Baillie Gifford

Sustainable Growth Quarterly Update

31 December 2023

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Potential for Profit and Loss

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The commentary relates to the above mentioned strategy and not all stocks mentioned may be held in the portfolio.

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Product Overview

Sustainable Growth is an actively-managed, global growth equity strategy, combining established regional stock picking with a disciplined portfolio construction process and innovative approach to stewardship.

Risk Analysis

Key Statistics	
Number of Holdings	59
Typical Number of Holdings	55-80
Active Share	90%*
Rolling One Year Turnover	28%

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

The portfolio outperformed its benchmark in the final quarter, finishing 2023 with good absolute returns

Strong markets this year have been driven by a small number of prominent firms, so valuations remain attractive for the majority of companies

This is a compelling opportunity for the discerning stock picker, and we have been embracing it with new holdings such as MSA Safety and Yeti Holdings



Baillie Gifford Key Facts

Assets under management and advice	US$287.6bn
Number of clients	674
Number of employees	1831
Number of investment professionals	395

Looking back

The OED has picked its word of the year. However, the author is too old (and nowhere near cool enough) to use 'rizz' in a sentence, even if 36 billion TikTok users have adopted it as part of their lexicon.

The runner-up - 'prompt' - however, is a good reminder of what was probably the most positive development in a year littered with bad news stories. It relates to the inputs used for generative AI models.

A prompt is the instruction given to a large language model, and the term 'prompt engineering' has become well-known to those experimenting with the use of this new tool to automate routine tasks. For us, that's meant tidying up meeting minutes or translating foreign languages as easy productivity wins that allow us to focus more time on value-added research.

While others may be deploying this technology to parse the language used by management teams, detecting positive or negative tone in earnings updates, we see little value in such use cases. As is so often the case, technological advances facilitate an ever more myopic approach by many market participants, which only serves to enforce our edge as long-term investors.

This kind of short-term focus has certainly contributed to what is undoubtedly Sustainable Growth’s word of the year - 'dislocation'. Despite a welcome quarter of outperformance to round out 2023 and finish the year with good absolute returns, longer-term numbers remain disappointing in relative terms.

We have certainly made mistakes this year - chief among them was our exposure to US regional bank First Republic back in March and our slow reaction to the disruption of education platform Chegg's business model in May. However, negative sentiment towards growth stocks has been the primary factor driving a wedge between the operating performance of portfolio holdings and their share price moves.

Others in the market do seem to be recognising this now, with share price appreciations in the latest quarter more reflective of solid operating performance. The recent bid to take classifieds business Adevinta private at a ~50% premium to its undisturbed share price is one piece of evidence.

While supportive of our thesis that gaps between strong company fundamentals and share prices will eventually narrow, we were disappointed by this news as the company was beginning to show great promise. We reluctantly sold our position in December as it was trading close to the bid price.

Mispricing persists elsewhere though, and we continue to take advantage where we can. We switched some of the holding in US-based Watsco into Swedish counterpart Beijer Ref. Both companies are in the business of distributing heating, ventilation and air conditioning equipment, but there is a difference in growth prospects that was not well reflected in the company’s respective valuations. Beijer is particularly strong in the refrigeration space, where tightening energy efficiency regulations and a push to use natural refrigerants rather than nasty chemical alternatives should drive faster growth than Watsco can manage.

Dislocations can run in the other direction too. Where we see signs of excessive exuberance, we have been reducing position sizes. We have more than halved our NVIDIA position this year, for example, despite it being the top performance contributor.

While no longer a top ten holding, we remain enthusiastic. Jenson Huang recently described his job as CEO as one of positioning his company beneath the tree so that when the apple falls, he can at least make a diving catch. His prescient decision to give away the firm's CUDA software for free a decade ago, ensuring almost all AI programmers 'speak NVIDIA', was evidence he has this knack.

We remain confident NVIDIA will be well positioned for the many apples that we expect to see falling from the machine learning tree, but it seemed sensible to lock in some profits after a tripling of the share price in the year.

If we had a runner-up word of the year in Sustainable Growth it would probably be 'resilience'. We've written at length about our efforts to strengthen the portfolio, weeding out negative earners and reviewing those firms with less-than-robust balance sheets.

We now have just five holdings with negative earnings and operating cashflow. We’re comfortable with this - these firms have the potential to be the big winners of the future and to confer tremendous societal benefit as they progress. And they have the balance sheet strength to stick it out – none have less than two years' worth of cash on hand.

