

Japanese Income Growth Quarterly Update

30 September 2021



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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

Japanese Income growth is a regional equity strategy which aims to invest in attractive growth investments whilst generating an above market yield. We believe the Japanese equity market offers active managers a broad selection of high quality companies capable of delivering attractive and sustainable earnings growth for shareholders. At the same time, improving attitudes towards corporate governance and strong corporate balance sheets should support dividend growth.

Risk Analysis

Key Statistics

Number of Holdings	58
Typical Number of Holdings	45-65
Active Share	80%*
Annual Turnover	3%

*Relative to TOPIX. Source: Baillie Gifford & Co, Tokyo Stock Exchange.

Japanese equities delivered a positive return during the quarter and outperformed most major markets as investors warmed to a change in leadership and an acceleration in vaccination rates

The portfolio lagged the market in a challenging environment for growth stocks. A number of high growth internet businesses featured prominently among the largest detractors whereas cyclical names continued to recover

With vaccination rates having now caught up with those in Europe and North America and with the latest wave of Covid seemingly now under control Japan enters the final quarter of 2021 on a strong footing



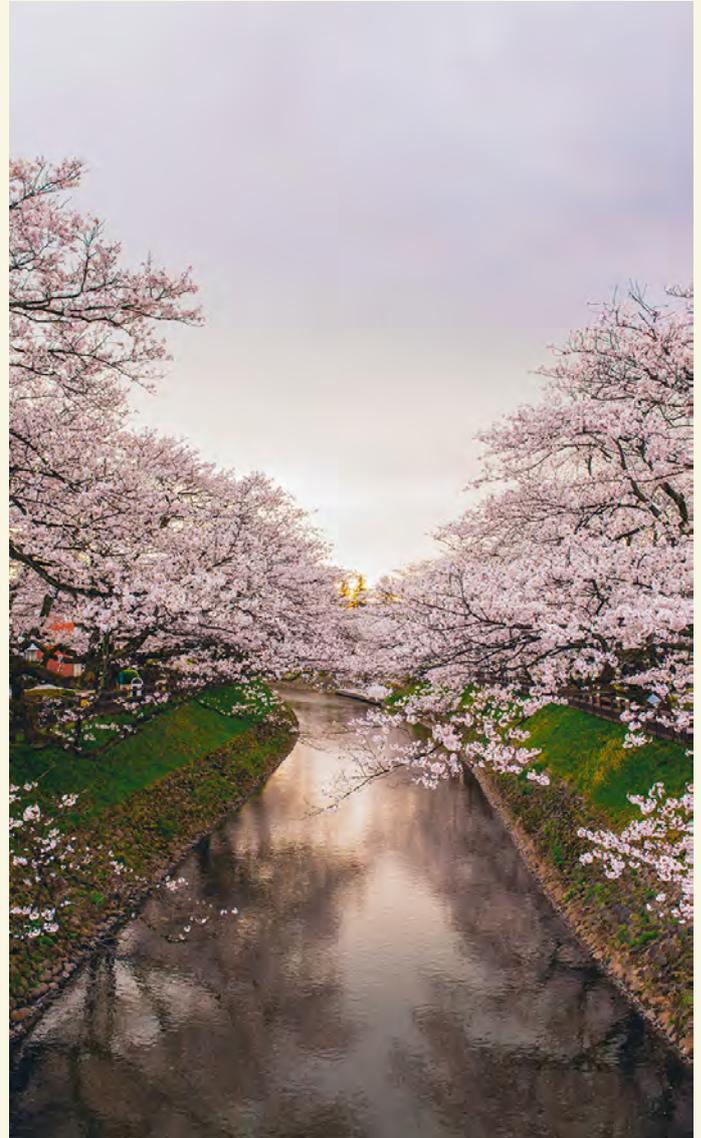
Baillie Gifford Key Facts

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

Japan’s annual cherry blossom creates a surreal spectacle. The fleeting nature of the sakura season in early spring symbolises the transience of life, of renewal and optimism; it also marks the start of a new school and university year in modern Japan; and has been celebrated for centuries with the cherished traditional custom of Hanami (‘flower-viewing’). The annual record keeping of this ritual offers scientists an unusually long data set – and provides another illuminating clue to the impacts of climate change. Like others, it paints a grim picture for our planet: although the average peak bloom stayed relatively stable for a thousand years, it has begun to change, flowering a day earlier every decade since 1953; this year those in Kyoto peaked at their earliest in more than 1,200 years.

