, with company efforts to hire equitably being blamed for plane crashes and European defence firms benefitting from squabbles in the Oval Office. The pessimism hanging over the green technology sector stands in contrast to the structural growth in these technologies as they become cost-competitive. We've had little exposure to these themes, preferring instead to hold less obvious sustainable growth companies like the New York Times (which has benefitted as onlookers search for reliable sources of news), but now we are actively exploring opportunities in this space. Why? Because we continue to believe the firms that create enduring value for society will be the growth firms of the future, and because we know growing firms deliver the best share price returns.

### Return to Earth

When interviewed aboard the ISS, Butch Wilmore told viewers he was looking forward to the smell of freshly cut grass and walks amongst nature when he was finally back on earth. As their capsule bobbed in the ocean waiting to be pulled ashore, a pod of curious dolphins came close by to inspect them, allowing Butch to get reacquainted with nature almost immediately and in spectacular fashion.

As equity markets splash back down to earth after a year or more in orbit, the first quarter of 2025 has been a difficult one for the portfolio, underperforming due to stock-specific factors. However, the silver lining is that this is an indicator of an improved risk management process, with thematic risks no longer dictating results. We are confident the portfolio's diversification and resilience will come to the fore, and that our enhancements to portfolio construction and risk management will be increasingly valuable in the choppy waters of the four years ahead.

## Performance Objective

+2 to 3% p.a. over rolling 5-year periods vs index.
The performance objective is aspirational and is not guaranteed. We don't use it to compile the portfolio and returns will vary. A single performance objective may not be appropriate across all vehicles and jurisdictions. We may not meet our investment objectives if, for example, our growth investment style is out of favour, or we misjudge the long-term earnings growth of our holdings.

## Periodic Performance

| GBP | Composite Gross (%) | Composite Net (%) | Benchmark (%) | Difference Net (%) | Difference Gross (%) |
|---|---|---|---|---|---|
| 3 Months | -8.7 | -8.8 | -4.2 | -4.7 | -4.5 |
| 1 Year | -2.6 | -3.1 | 5.3 | -8.5 | -7.9 |
| Since Inception | 8.0 | 7.4 | 13.7 | -6.3 | -5.7 |

| USD | Composite Gross (%) | Composite Net (%) | Benchmark (%) | Difference Net (%) | Difference Gross (%) |
|---|---|---|---|---|---|
| 3 Months | -5.9 | -6.0 | -1.2 | -4.8 | -4.7 |
| 1 Year | -0.5 | -1.0 | 7.6 | -8.7 | -8.1 |
| Since Inception | 11.4 | 10.8 | 17.3 | -6.5 | -5.9 |

| EUR | Composite Gross (%) | Composite Net (%) | Benchmark (%) | Difference Net (%) | Difference Gross (%) |
|---|---|---|---|---|---|
| 3 Months | -9.8 | -9.9 | -5.3 | -4.6 | -4.5 |
| 1 Year | -0.5 | -1.0 | 7.6 | -8.7 | -8.1 |
| Since Inception | 10.8 | 10.2 | 16.7 | -6.5 | -5.9 |

| CAD | Composite Gross (%) | Composite Net (%) | Benchmark (%) | Difference Net(%) | Difference Gross (%) |
|---|---|---|---|---|---|
| 3 Months | -5.8 | -6.0 | -1.1 | -4.8 | -4.7 |
| 1 Year | 5.8 | 5.3 | 14.5 | -9.2 | -8.6 |
| Since Inception | 14.4 | 13.8 | 20.5 | -6.7 | -6.1 |

| AUD | Composite Gross (%) | Composite Net (%) | Benchmark (%) | Difference Net (%) | Difference Gross (%) |
|---|---|---|---|---|---|
| 3 Months | -6.5 | -6.6 | -1.9 | -4.8 | -4.6 |
| 1 Year | 4.2 | 3.6 | 12.7 | -9.1 | -8.5 |
| Since Inception | 15.7 | 15.0 | 21.8 | -6.8 | -6.1 |

Annualised periods ended 31 March 2025. 3 Month & 1 Year figures are not annualised.
Inception date: 31 December 2015
Figures may not sum due to rounding.
Benchmark is MSCI ACWI Index.
Source: Revolution, MSCI.
The Sustainable Growth composite is more concentrated than the MSCI ACWI Index.