It's pleasing to see this resilience beginning to shine through, with names like Schneider Electric and New York Times evidencing good operational performance despite cyclical slowdowns within their industries. Both firms recently reported double-digit revenue growth and margin expansion, showing that in tougher times the strongest come out on top.

The same is true of our secular growth names like Wise and Workday. Wise reported an impressive rise in customer numbers without the rise in customer acquisition costs that often accompanies such growth. This was despite a very tough operating environment in the fintech space.

Similarly, Workday has used effective cost-cutting to improve margins despite fears of a slowdown in enterprise spending. While not necessarily true of the industry as a whole, Workday's customers continue to invest in upgrades to their human capital management and finance software.

Cost control has been a theme amongst our higher growth holdings, particularly in the ecommerce space. Mercado Libre, Amazon and Shopify have all been successful in managing their cost bases more effectively than peers, solidifying competitive advantages in a tougher, more competitive environment.

Spotify has done so too, while adding a record ~100 million users in the year. This is despite the first price increase in 15 years which provided a welcome boost to revenue growth. Spotify was a top performer over the quarter and the year as a whole, which was helpful given we added to the position this time last year.

So what have we learnt this year? We've certainly learnt that markets can remain disconnected from fundamentals for an uncomfortably long period. At these times, patience is a virtue, but we should be careful not to let patience become paralysis. We've used the time to carefully reappraise the portfolio and strengthen it where we can, taking the opportunity to add to some of our highest-conviction holdings when they were most deeply out of favour.

Another lesson is that adaptable businesses can be a lot more resilient than the market expects. Even for some cyclical companies, operational progress has been very steady when compared to the whipsawing seen in markets this year. Those firms that have been able to adapt to this tougher environment - by addressing profitability challenges and taking difficult decisions - have been rewarded in the latter part of the year.

Looking forward

So what will the word of 2024 be? We'd be happy with some synonym of 'optimism' or even just 'normalisation'. Many of our commentaries this year have focussed on the poor sentiment towards growth stocks. We've not yet been brave enough to write about the potential triggers for a turnaround.

But there are some factors that are clearly weighing on sentiment - the ongoing wars in Ukraine and the Middle East, concerns about a looming recession and the continued squeeze on consumer spending power. A cessation of any or all of these factors would be most welcome – not least on humanitarian grounds.

However, there is one factor that has been more prominent in investor's minds than the others - interest rates. We're no better than anyone else at predicting the peak, but it does seem that central banks are winning their battle against inflation, with wage growth slowing, price levels stabilising and unemployment returning to normal levels.

It certainly appears that we are closer to the end than the start of the rate-rising cycle. Lower (or even just steadier) rates in 2024 would surely see appetite for growth stocks return: we've had a taster of this at the end of 2023.

Perhaps the Sustainable Growth word for 2024 will be 'opportunity' then. With reasonable valuations set against robust operating performance, we feel confident our portfolio has a favourable risk/reward balance and is primed to outperform. Opportunities exist not just within our portfolio but beyond. We've taken several new holdings at compelling valuations recently, the most recent being MSA Safety.

MSA is a purposeful company that exists to protect workers in the most hazardous environments. Its flagship product is the V-Gard hard hat, which dominates the industry and sells 10m units a year. These helmets carry such prestige that they've been described as the 'Hermes of hard hats', with stories of steelworkers cashing in their first pay cheque to upgrade from a standard issue helmet to a V-Gard.

Despite its 100+ year heritage, the firm remains innovative: over a third of sales are from products launched in the last five years, including breathing apparatus designed for the London Fire Brigade. The latest step is adding connectivity to its products, which will improve worker safety as well as margins. Stringent regulation of its products means this is likely to be a very resilient business, and helpfully it also happens to be largely uncorrelated with the rest of the portfolio.

As ever, new ideas like MSA are the best way to ensure a continual upgrade of the portfolio's quality. To fund this purchase we again sold some lower conviction holdings where we had questions about the resilience of the business model. UK companies Ocado and ITM Power were two holdings which had both negative earnings and free cashflow.

For Ocado, while its grocery automation systems are innovative, their rollout has been slower than we'd expected due to dependence on a few large customers and the complexity associated with meeting their needs. At current rates of cash burn there is a chance of a capital raise in the near future, something we'd be unlikely to support.

