BAILLIE GIFFORD

Asia ex Japan Quarterly Update

30 September 2021

Contents

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Past Performance

Past performance is not a guide to future returns. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

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. A full list of portfolio holdings is available on request.

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Product Overview

Asia ex Japan is a long-term, regional equity strategy adding value through active management by identifying and exploiting inefficiencies in growth companies predominantly listed on the MSCI Asia ex Japan index, or on other exchanges if the company derives most of its revenues from, or have most of their assets in, non-developed markets.

Risk Analysis

Key Statistics	
Number of Holdings	94
Typical number of holdings	50-100
Active Share	81%*
Rolling One Year Turnover	15%

*Relative to MSCI AC Asia ex Japan Index. Source: Baillie Gifford & Co, MSCI.

The Asia ex Japan index fell over the quarter with China notably weak on regulatory concerns

The strategy performed ahead of the benchmark, however we would encourage a focus on longer term returns

The overall shape of the portfolio is largely unchanged, reflecting a balance between cyclical and secular growth

Baillie Gifford Key Facts

Assets under management and advice	US$466.8bn
Number of clients	870
Number of employees	1576
Number of investment professionals	319

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"The trouble with referees is that they know the rules, but they do not know the game."
BILL SHANKLY

Sadly, the Emerging Markets team at Baillie Gifford (in which the Asia ex Japan portfolio is managed) does not have a hotline into China's Politburo. Indeed, we would be highly sceptical of anyone claiming to know the next twists and turns of Chinese policy making. However, what is now clear, is that 2017's *Xi Jinping Thought on Socialism with Chinese Characteristics for the New Era* is far from empty rhetoric. In recent months we have seen a variety of new regulations coming from China in a number of areas. In many instances, this is likely just the government being more proactive in dealing with a global challenge in regulating the highly innovative digital sector, which we expect is consistent with what we might expect from a country shifting its focus towards common prosperity and sustainable growth. Understandably, this has alarmed markets and investors, but the increase in Chinese regulation is not monolithic, so perhaps it is helpful to break it down into four component parts.

Geopolitics

China is eager that its new, innovative companies either 'come back home' or list domestically. Partially this is in response to the hard line the American Securities and Exchange Commission (SEC) is imposing with the implementation of the Holding Foreign Companies Accountable Act, which is aimed at removing Chinese companies from US exchanges if they fail to comply with American auditing oversight requirements for three years in a row. It is also linked to Chinese concerns about the data security of Chinese companies with US listings; just as President Trump was concerned about TikTok gathering data on US consumers, so China is worried that Chinese companies with US listings will share data on Chinese consumers.

Chinese politics

Over much of the last decade, the Chinese internet giants have been granted a degree of 'laissez faire' by the government as they were viewed as beneficial to China's development. This has produced a generation of high-profile entrepreneurs, entertainers, and key opinion leaders who can be engaging for followers, but also sometimes require content moderation. More recently, there have been examples of some companies, notably Ant Group and DiDi (not held in the portfolio), which appear to have been insensitive to the requests of Chinese regulators. This has led to an inflection point with the Chinese state starting to push back against the actions of some private companies. On a personal level, it is possible that President Xi also wishes to reassert his authority as he heads towards an unprecedented third term.

Monopolies

As well as a desire to reassert supremacy over the big internet companies (underweight positions in the portfolio), the Chinese government wants to establish a level playing field for consumers, merchants, and employees. Accordingly, merchants are no longer tied to one platform, platforms are limited from predatory discounting, consumer data is to be properly protected and gig-economy employees (think riders and drivers) are to gain more workers rights. The aim is to establish an environment where small innovative companies are not crushed, competition can thrive and where the big platforms protect their users and their data. Thus far, this appears measured and sensible regulation which should ensure a long and stable runway of growth for online businesses, provided they comply.

Demographics

It appears as though the Chinese government was shocked by the recent census that showed the country was ageing faster than expected. The three largest costs to Chinese families are housing, education, and healthcare. These three sectors may be in the firing-line to help lower costs of raising a family and to drive up birth rates. In particular, recent educational reforms feel a bit different; in the past we have seen wayward companies taken down by the Chinese government, but rarely a whole sector (though Macao suffered a similar fate in 2016 and is again under the microscope). Within the Asia ex Japan portfolio, we have had very limited exposure to real estate and education in China, while our focus in the healthcare sector has been on innovative companies which should be supported by government policy, rather than generic manufacturers and service providers who may be subject to price controls.