## Discrete Performance

| GBP | 31/03/20-31/03/21 | 31/03/21-31/03/22 | 31/03/22-31/03/23 | 31/03/23-31/03/24 | 31/03/24-31/03/25 |
|---|---|---|---|---|---|
| Composite Net (%) | N/A | N/A | N/A | 10.5 | -3.1 |
| Benchmark (%) | N/A | N/A | N/A | 21.2 | 5.3 |

| USD | 31/03/20-31/03/21 | 31/03/21-31/03/22 | 31/03/22-31/03/23 | 31/03/23-31/03/24 | 31/03/24-31/03/25 |
|---|---|---|---|---|---|
| Composite Net (%) | N/A | N/A | N/A | 12.9 | -1.0 |
| Benchmark (%) | N/A | N/A | N/A | 23.8 | 7.6 |

| EUR | 31/03/20-31/03/21 | 31/03/21-31/03/22 | 31/03/22-31/03/23 | 31/03/23-31/03/24 | 31/03/24-31/03/25 |
|---|---|---|---|---|---|
| Composite Net (%) | N/A | N/A | N/A | 13.6 | -1.0 |
| Benchmark (%) | N/A | N/A | N/A | 24.5 | 7.6 |

| CAD | 31/03/20-31/03/21 | 31/03/21-31/03/22 | 31/03/22-31/03/23 | 31/03/23-31/03/24 | 31/03/24-31/03/25 |
|---|---|---|---|---|---|
| Composite Net (%) | N/A | N/A | N/A | 12.9 | 5.3 |
| Benchmark (%) | N/A | N/A | N/A | 23.8 | 14.5 |

| AUD | 31/03/20-31/03/21 | 31/03/21-31/03/22 | 31/03/22-31/03/23 | 31/03/23-31/03/24 | 31/03/24-31/03/25 |
|---|---|---|---|---|---|
| Composite Net (%) | N/A | N/A | N/A | 15.9 | 3.6 |
| Benchmark (%) | N/A | N/A | N/A | 27.1 | 12.7 |

Benchmark is MSCI ACWI Index.
Source: Revolution, MSCI.
The Sustainable Growth composite is more concentrated than the MSCI ACWI Index.

## Stock Level Attribution

### Top and Bottom Ten Contributors to Relative Performance

### Quarter to 31 March 2025

| Stock Name | Contribution (%) |
|---|---|
| NVIDIA | 0.8 |
| Prudential | 0.6 |
| Tesla Inc | 0.5 |
| MercadoLibre | 0.5 |
| Apple | 0.5 |
| Spotify | 0.5 |
| Amazon.com | 0.4 |
| Broadcom | 0.4 |
| Marsh & McLennan | 0.3 |
| bioMerieux | 0.2 |
| Illumina | -1.5 |
| The Trade Desk | -1.2 |
| Recruit Holdings | -0.9 |
| Alphabet | -0.6 |
| TSMC | -0.5 |
| Warby Parker | -0.4 |
| Moderna | -0.2 |
| Shopify | -0.2 |
| Cognex | -0.2 |
| DSV | -0.2 |

### One Year to 31 March 2025

| Stock Name | Contribution (%) |
|---|---|
| Spotify | 1.6 |
| MercadoLibre | 0.7 |
| Recruit Holdings | 0.3 |
| Wabtec | 0.3 |
| Novo Nordisk | 0.3 |
| Amazon.com | 0.3 |
| Shopify | 0.3 |
| Warby Parker | 0.2 |
| Meituan | 0.2 |
| Watsco | 0.2 |
| Illumina | -1.8 |
| Advanced Drainage Systems | -0.9 |
| The Trade Desk | -0.8 |
| Apple | -0.7 |
| Spirax Group | -0.7 |
| Sartorius Stedim Biotech | -0.7 |
| Moderna | -0.6 |
| L'Oreal | -0.6 |
| Cognex | -0.6 |
| MSA Safety | -0.5 |