Japan of course, bears some responsibility. Fossil fuels account for over 80 per cent of the country’s energy needs, resulting in over a billion tonnes of annual GHG emissions – circa 3 per cent of the global rate – making it the sixth largest contributor to anthropogenic emissions. This regrettable position is a product of the country’s high-speed economic growth; its natural resource poverty and lower renewable capacity (from mountainous terrain and steep shorelines), which results in a mere 12 per cent self-sufficiency rate – and a heavy reliance on expensive imported fossil fuels; and the Fukushima Daiichi nuclear disaster (before which, nuclear power provided for 30 per cent of the country’s electricity; making it the world’s third-largest nuclear-power generator).

The obvious economic incentive of self-sufficiency combined with the inescapably dire eventualities of global warming are, however, triggering change. Japan has committed to achieving net-zero emissions within 30 years. This ambitious ask is being supported by the government’s ‘Green Growth Strategy’ which aims to spur private investment and innovation, by creating a positive and virtuous circle between economic growth and environmental protection: providing green projects, tax incentives and regulatory reform in 14 priority areas that promote the application and expansion of new renewables technologies. As a result, Japan expects 50 per cent of the nation’s power supply to come from renewables by 2050 (from 18 per cent in 2020); 10 per cent of the supply-gap to be filled by restarting some of the nation’s nuclear reactors; transitional technologies like ‘carbon capture, utilisation and storage’ (CCUS) will be used with thermal power stations (thereby avoiding the wasteful abandonment of relatively young coal fleets) and will provide for 30 per cent; and the rest will come from green hydrogen and ammonia. These latter feedstocks will also contribute towards the decarbonisation of high-temperature industrial processes (like steel and cement production).



Japanese sogo shosha, or trading companies – recognised for traditionally having extensive exposure to energy and mining assets – are making significant headway in helping Japan reach these targets. Many have already abandoned their thermal coal exposure. Itochu and Mitsubishi Corp announced related divestments earlier this year, and appear to be diverting attention towards new green energy sources; Itochu plans to begin commercial production of ‘blue’ ammonia (manufactured from natural gas with carbon capture) in Canada by 2026, in what will be one of the world’s largest manufacturing facilities: capable of producing up to one million tonnes per year, a third of Japan’s quota for 2030. The company has also joined forces with Air Liquide, a French industrial gas supplier, to produce an equally grand amount (30 tons a day – enough to power 42,000 fuel cell vehicles) of liquid hydrogen at a new Japanese plant.

Elsewhere Mitsubishi Corp is helping to deploy low-carbon solutions across the construction industry through the development of eco-friendly concrete which reduces cement usage and can even absorb carbon dioxide emissions. It has also partnered with Amazon, to provide it with solar powered electricity – through a corporate power purchase agreement – to provide 10 years' worth of renewable energy for its domestic data centres. In wind, Toyota Tsusho boasts the position of Japan's number one wind power generator. With a global renewable capacity capability of 3 gigawatts (GW) already it is extending its lead in Japan with two new 140 megawatts (MW) offshore wind projects off the coast of Akita Prefecture, in partnership with Japan Wind Development and Ørsted.

The principle of 'mottainai' (concerning wastage) and other environmental considerations extend across Japan's corporate scene. Japanese companies are, for example, the largest supporting consortium of the Task Force on Climate-related Financial Disclosures (or 'TCFD'), a framework for disclosure on climate-related risks and opportunities. These recommendations help to provide a system that rewards companies that align their practices with the Paris agreement – effectively internalising climate-related externalities. The latest Japanese consortium member survey suggested that the percentage of companies that feel the benefits of TCFD approval and disclosure has increased recently, and that many are becoming aware of the need to evidence the consistency between materiality judgement and business strategy/management activities beyond basic formalistic disclosures.

Some companies are already evidencing their environmental credentials with aligned key performance indicators, while others that have gone one step further, by incorporating environmental, social and governance (ESG) performance target metrics into executive pay. Consultancy Willis Towers Watson found that 15 per cent of Japan's top 100 companies by market capitalisation have included such a scheme. This relatively low rate of adoption so far has been partially blamed on poor governance structures (which have attracted most attention within the triad of ESG issues until recently), and the lack of independent remuneration committees capable of fairly incorporating more complex ESG metrics into long-term remuneration packages.

If the 'carrot' fails to have the desired effect, there is always the 'stick' of activism. Last year Mizuho Financial Group, Japan's third-biggest bank received a climate-related shareholder proposal demanding adherence with the Paris accord, a first for both the bank and corporate Japan. More have followed this year, with Japan's biggest bank, Mitsubishi UFJ Financial Group Inc, and trading company Sumitomo Corp. both coming under pressure from similar climate proposals. None of these businesses are held within the portfolio, however it seems likely that the change afoot from these industry bellwethers will influence the broader market. Twice as many environmental-related issues have been raised by companies this year compared to last, according to Sumitomo Mitsui Trust Bank.