It may seem to some that China's regulatory changes are sudden. However, the reality is that a consensus has probably been quietly building within the CCP and the government over the implementation of *Xi Jinping Thought on Socialism with Chinese Characteristics for the New Era* for some years. Remember, when asked about the influence of the French Revolution, the late premier Zhou Enlai is reputed to have said: "Too early to say." In the west there is often prolonged public lobbying and horse-trading before new regulations come into force. While this means that there is less visibility and public consultation in China, it does not follow that reforms are arbitrary.

The Chinese government's main domestic priorities are sustainable growth and stability. Growth requires better demographics and innovation, which underlies a number of the regulatory changes above. Stability (from a Chinese perspective) requires a domestically preeminent one-party state, free from internal or external interference, which underlies much of the rest. The private sector companies have enjoyed a long period of growth and will continue to underpin the Chinese economy, but from time to time it appears they will be reminded who's the boss. Assessing the impact of tighter regulation on the long-term growth prospects of internet companies will take time and needs to be done on a case-by-case basis, not as a kneejerk reaction to short-term market moves.

In the past, the team has successfully invested in China (and the other markets) on our clients' behalf by staying on the right side of government policy. Clearly, in the last few months government policy has shifted in a number of areas. As with any change, some companies will see their prospects dimmed (perhaps temporarily), but there will also be new opportunities that emerge. The Chinese government's desire to promote 'common prosperity' and greater self-sufficiency will no doubt support innovative new companies in exciting areas such as semiconductors, advanced materials, and alternative energy. Despite the changes, China remains a great opportunity set for thoughtful, long-term investors.

Performance

The MSCI Asia ex Japan Index fell over the quarter, though the portfolio ended the period ahead of the benchmark. The performance of individual markets was mixed; with Chinese market performance and Indian market performance showing particularly wide divergence. As ever, we would urge you not to draw short-term conclusions here and as we have seen throughout the year, there has been plenty of short-term volatility, some of which may be a precursor to more long-term changes (as noted above), but a lot of which should be ignored.

What gives us confidence in the long term is the operational performance of many companies in the portfolio; our experience tells us that, in time, this will be recognised by the market. This has indeed been the case for Sea Limited, for example, which was one of the top performers during the quarter, once again.

Elsewhere, the below benchmark positions in Tencent and Alibaba were also helpful for performance, as was the significant position in the materials sector, with companies like Vedanta and MMG being positive performance contributors. MMG controls the Las Bambas copper mine in Peru, an extremely good copper asset. The company is part of Minmetals (Chinese business). There have been historic errors in the running of the MMG, most importantly in the taking on of too much debt to acquire Las Bambas. These debts (around $7bn with $500m of interest costs) have shackled the company which, combined with disruptions to the major road used to transport the copper from Las Bambas to the coast, have made life difficult in recent years. In recovery mode, MMG now provides investors with a quality asset, with very substantial leverage to the copper price.

Indian conglomerate Reliance Industries was also a strong performer and produced encouraging results in the last quarter with profit before tax up 34 per cent YoY. Reliance has established a world-class refining and petrochemicals business. From this cornerstone, the company has built a nationwide 4G network that now carries more data than any other network in the world. Growth continues, with 14.3 million new users in the last quarter taking the total number of subscribers to 440.6 million. In addition, average data consumption per user per month continues to grow and is up to 15.6GB as the company continues to leverage its partnerships with Google and Microsoft. Reliance's third leg is retail which has been severely impacted by Covid-19 with footfalls across its retail portfolio at 46 per cent of its pre-Covid levels. As the virus abates in India, we would expect to see a recovery across all formats. Reliance's move into renewable energy could provide another leg of growth in the future.