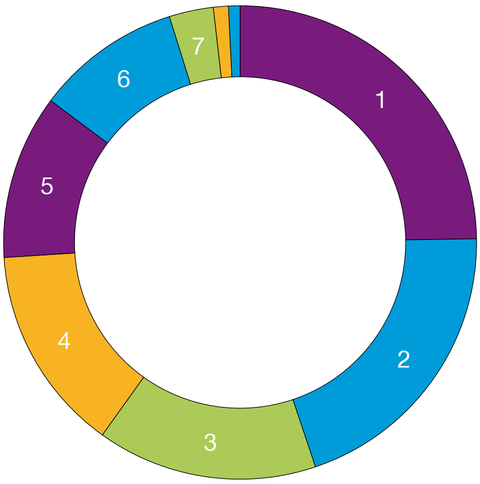
Source: Revolution, MSCI. Sustainable Growth composite relative to MSCI ACWI Index.
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions to the portfolio's performance and a description on how the attribution is calculated is available on request. Some stocks may not have been held for the whole period. All attribution figures are calculated gross of fees, relative to the index from stock level up, based on closing prices. As attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio.

## Top Ten Largest Holdings

| Stock Name | Description of Business | % of Portfolio |
|---|---|---|
| Microsoft | Technology company offering software, hardware and cloud services | 4.5 |
| Alphabet | Search platform, software, cloud services and more | 4.0 |
| TSMC | Semiconductor manufacturer | 3.7 |
| MercadoLibre | Latin American e-commerce and fintech platform | 3.4 |
| Mastercard | Global electronic payments network and related services | 3.2 |
| DSV | Freight forwarder | 3.0 |
| UnitedHealth Group | Health care company | 2.9 |
| Texas Instruments | Analog semiconductors | 2.7 |
| Recruit Holdings | Property, lifestyle and HR media | 2.6 |
| Edwards Lifesciences | Services to treat late-stage cardiovascular disease | 2.5 |
| Total | | 32.5 |

Figures may not sum due to rounding.

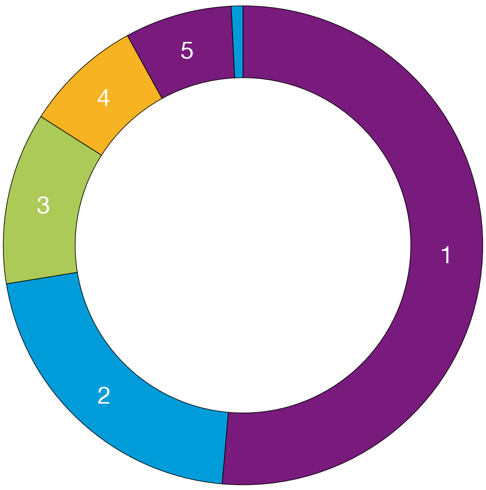
## Sector Weights




| | | % |
|---|---|---|
| 1 | Industrials | 24.8 |
| 2 | Information Technology | 20.1 |
| 3 | Financials | 15.1 |
| 4 | Health Care | 14.1 |
| 5 | Communication Services | 11.2 |
| 6 | Consumer Discretionary | 9.9 |
| 7 | Consumer Staples | 3.0 |
| 8 | Real Estate | 1.0 |
| 9 | Cash | 0.8 |

Figures may not sum due to rounding.

## Regional Weights




| | | % |
|---|---|---|
| 1 | North America | 51.4 |
| 2 | Europe (ex UK) | 21.0 |
| 3 | Emerging Markets | 11.6 |
| 4 | UK | 8.0 |
| 5 | Developed Asia Pacific | 7.2 |
| 6 | Cash | 0.8 |

## Voting Activity

| Votes Cast in Favour | |
|---|---|
| Companies | 5 |
| Resolutions | 71 |

| Votes Cast Against | |
|---|---|
| Companies | 2 |
| Resolutions | 12 |

| Votes Abstained/Withheld | |
|---|---|
| Companies | 1 |
| Resolutions | 1 |

## Company Engagement

| Engagement Type | Company |
|---|---|
| Environmental | Beijer Ref AB (publ), Cognex Corporation, DSV A/S, Nintendo Co., Ltd., Prudential plc, Westinghouse Air Brake Technologies Corporation |
| Social | DSV A/S, Nintendo Co., Ltd., Prudential plc |
| Governance | Cognex Corporation, DSV A/S, Eurofins Scientific SE, Intuit Inc., MarketAxess Holdings Inc., Nintendo Co., Ltd., Prudential plc, Sartorius Stedim Biotech S.A., The Trade Desk, Inc. |
| Strategy | Beijer Ref AB (publ), Epiroc AB (publ), Prudential plc, The Trade Desk, Inc. |