As selective stock pickers and long-term growth investors, we naturally gain greater exposure to more progressive, forward-looking companies, those more likely to embrace the inevitable impact of climate change within the growth prospects. Japan has provided rich pickings in this regard; for example, more solar, fuel cell and renewable technology patents have come from Japan than from any other country over the last decade. This is readily observable within Japan's auto industry.

Toyota, Japan's largest company, has long been a pioneer of next generation technology, and could still prove to be the dominant player in all three environmentally efficient power trains. Toyota is already the unrivalled and unassailable leader in hybrid technology having launched the Prius back in 1997 and now selling its fourth-generation model; it is clearly ahead of the curve in fuel cell technology; and its solid state battery technology turbo-charges the potential for it to be leader in the electric field. The company is also addressing its own energy usage and has taken inspiration from an old technology called 'karakuri kaizen' (traditionally used to mechanically move dolls with weights and gears) to reduce power usage within its plants. To minimise scope three emissions, Toyota have also asked suppliers to address their own emissions – an initiative that will ultimately affect nearly 30,000 primary, secondary, and tertiary manufacturers. One such company is Denso, one of the world's largest auto parts suppliers: with a 30 per cent global share in PCUs (power control unit); a 40 per cent global share in HVAC (Heating, ventilation and air control); and 35 per cent share of inverters, used to fine tune electric currents.

Denso are targeting a four-times rise in electric vehicle (EV)-related sales of one trillion YEN by 2026, an ambitious aim that intends to capitalise on China's ballooning demand for EV autos. Denso aim to achieve all of this while halving its own CO₂ emissions. Nidec, the world's largest manufacturer of miniature motors, is seizing upon a similar opportunity. Nidec founder Nagamori-san sees the key operational functions of a car as being moving, steering and stopping: it already dominates the world market in motors for the latter two functions, so it is logical (to Nagamori-san) that it will eventually dominate the drive/movement function too. Sumitomo Metal Mining is another contributor to the EV supply chain. This integrated nickel and copper miner produces lithium nickel oxide, a key input used in lithium-ion batteries, assisted by a unique in-house lithium recovery technology.

Rohm Semiconductor and Murata offer final examples within this arena. Rohm manufactures next-generation silicon carbide (SiC) chips that possess superior physical properties to silicon – enabling energy saving efficiency gains – and expected to become the mainstream material for use in automotive electronics from around 2025. In addition to its expertise in solid state batteries, where it currently has leadership for use in miniature devices such as smartwatches, Murata offers energy-saving electronic components, contributing to efficiency gains and reduced GHG emissions in large swathes of the economy. The direct impact of these companies is likely to grow further, in line with the continued digitisation in their end markets. The superior technical edge afforded to Japanese companies from years of continuous improvements explains their sustained dominance in areas such as hybrid electric vehicles, fuel-cell and related hydrogen technology, solar PV tech, smart grids, high speed trains and robotics. As a result, these companies allow Japan to remain one of the most energy-efficient economies in the world.

While Japan's corporate governance and stewardship codes were initially focused primarily on corporate governance reform, we note the speed with which the governance community in Japan has seized the ESG agenda as a natural fit with improving the overall quality of corporates. In the past year, we have seen more companies disclosing in line with the recommendations of the TCFD and committing to targets for reducing GHG emissions. Given the nature of climate change as a problem of distributed agency, Japanese companies' general predisposition to take collective responsibility is a real asset. We believe there is scope for Japan to achieve best practices in the 'E' component of ESG through disclosure, authentic target-setting, and long-term minded actions that address global challenges rather than leaving them for future generations. Although we recognise that some of the TCFD-related guidance and methodology on areas like scenario analysis and risk metrics is still developing, we expect to see further evolution and refinement of the TCFD framework in future years as it becomes increasingly integrated into company reporting requirements and regulations.

As this situation evolves, so too, will our approach. Environmental considerations are becoming an increasingly important element of our research, and various climate audits are currently being explored – in the hope of enhancing our awareness of how our companies are responding to this threat, and to better highlight those that warrant further research and engagement. At the same time, at the individual stock level we will endeavour to explore what commitments the portfolio holdings have made and what steps they are taking to contribute to Japan's journey towards net-zero, factoring it into the overall growth thesis.

The views expressed reflect the personal opinion of the author and should not be considered as advice or a recommendation to buy, sell or hold a particular investment.