Less positively, many of the Chinese healthcare companies in the portfolio were among the performance detractors over the period. These included Guangzhou Kingmed, Burning Rock Biotech and Zai Lab. As discussed above, healthcare is an area that looks likely to be impacted by future regulation, though we believe it is important to distinguish those companies that look closest to the firing line (eg generics drug sellers) and those that are innovating to provide solutions to significant problems that, if successful, will be positive contributors to the wider common prosperity goal. To take Zai Lab as one example, this is an oncology drug development business where, despite recent volatility, we see their core purpose to be very positive and see three key competitive advantages that remain: 1) the company has very strong partnerships with leading overseas healthcare companies such as Novocure and Argenx allowing them good technology and talent access; 2) they have very high levels of expertise, evidenced by the fact that they are one of very few biotechs in China to do all clinical work inhouse; 3) Commercial execution – their management team are well known to us and have a proven track record. We have been very impressed by the founder, Samantha Du, who has built a very strong team around her.

Elsewhere, we would note that leading Chinese insurer, Ping An, has been weak for much of the year and we are thinking about the long-term prospects for the company. The company has faced a series of issues with the ongoing restructuring of its agency sales force, the acquisition of troubled Founder Group and the launch of a basic city government backed basic medical insurance plan, 'HuiMinbao'. Finally, concerns have risen on its real estate exposure following the headlines concerning China Evergrande. While these relatively short-term concerns have dampened the share price, in the longer term it remains the case that China's insurance penetration (insurance premiums as a percentage of GDP) was 4.5 per cent in 2020, compared to Japan at 8.1 per cent, South Korea at 11.6 per cent and Taiwan at 17.4 per cent. This year's Chinese census pointed to an ageing population, suggesting a long runway of growth for the Insurance industry and strong prospects for Ping An, one of the leaders in the sector.

Finally, KE holdings was another detractor from performance, though our discussions during the quarter centred on whether it may be a good opportunity to add to the position. As a reminder this is an online property company, backed by Tencent, which provides a range of services connecting buyers, sellers, and other players in the property transaction. We have been debating whether the financial weakness in the property sector will impact the long-term pricing and/or volumes the company might be able to command, or whether there has been an overreaction to short-term news and the inherent advantages – and reasons we bought the company in the first place – are in fact unchanged.

With markets appearing to be concerned about the Federal Reserve tapering, Covid-19, regulation, and real estate, it is not really surprising that company fundamentals have often been overlooked in the short term. We cannot control any of the above, but we can make sure that the companies in the portfolio are performing operationally as we expect. To a great extent, this is happening, with most companies hitting their straps through a series of results seasons. As long as this continues to be the case, we continue to be optimistic about the longer-term outlook for the portfolio.

Performance Objective

To outperform the MSCI AC Asia ex Japan Index.

The performance objective stated is in no way guaranteed. The performance target is aspirational and is not used for the purpose of determining or constraining the composition of the portfolio. Performance may vary between segregated accounts and pooled funds in different jurisdictions as each structure will bear a different set of costs. A single performance target may not be appropriate for all vehicles in all jurisdictions and for this reason our portfolio specific materials will often refer to 'material' outperformance of a benchmark.

Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	-5.5	-9.2	3.7
YTD*	7.2	-3.3	10.5
1 Year*	33.4	14.7	18.7
3 Years	26.4	9.5	16.9
5 Years	22.2	10.4	11.8
10 Years	15.6	8.8	6.8
15 Years	11.6	7.6	4.0
20 Years	14.9	11.3	3.6
Since Inception	10.6	7.3	3.3

Annualised periods ended 30 September 2021. *Not annualised.
Inception date: 31 December 1989.
Figures may not sum due to rounding.
Benchmark is MSCI AC Asia ex Japan Index (MSCI AC Far East ex Japan prior to 31 January 2011).
Source: StatPro, MSCI.
US dollars

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/18-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	30.0	3.9	1.0	50.0	33.4
Benchmark (%)	23.0	1.7	-3.2	18.2	14.7

Benchmark is MSCI AC Asia ex Japan Index (MSCI AC Far East ex Japan prior to 31 January 2011).
Source: StatPro, MSCI.
US dollars

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	-3.3	-7.1	3.8
YTD*	13.2	2.1	11.1
1 Year*	35.0	16.1	18.9
3 Years	26.5	9.6	16.9
5 Years	21.5	9.8	11.7
10 Years	17.3	10.4	6.9
15 Years	12.3	8.3	4.0
20 Years	13.5	10.0	3.6
Since Inception	10.5	7.3	3.2