ITM Power makes electrolysers for the production of green hydrogen, which is likely to be a key enabling technology in the shift of heavy industry away from fossil fuels. In this respect the company is an excellent fit for sustainable investors. However, the nascent stage of this industry makes it heavily reliant on subsidies, which have been becoming less generous lately. This puts pressure on ITM's balance sheet meaning the company is less in control of its own destiny than we would like.

On the subject of fossil fuels, those that attended the COP 28 summit in December would be forgiven for choosing those as their two words of the year. For the first time in nearly thirty years of negotiations, fossil fuels were mentioned specifically in the deal agreed by more than 170 countries. There are certainly loopholes and wiggle room, but nonetheless this represents significant progress.

"Transitioning away from fossil fuels in energy systems in a just, orderly and equitable manner" will present sustainable investors with many exciting investment opportunities. So too will the secondary agreement to triple spending on renewable energy and double that for adaptation measures like insulation. It will be actions not words that are most important, of course.

Nonetheless, the most significant mandated growth driver of our time just got a boost.

Climate remains an engagement priority for many holdings. We've encouraged Amazon to improve its disclosure of scope three emissions and include a broader representation of third-party platform sales in its calculation. We also visited Spirax-Sarco's largest plant to build our understanding of the challenges and opportunities in decarbonising steam systems.

On-site meetings with management at Wise, Prudential, AIA, Metso and Beijer Ref all served to solidify our understanding of the companies and their unique cultures. But it was a series of virtual meetings with the new Chair, board members and, subsequently, the new CEO at Illumina that stood out this quarter.

Illumina remains the global leader in gene sequencing equipment and consumables used in a growing number of clinical applications. However, growth has slowed to a pedestrian rate in recent years and there have been a number of execution errors, most notably the decision to re-acquire cancer diagnostics business GRAIL without the consent of regulators.

We've engaged extensively to understand these errors of judgement and the lessons learned. These conversations have been very encouraging - the new CEO appears to bring renewed focus on the core business and on driving down costs for customers. We're also pleased to see that the company has revamped its compensation package in response to our suggestions.

Illumina's technology is key to furthering our understanding of the human body and facilitating the development of personalised, highly effective treatments. With the prolonged uncertainty weighing heavily on the share price we recently took the opportunity to add to the position, bringing to a close an intensive engagement effort.

Rizz, if you're still wondering, is thought to be derived from charisma. It was made famous by Tom Holland of Spiderman fame and is used by those cool kids of Gen Z to describe someone who has 'a compelling attractiveness'.

Straining for coolness, we might build this into our own lexicon by saying that the portfolio has plenty of rizz right now. In aggregate its sales and earnings growth rates are a multiple of market levels, balance sheets are markedly stronger and reinvestment rates are superior.

Yet valuation levels are below those seen prior to the pandemic. We know that share prices ultimately follow earnings growth. And recent work from our risk team shows that the ten-year returns from the double-digit earners we seek can be enhanced by an attractive starting point.

So to us, the disconnect between operating performance and share prices remains a compellingly attractive opportunity.

We look forward to updating you on our continued efforts to lean into this opportunity in the new year.

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 Net (%)	Benchmark (%)	Difference (%)
3 Months	9.5	6.4	3.0
1 Year	15.6	15.9	-0.3
3 Year	-8.7	8.7	-17.5
5 Year	9.9	12.2	-2.3
Since Inception	12.4	12.4	0.1

USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	14.3	11.1	3.2
1 Year	22.5	22.8	-0.3
3 Year	-10.8	6.2	-17.1
5 Year	10.0	12.3	-2.3
Since Inception	10.4	10.3	0.1

EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	9.6	6.5	3.0
1 Year	18.3	18.7	-0.3
3 Year	-7.7	9.9	-17.7
5 Year	10.7	13.0	-2.3
Since Inception	10.2	10.1	0.1

CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	11.5	8.4	3.1
1 Year	19.2	19.5	-0.3
3 Year	-9.8	7.5	-17.3
5 Year	9.2	11.5	-2.3
Since Inception	9.7	9.6	0.1

AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	8.1	5.1	3.0
1 Year	21.7	22.1	-0.3
3 Year	-7.1	10.7	-17.8
5 Year	10.6	13.0	-2.3
Since Inception	11.3	11.2	0.1