Performance Objective

1.5%+ gross of fees p.a over 5 years vs benchmark.

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*	1.7	4.8	-3.0
YTD*	3.7	6.1	-2.4
1 Year*	16.6	20.6	-4.0
3 Years	6.4	6.9	-0.5
5 Years	10.9	9.3	1.7
Since Inception	10.9	9.4	1.5

Annualised periods ended 30 September 2021. *Not annualised.

Inception date: 31 July 2016.

Figures may not sum due to rounding.

Benchmark is TOPIX.

Source: StatPro, Tokyo Stock Exchange.

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 (%)	19.6	16.8	-4.1	7.6	16.6
Benchmark (%)	16.3	9.8	-5.8	7.4	20.6

Benchmark is TOPIX.

Source: StatPro, Tokyo Stock Exchange.

US dollars

Performance Objective

1.5%+ gross of fees p.a over 5 years vs benchmark.

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	4.1	7.2	-3.1
YTD*	9.5	12.0	-2.5
1 Year*	18.0	22.0	-4.1
3 Years	6.4	6.9	-0.5
5 Years	10.3	8.6	1.6
Since Inception	10.2	8.7	1.5

Annualised periods ended 30 September 2021. *Not annualised.

Inception date: 31 July 2016.

Figures may not sum due to rounding.

Benchmark is TOPIX.

Source: StatPro, Tokyo Stock Exchange.

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 (%)	13.7	18.9	2.2	0.1	18.0
Benchmark (%)	10.5	11.8	0.4	-0.2	22.0

Benchmark is TOPIX.

Source: StatPro, Tokyo Stock Exchange.

euro

Performance Objective

1.5%+ gross of fees p.a over 5 years vs benchmark.

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	4.2	7.3	-3.1
YTD*	5.2	7.6	-2.4
1 Year*	11.8	15.6	-3.9
3 Years	5.2	5.7	-0.5
5 Years	10.1	8.5	1.6
Since Inception	10.6	9.1	1.5

Annualised periods ended 30 September 2021. *Not annualised.

Inception date: 31 July 2016.

Figures may not sum due to rounding.

Benchmark is TOPIX.

Source: StatPro, Tokyo Stock Exchange.
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 (%)	15.8	20.2	1.5	2.6	11.8
Benchmark (%)	12.6	13.0	-0.3	2.4	15.6

Benchmark is TOPIX.

Source: StatPro, Tokyo Stock Exchange.
sterling

Performance Objective

1.5%+ gross of fees p.a over 5 years vs benchmark.

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	4.1	7.2	-3.1
YTD*	3.2	5.5	-2.4
1 Year*	10.6	14.4	-3.8
3 Years	5.6	6.1	-0.5
5 Years	10.1	8.5	1.6
Since Inception	10.3	8.8	1.5

Annualised periods ended 30 September 2021. *Not annualised.

Inception date: 31 July 2016.

Figures may not sum due to rounding.

Benchmark is TOPIX.

Source: StatPro, Tokyo Stock Exchange.

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 (%)	13.8	20.7	-1.8	8.6	10.6
Benchmark (%)	10.7	13.5	-3.5	8.4	14.4

Benchmark is TOPIX.

Source: StatPro, Tokyo Stock Exchange.

Canadian dollars

Performance Objective

1.5%+ gross of fees p.a over 5 years vs benchmark.

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Periodic Performance

	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months*	5.7	8.9	-3.2
YTD*	10.8	13.4	-2.5
1 Year*	15.7	19.7	-4.0
3 Years	6.4	6.9	-0.5
5 Years	12.2	10.6	1.7
Since Inception	12.0	10.5	1.5

Annualised periods ended 30 September 2021. *Not annualised.
 Inception date: 31 July 2016.
 Figures may not sum due to rounding.
 Benchmark is TOPIX.
 Source: StatPro, Tokyo Stock Exchange.
 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 (%)	16.6	26.7	2.9	1.3	15.7
Benchmark (%)	13.4	19.1	1.1	1.1	19.7

Benchmark is TOPIX.
 Source: StatPro, Tokyo Stock Exchange.
 Australian dollars

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2021

Stock Name	Contribution (%)
MS&AD Insurance	0.3
Sanrio	0.3
Tokio Marine	0.2
Misumi	0.2
Sumitomo Mitsui Trust	0.1
Sompo	0.1
Eisai	0.1
Murata	0.1
Makita	0.1
Infomart	0.1
Pola Orbis	-0.7
Mixi	-0.4
FANUC	-0.3
GMO Internet	-0.3
Keyence	-0.3
Denso	-0.3
Recruit	-0.3
Toyota Tsusho	-0.3
SoftBank Group	-0.2
Sony	-0.2