Annualised periods ended 30 September 2021. *Not annualised.
Inception date: 31 December 1989.
Figures may not sum due to rounding.
Benchmark is MSCI AC Asia ex Japan Index(MSCI AC Far East ex Japan prior to 31 January 2011).
Source: StatPro, MSCI.
euro

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/18-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	23.6	5.8	7.6	39.5	35.0
Benchmark (%)	16.9	3.5	3.2	9.8	16.1

Benchmark is MSCI AC Asia ex Japan Index (MSCI AC Far East ex Japan prior to 31 January 2011).
Source: StatPro, MSCI.
euro

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	-3.2	-7.0	3.8
YTD*	8.7	-2.0	10.6
1 Year*	27.9	10.0	17.9
3 Years	25.0	8.3	16.7
5 Years	21.3	9.6	11.7
10 Years	17.3	10.4	6.9
15 Years	14.1	10.0	4.1
20 Years	15.4	11.8	3.6
Since Inception	11.2	7.9	3.3

Annualised periods ended 30 September 2021. *Not annualised.
Inception date: 31 December 1989.
Figures may not sum due to rounding.
Benchmark is MSCI AC Asia ex Japan Index. (MSCI AC Far East ex Japan prior to 31 January 2011).
Source: StatPro, MSCI.
sterling

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/18-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	25.9	6.9	6.9	43.0	27.9
Benchmark (%)	19.1	4.7	2.5	12.6	10.0

Benchmark is MSCI AC Asia ex Japan Index (MSCI AC Far East ex Japan prior to 31 January 2011).
Source: StatPro, MSCI.
sterling

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	-3.3	-7.1	3.8
YTD*	6.6	-3.9	10.4
1 Year*	26.5	8.8	17.7
3 Years	25.6	8.8	16.8
5 Years	21.3	9.6	11.7
10 Years	17.9	10.9	6.9
15 Years	12.6	8.6	4.0
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Since Inception	10.9	7.6	3.3

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Source: StatPro, MSCI.
Canadian dollars

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/18-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	23.7	7.4	3.5	51.3	26.5
Benchmark (%)	17.1	5.2	-0.8	19.2	8.8

Benchmark is MSCI AC Asia ex Japan Index (MSCI AC Far East ex Japan prior to 31 January 2011).
Source: StatPro, MSCI.
Canadian dollars

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	-1.8	-5.7	3.9
YTD*	14.5	3.3	11.2
1 Year*	32.4	13.8	18.5
3 Years	26.5	9.5	16.9
5 Years	23.7	11.7	11.9
10 Years	19.1	12.1	7.0
15 Years	11.9	7.9	4.0
20 Years	12.7	9.2	3.6
Since Inception	10.9	7.6	3.3

Annualised periods ended 30 September 2021. *Not annualised.
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Source: StatPro, MSCI.
Australian dollars

Discrete Performance

	30/09/16-30/09/17	30/09/17-30/09/18	30/09/18-30/09/19	30/09/19-30/09/20	30/09/20-30/09/21
Composite Net (%)	26.8	12.7	8.4	41.2	32.4
Benchmark (%)	20.0	10.3	3.9	11.2	13.8

Benchmark is MSCI AC Asia ex Japan Index (MSCI AC Far East ex Japan prior to 31 January 2011).
Source: StatPro, MSCI.
Australian dollars

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2021

Stock Name	Contribution (%)
SEA	2.1
Alibaba	1.2
Bioneer	0.8
Tencent	0.5
DLF Ltd	0.5
Reliance Industries	0.5
Indian Energy Exchange	0.4
Vedanta	0.4
Zomato	0.4
Hoa Phat Group	0.3
Zai Lab	-0.5
Iclick Interactive Asia G	-0.4
Dada Nexus	-0.3
Lufax Holding	-0.3
Kuaishou Technology	-0.3
TSMC	-0.3
Guangzhou Kingmed	-0.3
Hyundai Mipo Dockyard	-0.2
Burning Rock Biotech	-0.2
Koh Young Technology	-0.2