Annualised periods ended 31 December 2023. 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	31/12/18-31/12/19	31/12/19-31/12/20	31/12/20-31/12/21	31/12/21-31/12/22	31/12/22-31/12/23
Composite Net (%)	24.1	70.1	1.3	-35.1	15.6
Benchmark (%)	22.4	13.2	20.1	-7.6	15.9

USD	31/12/18-31/12/19	31/12/19-31/12/20	31/12/20-31/12/21	31/12/21-31/12/22	31/12/22-31/12/23
Composite Net (%)	29.1	75.6	0.4	-42.3	22.5
Benchmark (%)	27.3	16.8	19.0	-18.0	22.8

EUR	31/12/18-31/12/19	31/12/19-31/12/20	31/12/20-31/12/21	31/12/21-31/12/22	31/12/22-31/12/23
Composite Net (%)	31.4	61.1	8.0	-38.5	18.3
Benchmark (%)	29.6	7.2	28.1	-12.6	18.7

CAD	31/12/18-31/12/19	31/12/19-31/12/20	31/12/20-31/12/21	31/12/21-31/12/22	31/12/22-31/12/23
Composite Net (%)	22.5	72.5	-0.5	-38.1	19.2
Benchmark (%)	20.9	14.8	18.0	-12.0	19.5

AUD	31/12/18-31/12/19	31/12/19-31/12/20	31/12/20-31/12/21	31/12/21-31/12/22	31/12/22-31/12/23
Composite Net (%)	29.2	59.9	6.6	-38.2	21.7
Benchmark (%)	27.5	6.4	26.3	-12.0	22.1

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 December 2023

Stock Name	Contribution (%)
Shopify	0.6
Workday Inc	0.5
IMCD Group NV	0.5
Recruit Holdings	0.5
MarketAxess Holdings	0.5
Beijer Ref	0.4
Atlas Copco	0.4
MercadoLibre	0.4
Wise Plc	0.2
Dassault Systemes	0.2
The Trade Desk	-0.4
DSV	-0.4
Microsoft	-0.3
Staar Surgical	-0.2
Meituan	-0.2
Outotec	-0.2
Kubota	-0.2
UnitedHealth	-0.1
Broadcom Inc	-0.1
Prudential	-0.1

One Year to 31 December 2023

Stock Name	Contribution (%)
NVIDIA	1.9
Shopify	1.8
MercadoLibre	1.1
Spotify Technology SA	1.0
Workday Inc	0.9
Watsco Inc	0.8
The Trade Desk	0.7
Tesla Inc	0.6
Advanced Drainage Systems	0.5
Atlas Copco	0.4
First Republic Bank	-1.9
Chegg	-1.3
Microsoft	-0.9
Meituan	-0.9
AIA Group	-0.8
Apple	-0.8
Meta Platforms Inc.	-0.7
Moderna Inc	-0.6
Prudential	-0.6
NIBE	-0.6

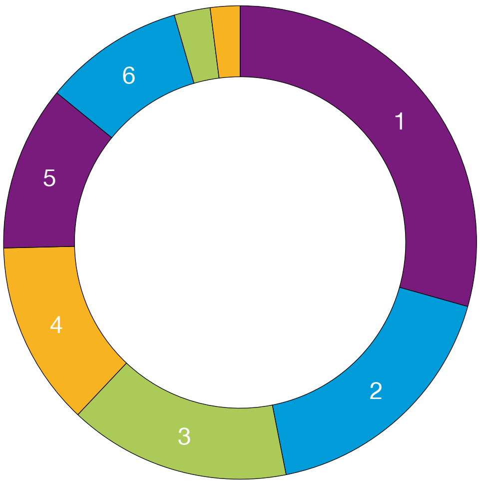
Source: Revolution, MSCI. Sustainable Growth composite relative to MSCI ACWI Index.
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions 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
Workday	Enterprise cloud-based applications	3.9
MercadoLibre	Latin American e-commerce and fintech platform	3.5
Atlas Copco	Manufacturer of industrial compressors	3.1
TSMC	Semiconductor manufacturer	2.9
Beijer, G & L AB	Wholesaler of cooling technology and HVAC	2.9
Shopify	Cloud-based commerce platform provider	2.9
UnitedHealth Group	Health care company	2.7
Recruit Holdings	Property, lifestyle and HR media	2.6
IMCD	Speciality chemicals distributor	2.6
Alphabet	Search platform, software, cloud services and more	2.6
Total		29.6

Figures may not sum due to rounding.