| Company | Engagement Report |
| --- | --- |
| Prudential | Objective: We have met with Prudential several times over the past three months; including two meetings with Diane Guzman, the chief sustainability officer, and the environmental, social and governance (ESG) team, as well as our annual meeting with chair Baroness Vadera. Chief executive (CEO) Anil Wadhwani has now completed his second year with the company, so these meetings gave us a chance to reflect on how the company's strategy is developing, particularly from an ESG perspective.<br><br>Discussion: Share price performance has been a continued disappointment for Prudential and this is frustrating for the team. With the low share price comes the temptation to conduct share buybacks, but chair Vadera noted the importance of maintaining franchise value through continued investment, rather than purely tracking the share price, a sentiment we fully agree with. Historic pressures to pay dividends have resulted in underinvestment in various regions. However, Wadhwani is starting to address this, notably in Indonesia and China, where he has emphasised the important presence on the ground beyond the CITIC team (Prudential's equal joint venture partner in China).<br><br>Another change under Wadhwani has been the recruitment of Guzman as head of sustainability. She has led various environmental initiatives looking at the 'Just Transition' and how climate impact should be considered in investments held in Asian markets. She is also increasingly interested in the link between climate change and health outcomes. Consequently, Prudential is sponsoring academic research on this area to support commercial efforts in underwriting to link morbidity to climate-related diseases. Efforts in accessible insurance, which have been signalled in the company's 'Purpose Statement' are at a sandbox stage and Guzman is focused on proving their commercial viability. If such products do prove to be viable, they could increase the target market which Prudential could work with in many of its lower income geographies.<br><br>Outcomes: Share price performance may be disappointing, but we are pleased to see that the team are reinvesting in the company and increasing their regional focus. There are many initiatives underway in the ESG space, and it is important to recognise that a commercial focus underpins these - we think this gives them the best chance of success. We look forward to seeing how a continued focus on long-term opportunities plays out in the years to come. |
| The Trade Desk | Objective: We met with founder chief executive officer (CEO) Jeff Green and chief financial officer (CFO) Laura Shenkein to understand the reasons behind their lowered near-term growth outlook and to assess how long those issues may take to resolve.<br><br>Discussion: Green reminded us that the company has always undertaken a small salesforce reorganisation every year in the fourth quarter, but what was unusual this time was the scale, leading many customers to lose their familiar points of contact. Meanwhile, two of Green's direct reports on product and engineering lacked experience operating at such scale and complexity. These factors seemingly significantly slowed customer migration to the company's latest product Kokai, putting pressure on growth and margins. Despite the delay, Green informed us that around half of customer spending is already flowing through Kokai, which he expects to rise to 100 per cent by the end of the year, and customer feedback is positive.<br><br>Outcome: We gained greater conviction that the delayed customer migration to The Trade Desk's Kokai product is not because of severe shortcomings in the product itself (which could have longer-term implications for the company's competitiveness and growth), but instead because of short-term execution issues that arose during the company's annual restructuring. We are also encouraged that management has taken sensible remedial decisions to mitigate the risk of similar challenges in future, such as by strengthening its product and engineering teams. We will continue to monitor progress. |

| Company | Engagement Report |
|---|---|
| Wabtec | Objective: Wabtec is pivotal in decarbonising the emissions-intensive rail freight industry in the US. We engaged with the chief financial officer (CFO) post-annual results to discuss updated sales growth guidance and the impact of the new US administration on industry climate ambitions.<br><br>Discussion: Having enjoyed strong sales growth in recent years due to a post-pandemic cyclical recovery in the economy, the company anticipates lower growth over the next few years. This was attributed to a weakening economy affecting underlying freight demand and reduced regulatory pressure to adopt decarbonisation technologies from Wabtec.<br><br>The company continues to develop new digital services, such as remote locomotive operation, which could significantly cut customer costs by reducing operational headcount. Following extensive trials, regulatory approval is pending, but the new administration may expedite this process, potentially boosting sales growth.<br><br>Wabtec has also developed locomotive engines compatible with diesel, biofuels, or hydrogen, capable of reducing carbon emissions by up to 80 per cent compared to diesel-only engines. This flexibility helps customers avoid reliance on specific fuels. However, the new administration's stance may hinder the supply of these lower carbon fuels by reducing tax incentives and subsidies. A weakening regulatory backdrop combined with the lack of availability of these alternative fuels is expected to slow customer orders for lower emissions engines from Wabtec.<br><br>Outcome: The update underscores challenges Wabtec faces, including weaker economic growth and diminished urgency for rail freight decarbonisation. We will continue to discuss the regulatory approvals required for their new technologies and engage with Wabtec on sustainability initiatives to encourage industry adoption of their lower carbon technologies. |