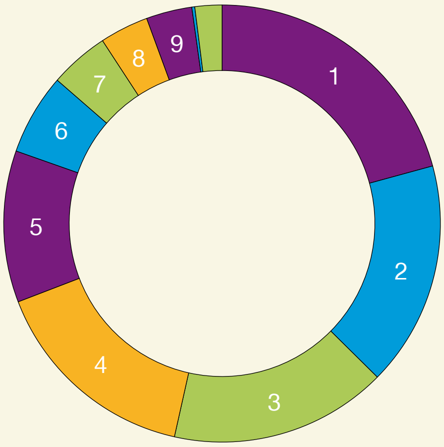
One Year to 30 September 2021

Stock Name	Contribution (%)
SEA	4.7
Alibaba	2.7
Tata Motors	1.4
Hoa Phat Group	1.2
Li Ning	1.1
Tencent	0.9
Samsung SDI	0.9
Vietnam Enterprise	0.8
Kaspi Bank	0.8
Vedanta	0.7
Dada Nexus	-0.9
Lufax	-0.8
TSMC	-0.7
Samsung	-0.6
JD.com	-0.6
iQIYI Inc	-0.5
HUYA	-0.5
Ping An Insurance	-0.4
Infosys	-0.4
Kingsoft Cloud	-0.4

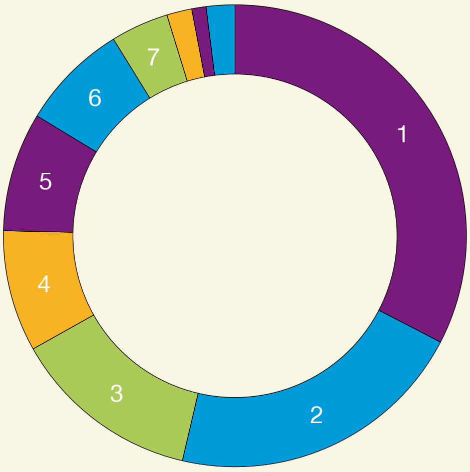
Source: StatPro, MSCI. Asia ex Japan composite relative to the MSCI AC Asia ex Japan Index.
Some stocks may have only been held for part of the period.

Top Ten Largest Holdings

Stock Name	Description of Business	% of Portfolio
SEA Limited	Online content, e-commerce and payments	7.1
TSMC	Semiconductor manufacturer	4.1
JD.com	Largest online direct sales company in China	2.9
Samsung SDI	South Korean electronics company	2.8
Reliance Industries	Indian petrochemical company.	2.8
Tata Motors	Producer of automobiles and parts	2.6
Samsung Electronics	Producer of consumer and industrial electronic equipment	2.6
MMG Limited	Chinese mining company	2.4
Hoa Phat Group	Vietnamese manufacturing company	2.3
Vedanta	Indian miner	2.2
Total		31.6



Sector Weights		(%)
1	Information Technology	20.8
2	Financials	16.6
3	Consumer Discretionary	16.1
4	Materials	15.7
5	Communication Services	11.2
6	Industrials	6.0
7	Energy	4.4
8	Real Estate	3.6
9	Health Care	3.4
10	Consumer Staples	0.2
11	Cash	2.0



Geographical Location Weights		(%)
1	China	32.6
2	India	21.0
3	South Korea	13.2
4	Taiwan	8.5
5	Vietnam	8.3
6	Singapore	7.5
7	Indonesia	4.0
8	Hong Kong	1.8
9	Kazakhstan	1.0
10	Cash	2.0

Totals may not sum due to rounding.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	31	Companies	7	Companies	3
Resolutions	219	Resolutions	14	Resolutions	3

Solving climate change will require both international agreements among nations, and the innovation and entrepreneurship of businesses

As responsible stewards of long-term capital, it is increasingly important we understand the risks and opportunities of climate change on our clients' behalf

We try to ensure that our engagement with companies on climate-related issues is based on material risks and opportunities, but is also supportive through significant periods of change

Company Engagement

Engagement Type	Company
Corporate Governance	Brilliance China Automotive Holdings Limited, Taiwan Semiconductor Manufacturing Company Limited
Environmental/Social	LONGi Green Energy Technology Co., Ltd.
AGM or EGM Proposals	DLF Limited, Hoa Phat Group Joint Stock Company, IDFC First Bank Limited, Midea Group Co., Ltd., The Phoenix Mills Limited, Vedanta Limited

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

Navigating the challenge of climate change

The job of editing a document with many different authors can be a thankless task. As anyone who's ever found themselves lost in a sea of tracked changes and comments will know, reaching agreement on the final version usually requires both compromise and tenacity. So we should spare a thought for the 721 authors from 90 countries asked by the Intergovernmental Panel on Climate Change (IPCC) to finalise its Sixth Assessment Report. For them, 9 August was a very big day indeed. The full 3,949 pages of Working Group I's (WGI) contribution was published for the world to see, representing the most significant update to global understanding of the physical science of climate change. It has taken a full eight years to complete.