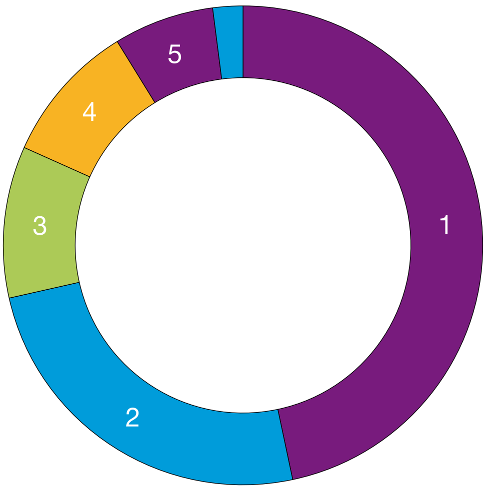
Sector Weights



		%
1	Industrials	29.4
2	Information Technology	17.5
3	Consumer Discretionary	15.2
4	Health Care	12.6
5	Financials	11.3
6	Communication Services	9.6
7	Consumer Staples	2.5
8	Cash	2.0

Figures may not sum due to rounding.

Regional Weights



		%
1	North America	46.7
2	Europe (ex UK)	24.8
3	Developed Asia Pacific	10.2
4	Emerging Markets	9.5
5	UK	6.8
6	Cash	2.0

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	1	Companies	None	Companies	None
Resolutions	1	Resolutions	None	Resolutions	None

Earlier in the quarter we published our annual sustainability report which evidences how the portfolio is contributing to improving people's lives, the planet and prosperity

Results of our climate audit have shown that the weight of companies in the portfolio classified as `leading' and 1.5C scenario aligned has doubled in 12 months

Welcome progress has been made at the latest COP28 meeting where fossil fuel action has been agreed by over 170 countries, presenting us with exciting investment opportunities

Company Engagement

Engagement Type	Company
Environmental	10x Genomics, Inc., Amazon.com, Inc., DSV A/S, IMCD N.V., Spirax-Sarco Engineering plc, Texas Instruments Incorporated
Social	Amazon.com, Inc., DSV A/S, Tesla, Inc.
Governance	10x Genomics, Inc., Amazon.com, Inc., IMCD N.V., Illumina, Inc., Moderna, Inc., NVIDIA Corporation, Nintendo Co., Ltd., Rakuten Group, Inc., Schneider Electric S.E., Shopify Inc., Tesla, Inc., Texas Instruments Incorporated
Strategy	Amazon.com, Inc., Tesla, Inc.

Company	Engagement Report
Amazon.com.	Objective: Alongside a small group of other shareholders, we met with two of the non-executive directors and a number of senior managers in Washington, DC. Over a number of hours, the conversations covered Board effectiveness, employee satisfaction, climate-related impacts, supply chain expectations and more. Discussion: Amazon has become one of the world's largest employers, making attraction and retention a critical challenge. The head of global workplace health and safety presented convincingly on efforts to make the company an exemplar of safety excellence and transparency. There is a similar ambition for the "career choice" training programme, which some 150,000 employees have joined so far. Keeping employee satisfaction high is almost certainly required if Amazon is to keep its locations union-free. This goal is not without controversy, but the company clearly views it as core to maximising the operational flexibility it thinks it needs for continuous improvement in process and automation. On climate, there is continued progress in renewable fuels and some response to our long-standing request for expanded scope 3 disclosures. Discussion of advancing AI as a tool for both Amazon retail and enterprise customers took the conversation into the working of the Board: how it educates itself and challenges the executive. Outcome: Amazon's agenda came across as twofold: to demonstrate the engagement of the independent directors and the efforts being devoted to employee satisfaction. We left messages on expanded supply chain engagement and the opportunity to lead on responsible and transparent AI.
DSV	Objective: DSV is a global freight forwarder that provides optimised transport and logistics services for its customers. We engaged with the company's Executive Vice President (EVP) of Sustainability and Compliance, Martin Andreasen, and EVP of Investor Relations, Flemming Ole Nielsen. The primary purpose was to understand how DSV intends to manage the risks associated with its joint venture (JV) where it will offer construction logistics for the NEOM mega-city project in Saudi Arabia. Due to the high proportion of migrant labour and the poor human rights record in the region, there is an increased risk of modern slavery associated with its involvement in the project. We also used the opportunity to cover updates related to DSV's climate ambition, CEO succession and the decarbonisation of shipping. Discussion: DSV acknowledged shortcomings in its messaging around the NEOM JV announcement. On reflection, they would have disclosed more about the relevant risk management mechanisms already in place, and those which will be applied as part of the JV. These include internal and external auditing procedures, a deeply embedded risk-reporting culture, and reporting lines that lead up to the board. From a transparency perspective, it will comply with disclosure requirements on human rights due diligence as part of the EU's forthcoming Corporate Sustainability Reporting Directive (CSRD). On the topic of climate, a near-term decarbonisation roadmap will be included in DSV's forthcoming ESG report, which is due for publication in early 2024. An internal carbon price is now applied to DSV's subsidiaries, based on their level of operational emissions, with proceeds used to fund low-carbon innovations. DSV believes that the inclusion of the shipping industry in the EU's Emissions Trading Scheme, thereby internalising the cost of carbon for the sector, will be the main catalyst in the shift to low-carbon fuels. Outcome: We continue to think that DSV will face a high hurdle in demonstrating full commitment to upholding international human and labour rights because of its involvement in the NEOM JV. We intend to write a letter to the board outlining our expectations regarding the levels of transparency on related risk monitoring. We also agreed to have a follow-up discussion on DSV's decarbonisation pathway following the publication of its ESG report in early 2024.