## Votes Cast in Favour

| Companies | Voting Rationale |
| --- | --- |
| DSV, Kubota, Rakuten, Sartorius Stedim Biotech, Starbucks | We voted in favour of routine proposals at the aforementioned meeting(s). |

## Votes Cast Against

| Company | Meeting Details | Resolution(s) | Voting Rationale |
| --- | --- | --- | --- |
| Sartorius Stedim Biotech | MIX 25/03/25 | 19-24 | We opposed six resolutions requesting authority to issue equity because the potential dilution levels are not in the interests of shareholders. |
| Starbucks | Annual 12/03/25 | 3 | We opposed the reappointment of the external auditor due to concerns that the auditor's length of tenure could negatively impact their ability to act independently. We believe it is best practice for the auditor to be rotated regularly as this works to ensure independent oversight of the company's audit process and internal financial controls. |
| Starbucks | Annual 12/03/25 | 4 | We opposed the shareholder resolution requesting a report on discrimination in charitable contributions, as the company has policies in place to prevent contributions to organisations that could be seen as politically or religiously exclusionary and there is board-level oversight of risks related to contributions. |
| Starbucks | Annual 12/03/25 | 5 | We opposed the shareholder resolution requesting the board adopt a policy requiring an independent chair. We agree with the board that this policy could limit flexibility in appointing the best candidate and believe the company has sufficient safeguards in place to ensure independent and objective judgement. |
| Starbucks | Annual 12/03/25 | 6 | We opposed the shareholder resolution requesting a report on human rights risks related to labour organising as we are comfortable with the actions the company has taken in relation to this issue, noting the recent conclusion of its human rights impact and collective bargaining assessment. We do not believe that a separate, additional report would provide meaningful value to shareholders at this time. |
| Starbucks | Annual 12/03/25 | 7 | We opposed the shareholder resolution requesting a report on cage free egg commitment in China and Japan. We consider that the current level of disclosure is sufficient for shareholders to evaluate any risks associated with the Company's approach and do not believe this request would provide additional value to shareholders. |
| Starbucks | Annual 12/03/25 | 8 | We opposed the shareholder resolution requesting the Company publish an annual carbon emissions congruency report. We are comfortable with the company's current level of disclosure and do not believe this report would provide additional value to shareholders. |

## Votes Abstained

| Company | Meeting Details | Resolution(s) | Voting Rationale |
|---|---|---|---|
| Kubota | AGM<br>21/03/25 | 4 | We abstained on the resolution to create an equity compensation plan for outside directors because while encouraging outsiders to build ownership is positive for alignment with shareholders, we have concerns that the lock-up requirement could lead to directors being conflicted. |

## Votes Withheld

We did not withhold on any resolutions during the period.