We're no strangers to long-term, diligent research and analysis ourselves. We certainly try to avoid reaching hasty conclusions based on limited inputs or unreliable data. So the fact that this report – itself based on thousands of separate scientific studies – should use such clear and unambiguous language in its descriptions of the changes we are now causing to our planet should give everyone reason for concern. The IPCC is certainly not prone to kneejerk reactions. These are careful and considered conclusions and they tell us that human-induced climate change is unequivocal and getting worse.

Barely a month earlier, the small village of Lytton in southern British Columbia, home to roughly 250 people, measured the highest temperature ever recorded in Canada. Temperature records are normally broken by fractions of a degree but this time it was smashed by 4.6°C, reaching nearly 50°C. The next day, 90 per cent of the village's homes and businesses were destroyed by fire. Stories like this are being repeated around the world on an increasingly frequent basis, providing a very human reality to the thousands of pages of IPCC research and analysis.

Climate change is, of course, a global problem but the 'lived experience' of it happens locally. It is both a glaringly urgent emergency and something that requires action over decades. It requires international agreements among nations to address, yet it also needs innovation and entrepreneurship from businesses to solve. And even understanding the science of it, as we have seen, needs the diligent work of thousands of researchers. It is complex and at times confounding, to say the least.

Our responsibility as stewards of long-term capital is, we think, twofold. First, we need to understand how climate change can affect returns for our clients. For now, the focus of much of the regulatory intervention we are seeing in this area is on risk, including the recent announcements by the UK's Department for Work and

Pensions (DWP) and Financial Conduct Authority. The Taskforce for Climate-related Financial Disclosures (TCFD) – which forms the bedrock of this sort of regulation – has been hugely influential here and has changed the game on corporate climate risk disclosure.

The TCFD's emphasis was, and continues to be, primarily on driving better disclosure of potential financial costs of climate change and the transition. Financial costs don't, of course, tend to include the human cost of lives uprooted or even sadly lost. Even so, the bill for rebuilding the little village of Lytton, B.C., currently stands at CAD$78m and rising. Costs like this multiplied across the globe quickly become systemic. This is something that even the world's best financial data modellers currently find difficult to comprehend, let alone calculate.

Conventional economic modelling can struggle to incorporate the type of unprecedented impacts that climate change might bring – like large-scale crop failure, global sea level rise and collapse of ecosystems. Conversely, losses to fossil fuel-based business models in a decarbonising world are much easier to calculate. And so as we begin incorporating climate scenario analysis into our own portfolio analysis, we are mindful that some model outputs have a tendency to show the financial downsides of the transition apparently exceeding the financial downsides of severe climate change. This instinctively feels wrong, and it probably is.

But even more importantly for the type of long-term, future-focused investment strategies we run at Baillie Gifford, there is a danger that the opportunities presented by the shift to net-zero emissions may also be underestimated. Our responsibility to our clients is to find these opportunities. Some of our investments into companies like Northvolt and CATL (battery manufacturers), Beyond Meat (plant-based protein), Vestas and Ørsted (renewable power) and, of course, Tesla and Nio (electric mobility) are in clear pursuit of this. Ultimately, we think risk as a theory of change has its limitations and will not drive the scale of capital the world needs into climate solutions fast enough. The financial industry must do far more than simply insulate itself from risk: it must seek to achieve better outcomes for the climate, and by extension all of us.

Which brings us to our other core responsibility, which is to be supportive and constructive long-term owners of companies as they navigate the transition towards net zero. All companies will need to get there eventually; for some it presents a near-term liability or opportunity, or both, while for others it is less material to their core business, though still a feature of the regulatory space and customer environment they operate in. We try to ensure that our engagement with companies on climate-related issues is based on material risks and opportunities but is also supportive through significant periods of change.