Company	Engagement Report
Illumina	Objective: Following the proxy campaign at Illumina's 2023 AGM, we met separately with the company's newly appointed chair of the board, Mr MacMillan, and the new CEO, Mr Thaysen. We wanted to understand the recent board and management changes, understand Mr Thaysen's strategic priorities, and express our own. Discussion: Earlier this year, Illumina was the subject of an activist proxy campaign led by Carl Icahn. As a result of this activism, a number of board changes took place, in particular, the resignation of former CEO/Chair Francis deSouza, who was succeeded by Jacob Thaysen as CEO and Steve MacMillan as independent chair. Additionally, two new directors joined the board, including Icahn's nominee, Andrew Teno, and independent director Scott Ullem. We spoke with the new chair and four independent non-executive board directors. They talked us through the search process for the new CEO and how the board was involved at each stage. The board was unanimous in appointing Mr Thaysen, citing his grounding in R&D, experience as a Chief Technology Officer (CTO), enthusiasm, and ideas for future direction, among other things. We also discussed proposed changes to compensation, which are being made largely in response to shareholder dissent at the AGM. The changes appear positive and seek to better align management with long-term shareholders. We discussed the departure of former CTO Alex Aravanis and his replacement Steve Barnard, and what that means for changes Aravanis had made during his time. The board was excited about Barnard's promotion, noting his extensive knowledge of R&D and the core business, having been with Illumina from the start. On our subsequent call with Mr Thaysen, we discussed his motivation for joining Illumina and where he thinks improvements can be made. The CEO shared that his main priority is to focus on the core business, specifically bringing costs down and solving problems for customers. Outcome: The calls provided insight into board dynamics following the extensive board changes. We welcomed Mr Thaysen's passion for Illumina's core business and are optimistic that his customer-centric approach should help revive growth.
Moderna	Objective: Ahead of the 2024 AGM, Moderna reached out to get our feedback on some proposed governance changes and ask for our view on some compensation practices. Discussion: During the meeting, we discussed the governance changes proposed, which are uncontroversial and will continue to evolve as Moderna matures as a company. The changes include adopting a majority voting standard for director elections, adopting a proxy access bylaw and the right of shareholders to call a special meeting. We also discussed compensation at a high level. Moderna has come to the end of its first cycle of equity awards linked to performance conditions, and was open about the challenges of setting long-term targets. Outcome: Moderna would like our feedback again once compensation performance targets are disclosed to help them calibrate how challenging the targets are, which we agreed we would be happy to do. We remain interested in how the board will evolve in the short to medium term and we will keep in touch about progress on this.