## New Purchases

| Stock Name | Transaction Rationale |
|---|---|
| Cadence Design Systems | We have acquired Cadence Design Systems, a global leader in electronic design automation (EDA) software and system design solutions that form part of a competitive duopoly in this critical sector. Cadence's software enables semiconductor innovation, transforming conceptual chip designs into manufacturable solutions while improving accuracy and efficiency across sectors like automotive, industrial technology, and next-generation computing. The company benefits from structural growth in semiconductor expenditure, with its diversified customer base and essential role in advancing technologies such as autonomous vehicles and AI-driven systems. Cadence's strong position in verification tools and strategic partnerships with industry leaders reinforce its market leadership. |
| Intuit | We are buying a new holding in Intuit, an American multinational company specialising in financial and business software solutions. Intuit's products play a crucial role in empowering around 90 million individuals and 10 million small businesses to manage their finances more effectively. The company holds dominant positions in its core markets, including an impressive 80% market share in U.S. accounting software for small businesses. We believe Intuit is an exceptional business that the market is undervaluing, particularly regarding the duration of its growth and its ability to add substantial value for small businesses. This value creation fosters greater financial empowerment for a growing number of individuals and businesses, while the company's AI-driven innovations and expanding global reach further enhance its growth potential. |
| Sweetgreen | We have taken a new holding in Sweetgreen, a mission-driven restaurant brand pioneering accessible, healthy dining through seasonal plant-forward meals made from sustainably sourced ingredients. The company's focus on organic and regenerative sourcing, coupled with its earth-friendly ethos, positions it at the forefront of the fast-casual sector's shift toward nutritionally conscious consumption. We believe Sweetgreen's vertically integrated supply chain and operational strengths will support its expansion strategy. This investment aligns with consumer demand for transparent, convenient, healthy eating options and leverages Sweetgreen's established brand leadership in combining culinary quality with environmental responsibility, notably through its roadmap to carbon neutrality. |
| Synopsys | We took a new position in Synopsys, a global leader in electronic design automation (EDA) software and semiconductor intellectual property (IP), which is part of a competitive duopoly in this critical sector. The company's software streamlines chip design processes, improving accuracy, innovation and efficiency for semiconductor firms and systems companies expanding into in-house chip development. Its recent acquisition of Ansys strengthens its position as a leader in both EDA and system design, while its IP products, particularly those supporting advanced chip architectures, are growing rapidly. Synopsys benefits from industry trends as digitalisation accelerates across sectors, broadening its customer base. |

## Complete Sales

| Stock Name | Transaction Rationale |
|---|---|
| Amazon.com | We have decided to sell the holding in Amazon, which has been part of the portfolio since its inception and has delivered exceptional long-term returns. Amazon continues to be a dominant player in e-commerce and provides significant societal benefits through its cloud computing division. However, we increasingly believe that the company's attitudes and behaviours towards various stakeholder groups do not meet the standards we expect from a multinational of its size. Our concern is that these issues may become financially material over time. While we have made some progress in engaging with Amazon on specific topics, such as workplace health and safety, we have observed that the company's responses tend to be more reactive than proactive. After a substantial increase in its share price over the past two years, we seized the opportunity to sell our position and reallocate capital to companies where we maintain stronger conviction. |
| Exact Sciences | We made the decision to move on from Exact Sciences, a company best known for its Cologuard test, which screens for bowel cancer. While the company has long-term potential, recent challenges including weaker sales to GPs and disappointing pricing for its new test, have hurt performance. We have become less confident in short-term prospects as the company itself has warned that the first half of 2025 will be weak. We also believe the blood test results expected this summer could dramatically affect the share price either way. Though Cologuard still has room to grow with only 10% market coverage so far, we feel it's sensible to exit now given these uncertainties. |
| Kubota | We have decided to sell the position in Kubota, a Japanese manufacturer of agricultural machinery and construction equipment. Kubota is one of the largest agricultural machinery manufacturers globally, focusing on tractors and rice farming equipment. The company has been facing challenges recently, with disappointing underlying growth, declining revenues, and net income. Additionally, it faces cyclical challenges from fluctuating end markets including rice prices in Japan, economic cycles in America, and poor weather in Thailand. Despite its long-term potential in Asian markets and strategic expansion into India, our conviction has diminished due to disappointing underlying growth and the company's vulnerability to short-term market headwinds. |
| Staar Surgical | We have sold the position in Staar Surgical, a company that develops implantable lenses for vision correction. The company has been underperforming due to a much worse-than-expected outlook in China, alongside a rapidly declining US refractive market. While there are some positive signs from their "Highway 93" initiative, progress has been slow and we've seen concerning trends in market penetration. Our conviction has diminished as we question whether Staar can realistically reach significant portions of patients with lower prescriptions, potentially limiting its addressable market. Given these challenges and the small position size, we decided to exit this position to allocate capital to companies with clearer growth prospects. |
| Watsco | We have decided to exit our position in Watsco. As the largest distributor of air conditioning systems in the United States, Watsco plays a pivotal role in educating a highly fragmented base of installers and contractors about the benefits of more energy-efficient units. While its alignment with our strategy is strong -given that buildings account for 40% of global emissions- our enthusiasm has waned over the past year due to valuation concerns relative to the likely level of growth. Furthermore, recent capital allocation decisions have undermined confidence in the company's long-term prospects. Consequently, we have chosen to reinvest in opportunities where the investment case aligns more closely with our expectations. |

| | |
|---|---|
| MSCI | Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. |