For companies to drive this transition effectively, the role of governments in helping to set the goalposts and rules of the game is vital. The Paris Agreement of 2015 was a huge step forward in this respect, but as we look to COP26 in Glasgow in November we are hopeful that we will see more detail emerge on the regulatory and fiscal frameworks that are required. Put simply, the sheer speed of change now required to have much hope of staying within the 1.5°–2°C limits agreed in Paris means significant policy intervention is now needed in many areas like heating, power, transport and agriculture.

Our view is that this intervention should be aimed at ensuring rapid adoption of solutions that can make a transformational difference now, on top of whatever economy-wide changes need to be made in the longer term. Clean technologies need to reach cost parity with fossil fuels as quickly as possible, meaning that targeted sector-specific policies and innovation are vital. Norway provides a good example, where pure electric vehicles now make up over two-thirds of new car sales, thanks to incentives that made them attractive to buyers and ensured the required infrastructure was built out too. Countries where adoption is left purely to market forces may eventually get to the same place, but it will take a lot longer – too long for the kinds of emissions reductions we need to see to be on track for the Paris Agreement.

Putting more detail on the speed of those emissions reductions will be keeping the 721 IPCC authors busy over the coming year as they prepare two further Working Group reports on the mitigation and impacts of climate change. They are then due to publish a synthesis report around this time next year. Meanwhile, it will become increasingly important for investors and companies alike to ensure they both understand the risks – and importantly the opportunities – of climate change to give us the best chance of avoiding lots more Lyttons in the future.

Company	Engagement Report
Brilliance China Automotive Holdings Limited	Brilliance is a Chinese automotive company. Earlier this year its shares were suspended from trading following some financial irregularities. As one of the company's largest shareholders, we tried on several occasions to engage with management and the board to learn more about the suspension and to offer our support. Unfortunately, we were disappointed by the company's unwillingness to reciprocate. Consequently, we decided to write to the board to outline our frustrations and to provide some clear feedback as to actions we think the company should take. These included a commitment to pay out the majority of cash received from the pending sale of BMW Brilliance Automotive to BMW as a special dividend, to provide the market with a clear timeline for the internal investigation and to make the findings public, to commit to resolve all issues in an expedient and open manner and to enact significantly enhanced controls and governance measures. The company's response was limited and did not provide the assurances that we sought. However, the independent inquiry has now been completed and we are awaiting its publication, along with the board's action plan to meet all Hong Kong listing requirements. We intend to re-engage with the company soon, to offer our support for the relisting of its shares.
LONGi Green Energy Technology Co., Ltd.	We engaged with LONGi to address specific aspects of its supply chain oversight process. The supply chain for LONGi is complex extends into higher-risk countries and regions where monitoring can be restricted. Our direct engagement with company management provided the answers we required on on-site inspection, auditing and ongoing monitoring and mitigation steps if breaches are discovered.