Company	Engagement Report
NVIDIA	Objective: How has NVIDIA so persistently and successfully identified and delivered next-generation products into the market sooner than anyone else? This was the focus of our meeting with CEO Jensen Huang and CFO Colette Kress in New York. Discussion: Unlike competitors Intel and AMD, NVIDIA is much more a computing company than a chip company. Its shift to selling servers, its cloud initiatives, and its CUDA software all bear this out. Huang is positioning NVIDIA to dominate computing writ large. Its business model allows customers to pick and use what they need from NVIDIA's various hardware and software offerings. The result is that NVIDIA has insight into how almost everyone is working on AI applications and what their needs are. Huang explained that he has configured the governance of the company to support such foresight. In short, they focus on peripheral vision and the dissemination of information. Hence, Huang has a high number of direct reports who each provide him with regular updates on what they hear from their customer interactions. Our discussion was useful in understanding that NVIDIA's prowess is not solely a function of Huang's astute decision-making and widespread respect for his vision - it is also thanks to the strength of the company's organisational culture and its genuinely non-siloed structure. NVIDIA, therefore, tends to know what the most interesting thing that is 'happening' is. This is a kind of secret sauce in building the next generation of products, placing the company consistently ahead of competitors. Outcome: Our meeting with senior management was valuable in understanding how NVIDIA is structured and governed for foresight and what this implies for the company's competitive advantage.
Spirax	Objective: We spent time with operational leaders across the business at the headquarters in Cheltenham, England. This provided an opportunity to discuss how Spirax is addressing aspects of the energy transition. We discussed various challenges the company faced with decarbonising its own operations and the commercial opportunity for decarbonising customers' operations. Discussion: Spirax launched its TargetZero decarbonisation solutions in 2022. These products reduce the demand for fossil fuels by using electricity to generate the relatively low heat required for producing steam within industrial processes. By installing one of the company's TargetZero products, customers can reduce the direct carbon emissions from their operational footprint. Spirax has committed to decarbonising its global operations by no later than 2030 and its supply chain by 2050. A substantial part of the company's direct carbon footprint is from the manufacturing site in Cheltenham. The company has invested significant capital to replace an on-site CHP (combined heat and power) plant supplied by natural gas. The CHP plant was replaced by products from the company's TargetZero decarbonisation portfolio. Given the increase in electricity demand, Spirax also had to invest in infrastructure to enable National Grid to supply and distribute the required electricity across the entire manufacturing site. The company highlighted the substantial upfront cost required to install decarbonisation solutions as a meaningful barrier to faster adoption by customers. Outcome: Spirax has established ambitious decarbonisation targets for its direct operations and has also developed a commercial opportunity to enable customers to transition away from fossil fuel consumption. We will continue to monitor the progress made in reaching the 2030 net zero goal in addition to the progress made in enabling customers to transition away from fossil fuels.

Company	Engagement Report
Tesla	Objective: We met with Tesla's head of Investor Relations and its new Chief Financial Officer (CFO), Vaibhav Taneja, following the retiral of Zach Kirkhorn in August. We aimed to understand how Taneja planned to maintain the financial and operations roles Kirkhorn played at the company and how he sought to support Tesla's future growth. Discussion: Taneja discussed his focus on maintaining and growing market share in a higher interest rate environment through continued efficiency to save costs and making the investments needed in auto innovation and other initiatives. Taneja continues to be the Chief Accounting Officer, for which he has identified a team of people to assume his previous responsibilities. Outcome: A new CFO marks a significant change for Tesla. Kirkhorn joined in 2010 and was CFO from 2019. We are pleased to have opened a relationship with Taneja and aim to continue observing Tesla's progress with his executive direction.
Texas Instruments	Objective: The purpose of this call was to discuss Texas Instruments' climate strategy and how the company are ensuring a resilient supply of electricity given challenges relating to Texas's energy grid. Discussion: Texas Instruments confirmed work is underway on a post-2025 decarbonisation target (its current one expires in 2025). They explained that this area is of interest to their customers, who are thinking about how they will meet their own climate targets. There may be a risk that, without having a suitable decarbonisation plan, some customers will choose to procure analogue semiconductors from peers who have stronger climate commitments. From a resilience perspective, Texas Instruments highlighted the multiple mechanisms they have in place to ensure redundancy of their electricity supply, such as positioning fabrication plants at the grid intersection of various power generation facilities. Outcome: We are pleased that Texas Instruments is thinking about how its approach to climate will impact its customers and that they have a strategy in place to ensure that operations can continue in the event of future grid failure or outage.

Votes Cast in Favour

Companies	Voting Rationale
IMCD Group NV	We voted in favour of routine proposals at the aforementioned meeting(s).

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.