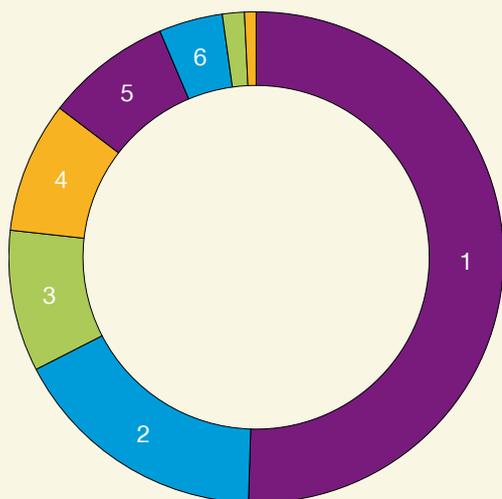
One Year to 30 September 2021

Stock Name	Contribution (%)
Denso	0.9
Bridgestone	0.6
JAFCO	0.5
Toyota Tsusho	0.4
DMG Mori	0.4
Daiichi Sankyo Company	0.3
INPEX	0.3
Sumitomo Mitsui Trust	0.3
Takeda Pharmaceutical	0.3
Misumi	0.2
Mixi	-0.8
Calbee	-0.6
SBI	-0.6
GMO Internet	-0.6
Sony	-0.5
Japan Exchange Group	-0.4
Bank Of Kyoto	-0.4
Hitachi	-0.4
Recruit	-0.4
Mitsubishi UFJ Fin	-0.4

Source: StatPro, Tokyo Stock Exchange. Japanese Income Growth composite relative to TOPIX.
Some stocks may have only been held for part of the period.

Top Ten Holdings

Stock Name	Description of Business	% of Portfolio
DENSO	Auto parts	4.2
Pola Orbis	Manufactures a wide range of cosmetic products	3.5
FANUC	Robotics manufacturer	3.4
MS&AD Insurance	Japanese insurer	3.2
Bridgestone	Tyre manufacturer	3.2
Kubota	Agricultural machinery	3.1
SBI Holdings	Online financial services	3.1
GMO Internet	Internet conglomerate	3.0
SoftBank Group	Telecom operator and technology investor	2.9
DMG Mori	Machine tool manufacturer	2.9
Total		32.5



Sector Weights	(%)
1 Manufacturing	50.5
2 Finance & Insurance	17.0
3 Commerce	9.3
4 Transport And Communications	8.6
5 Services	8.2
6 Real Estate	4.2
7 Mining	1.4
8 Cash	0.8

Figures may not sum due to rounding.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	None	Companies	None	Companies	None
Resolutions	None	Resolutions	None	Resolutions	None

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
Environmental/Social	Sato Holdings Corporation

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 has 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 are 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. Its causes and effects are unevenly distributed through time and geography, with those most responsible often the least exposed to its physical and economic impacts. 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-failure, global sea level rise and the 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. 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 too many more Lyttons in the future.

Company	Engagement Report
Sato Holdings Corporation	<p>Sato Holdings is a manufacturer of labelling products and supply chain management solutions. A member of the ESG Team and a fund manager met with CEO Kotaki-san to discuss a range of ESG-related topics. Sato present themselves as a dynamic workplace where every employee is encouraged to experiment and not be afraid of failure. In this context, it was interesting to hear that around 70 per cent of employees take part in the share purchase scheme. However, we believe some aspects of Sato's employee engagement, such as encouraging employees to quit smoking, detract attention from more material areas such as work life balance and career development. We discussed this with Kotaki-san, as well as broader points around Sato's culture and approach to long-term strategy.</p>

Votes Cast in Favour

We did not vote in favour of any resolutions during the period.

Votes Cast Against

We did not vote against any resolutions during the period.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

There were no new purchases during the period.

There were no complete sales during the period.

Holdings Information	Please note the portfolio information contained within this report is confidential, proprietary information and should be maintained as such and not disseminated. The content is intended for information purposes only and should not be disclosed to other third parties or used for the purposes of market timing or seeking to gain an unfair advantage
TOPIX	The TOPIX Index Value and the TOPIX Marks are subject to the proprietary rights owned by Tokyo Stock Exchange, Inc. and Tokyo Stock Exchange, Inc. owns all rights and know-how relating to the TOPIX such as calculation, publication and use of the TOPIX Index Value and relating to the TOPIX Marks. No Product is in any way sponsored, endorsed or promoted by Tokyo Stock Exchange, Inc.