Votes Cast in Favour

Companies	Voting Rationale
AU Small Finance Bank, Alibaba, Alibaba Group Holding, Bank Rakyat Indonesia, Beijing Thunisoft 'A' - Stock Connect, DLF Ltd, Dhani Services, Geely Automobile Holdings, Guangzhou Kingmed 'A' - Stock Connect, HDBank, HDFC Corp, ICICI Lombard, IDFC First Bank Ltd, Indiabulls Real Estate, Indian Energy Exchange, Info Edge (India), Jindal Steel & Power Ltd, Kaspi.Kz JSC GDR, Midea Group 'A' - Stock Connect, PT Vale Indonesia, Phoenix Mills, Ping An Bank 'A' - Stock Connect, Shennan Circuit 'A' - Stock Connect, Tata Motors Ltd, Tata Motors Ltd ADR, Vedanta Ltd, Vedanta Ltd ADR, Vietnam Enterprise, Vietnam Prosperity Joint Stock Commercial Bank, Wuxi Lead Intelligent Equip. 'A' - Stock Connect, Zomato Ltd	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
DLF Ltd	AGM 31/08/21	7, 8	We opposed the election of two new non-independent directors due to concerns over their suitability and previous board experience.
HDBank	OTH 16/09/21	2	We opposed the capital raising from the employee stock ownership plan as the issue price is not yet set, and the lock-up period for awards is relatively short.
Hoa Phat Group	OTH 18/08/21	1	We opposed the transfer of shares to the chairman's son without a public offering because the company did not disclose the terms or the rationale for the placement.
IDFC First Bank Ltd	AGM 15/09/21	6	We opposed the election of a non-executive director because he is non-independent and sits on the Audit Committee, which we believe should be comprised entirely of independent directors.
Jindal Steel & Power Ltd	EGM 03/09/21	1, 2	We two resolutions regarding the opposed the divestment of a subsidiary as we do not believe that the transaction is in the best interests of shareholders.
Jindal Steel & Power Ltd	AGM 30/09/21	13	We opposed a one-off payment to former non-executive directors due to concerns over the quantum in light of the Company's recorded losses.
Vedanta Ltd	AGM 10/08/21	1, 2	We opposed the audited standalone and consolidated financial statements due to concerns over internal controls which were raised by the company's auditor.
Vedanta Ltd ADR	Annual 10/08/21	O1-O2	We opposed the audited standalone and consolidated financial statements due to concerns over internal controls which were raised by the company's auditor.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
Douzone Bizon Co Ltd	EGM 14/07/21	1	We abstained on the election of a new non-independent outside director because the Company did not disclose who the director would replace, and we have concerns with regards to board independence.
Indiabulls Real Estate	AGM 30/09/21	3	We abstained on the appointment of an executive director pending the outcome of an ongoing appeal process against a SEBI order that established that he failed to discharge his fiduciary responsibilities towards the group and its stakeholders.
Jindal Steel & Power Ltd	AGM 30/09/21	5	We abstained on the revision in the Chair's remuneration policy due to concerns over the quantum and structural concerns despite the Company's recorded losses. This approach recognises that this is the first time voting at the Company's AGM.

Votes Withheld

We did not withhold on any resolutions during the period.

New Purchases

Stock Name	Transaction Rationale
LONGi Green Energy Technology 'A' - Stock Connect	LONGi Green Energy is the world's leading producer of solar wafers and modules. Our investment hypothesis is based on the possibility that we are at an inflection point in both the adoption of solar power globally, and in Longi's competitive position relative to other producers. The former is a function of the massive fall in solar panel prices that has already occurred over the last decade, thanks to the solar industry's own version of Moore's Law (Swanson's Law), alongside progress in accompanying technology such as storage, and a starting point where solar still accounts for less than 2% of global energy consumption. The latter reflects the possibility that Longi's scale advantage is now becoming self-reinforcing as the company is able to invest in pricing, technology and processes to a much greater extent than the rest of the industry. There appears little in the valuation to reflect this very strong longer-term growth potential, so we have taken a holding for the portfolio.
Venustech 'A' - Local P Note (CLSA)	We added to the existing holding in Venustech by buying a P Note as purchasing the line available via Stock Connect is currently suspended due to foreign ownership limits.
Zomato Ltd	We have taken a new holding for the portfolio in Zomato, India's leading home delivery company backed by Alibaba's Ant Financial and UBER. We believe that India has a very attractive model for food delivery due to the low cost of delivery and rising middle class incomes. Zomato has the leading restaurant recommendation system in India, the largest paid membership programme for individuals to get discounts at restaurants and is a leader in many of the cities in India. We believe that home delivery will come out much stronger from the Covid experience.

Complete Sales

Stock Name	Transaction Rationale
HUYA ADR	We sold Huya for regulatory and competitive reasons. We had been hopeful that Huya and Douya ,the two leading game streaming companies in the country (and both effectively controlled by Tencent), would merge and create a dominant domestic champion. Given recent regulatory pressure in the country however, this merger is now extremely unlikely to pass. Furthermore, competition in the market is increasing with a number of social media and short form video companies entering the game streaming market.
iQIYI Inc ADR	We sold IQIYI due to continuing regulatory concerns, combined with disappointed operational and financial performance of the company over the pandemic where it failed to gain the additional user numbers one would have expected. Our fear is that this is due to increased competition from other forms of media, most notably short form video apps which are proving extremely popular in China.
Vingroup JSC	We sold our remaining holdings in Vingroup due to concerns over capital allocation and debt. In particular the company is investing huge sums in VinFast, its domestic automotive start up, where we are not convinced of success, and debt levels are becoming uncomfortable.

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