New Purchases

Stock Name	Transaction Rationale
MSA Safety	We have taken a position in MSA Safety, a mission-driven organisation manufacturing products which protect workers in the most hazardous environments. Founded over a century ago by two mine rescue engineers, the company is now famous for its V-Gard hard hat, which is worn by US firefighters. MSA also provide gas detection and fall protection equipment, increasingly through connected wearable devices which are higher margin and further improve worker safety. While some of MSA's clients are in cyclical industries, the fire protection business is very stable, with contracts typically spanning a decade or more. The company pursues an international expansion strategy that uses key contract wins as footholds in new markets, with the recent London Fire Brigade appointment potentially opening up the European opportunity. MSA has benefitted from some industry consolidation and could see further upside from bolt-on acquisitions.
YETI	Yeti makes coolers and drinkware that are 'built for the wild'. The company's products are extremely durable, giving them long life cycles and a cult-like following from a very wide range of groups in the US, from anglers to surfers. The Yeti brand is the company's most prized asset, and they have looked after it carefully, growing in a considered way via a network of brand ambassadors. This growth has been organic rather than acquisitive, and as a result Yeti has a strong balance sheet that should give it a degree of resilience that is unusual for a consumer brand. We were able to take advantage of an attractive valuation to start a new position for our clients.

Complete Sales

Stock Name	Transaction Rationale
Adevinta	We have sold the holding in online classifieds marketplace Adevinta. Through its second-hand buying and selling platforms, Adevinta reduces the need for newly produced goods and contributes to the circular economy, helping people live more sustainably. However, Adevinta is currently under offer from a consortium of investors who are looking to take the company private. As such, we have decided to sell out of the holding and have used the proceeds to fund other ideas elsewhere.
ITM Power	We have sold the holding in ITM Power, a UK company focussed on the production of green hydrogen through electrolysis. Hydrogen could play a crucial role in the energy transition, helping us decarbonise some of the industries with the largest emissions. However, most hydrogen continues to be produced using fossil fuel inputs, meaning ITM's technology remains very nascent. This makes it reliant on subsidies, which are becoming less generous and weakening ITM's balance sheet strength. Despite a good start from a relatively new management team, we no longer believe the company is fully in control of its own destiny and so have decided to sell the position.
Ocado	We have sold Ocado, a technology-led software and robotics platform used by grocery retailers. Ocado has developed robots that enable cheaper, faster deliveries and helps with labour shortages by requiring fewer staff in its warehouses. Its unique robotics technology has been adopted by a number of new customers. However, the Ocado business model means it had to assume a lot of debt to make this rollout happen and customers have been adopting the technology morfyoure slowly than we'd hoped. Supermarket supply chains are a valuable place for technology, but success is increasingly reliant on the decisions of customers rather than the company itself, so we do not feel Ocado is a resilient enough business for the portfolio.
Pacira BioSciences	We have sold the holding in Pacira BioSciences. Through its innovative non-opioid pain relief alternatives, Pacira is positively impacting hospital, patient, and broader societal outcomes. It reduces surgery-related opioid use and subsequently decreases the risks associated with opioid dependence and abuse. We had high hopes for rapid growth as hospitals try to reduce the amount of opiods used in surgeries. However, volumes have been consistently disappointing, leading us to wonder if there are other more effective ways of addressing the clinical need. The recent change of CEO prompted us to reconsider the holding and we've decided to sell in order to fund additions to other more compelling names in the biotech space.
Progyny	We have made the decision to divest the holding in Progyny, a fertility benefits company, due to rising concerns around the competitive environment. The US has seen a significant increase in investment directed towards improving access to family planning over the last decade, presenting a significant opportunity for companies to address. While we were enthusiastic about Progyny's mission to improve economic access to high-quality fertility services and its strong outcomes above the industry average, we are seeing an increasing number of large players entering the $25bn market. This makes it harder for less mature companies like Progyny to sustain enduring levels of growth. Competition is coming from large national health insurance companies, such as UnitedHealth, as well as emerging businesses like Maven, a female-focused health company that already boasts contracts with large firms such as Amazon, Microsoft, and L'Oréal. As a result, our conviction in Progyny's ability to sustain earnings over the next decade has waned, and we have decided to use the proceeds to add to higher conviction ideas elsewhere.
Zoom	Video conferencing platform Zoom's mission to reduce the friction of video communications has seen it become a key enabler of remote working. However, growth has slowed after viral adoption during the pandemic, and the underlying mission has become less meaningful through a sustainability lens - both in terms of materiality and additionality - with a particular concern about the likely friction Microsoft will exert on Zoom's growth. We have therefore taken the decision to sell the holding and reinvest the proceeds in higher conviction ideas.

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