

**Baillie Gifford™**

Sustainability Report  
2023

# Sustainable Growth

## **Risk factors**

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

This communication was produced and approved in October 2023 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

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

The images used in this communication are for illustrative purposes only.

<b>Contents</b>	Introduction	02
	Twelve months in review	03
	A question of sustainability	04
	Making a difference	08
	People	10
	Planet	12
	Prosperity	14
	Towards net zero	16
	Climate audit results	17
	Emissions data	20
	Engagement and ownership priorities	22
	Proxy voting	27
	Appendix: a portfolio to be proud of	30

# Introduction

Welcome to our latest Sustainability Report. This year we adopt a new format which makes it easier to see how your companies are making a difference for society; addressing challenges of people, planet, and prosperity.

Having enhanced our investment process, we lead with an introduction to the Sustainable Growth Compass. This new nine-question research framework helps us analyse and compare the growth, resilience and sustainability of existing and prospective holdings.

This is brought to life with case studies organised according to the societal challenge they are tackling. From cancer detection to plastic pipes and responsible cosmetics, these examples illustrate the depth of our sustainability thinking. They show that a company can make a difference not just with impactful products but with exemplary business practices too.

We've aimed for a greater level of transparency than ever before. In 'A portfolio to be proud of', we detail the sustainability hypothesis for every company in the portfolio. We aim to find companies that, through their success, are making society meaningfully better off. We recognise that all of our clients have certain issues that are important to them, with different companies raising different questions for different people. We hope that laying out our rationale for each position clarifies how we think about the potential societal benefit of every holding.

There is an update on some longer-standing initiatives, with a progress report on current engagement priorities. We showcase how these conversations feature throughout our relationship with a company, from pre-purchase engagement with Starbucks to the management meetings with Illumina following its decision to re-purchase GRAIL.

There's also a review of our second annual climate audit, evidencing the portfolio's good progress towards achieving our net zero climate commitment. We finish with highlights from the many votes we have cast on your behalf at company AGMs over the past 12 months.

We hope you find this report informative and enlightening.

Toby Ross, Katherine Davidson  
and the Sustainable Growth Team.

# Twelve months in review

04



## A question of sustainability

Our new 'Compass' research framework raises our sustainability standards and results in greater consistency across holdings. Testing all portfolio holdings against this improved standard led us to sell nine companies on sustainability grounds.

08



## People, planet, prosperity

We began presenting our portfolio according to the most significant global challenges facing humanity today. Around a third of the portfolio by weight sits in each category.

16



## Towards net zero

We made good progress towards our climate commitment. The portion of the portfolio aligned with an accredited science-based 1.5C target has doubled from 19 to 38 per cent.

22



## Engagement priorities

We met with 21 holdings to build our understanding or influence change. We have 12 forward-looking priorities for the coming year.

27



## Voting

We voted our clients' shares on 840 resolutions at company annual general meetings (AGMs). On 36 occasions, we voted against management's recommendation, and we supported a shareholder resolution 14 times.

30



## A portfolio to be proud of

We reviewed the sustainability case for every holding and laid out our hypothesis for each. These can be found in full in the appendix.

# A question of sustainability: enduring growth for enduring good

Sustainable Growth is based on the fundamental belief that sustainable investment, done properly, will produce superior returns across the cycle. We believe there is no need to choose between making a profit and making a difference – the companies that create real value for society are better placed to see their growth endure for decades. And vice versa, companies whose growth can endure are in a position to deliver greater societal benefit. We look to harness this powerful virtuous circle on our clients' behalf: enduring growth for enduring good.

We deliberately have a wide-angle lens on how companies create that value, which is critical to building a well-diversified portfolio. A company can make a difference with impactful products, such as Denali Therapeutics' treatments for neurodegeneration, or with influential business practices, such as L'Oréal's exemplary efforts to reduce the environmental impact of its supply chain.

While product impact is sought after by many responsible investors, few have the bandwidth to analyse the complex, nuanced and largely qualitative area of business practices. But such mission-driven companies are better able to recruit and retain top talent, fend off competition and win new customers. In our view, understanding these is a crucial source of our edge in sustainable investment.





## Sustainable growth compass

### Enduring growth

01

How likely is the company to deliver 10 per cent per annum over the next decade?

02

How much control does the company have over its own success?

03

Valuation: what is our insight?

### Enduring good

04

To what extent do the core products or services make a positive difference to society over the next decade?

05

Does the company show leadership in its business practices?

06

What is the company's purpose, and how ambitious are they?

07

Should we trust the company with our clients' capital?

### Ownership priorities

08

No company is perfect – what should be our engagement priority?

09

What developments should we pay most attention to? Where could we be wrong?



Our nine-question framework is broadly split into three sections. The first three questions distil the key drivers of long-term growth: we believe that those companies that can sustain strong growth for a decade or more are strongly biased to outperform the broader market. We therefore consider a company's ability to meet our earnings growth threshold of 10 per cent per annum for 10 years, its sources of resilience that will see it through more challenging periods, and our insight on its future potential versus the market's current valuation.

Questions four to seven help us to be explicit about how we expect the company to create value for society. The questions consider the impact of a company's products, the influence of their business practices, their ambition as an organisation, and our trust levels in the management team.

The last two questions lay out our priorities for further discussion and engagement with the company. We consider what factors are the most critical to monitor if we are to understand whether the investment case is on track and if there are any issues to address in conversation with the management team. There is no perfect company, after all.

The questions are focused on identifying the company's most material opportunities to create value. That stands out from the increasingly backwards-looking metric-driven approach to sustainability pervasive in third-party environmental, social and governance (ESG) ratings. These typically focus on policies and breadth of disclosure to identify minimum standards.

This framework gives us a robust and repeatable process to follow when analysing investment opportunities. Crucially, it makes the comparison between existing holdings and prospective ones easier.

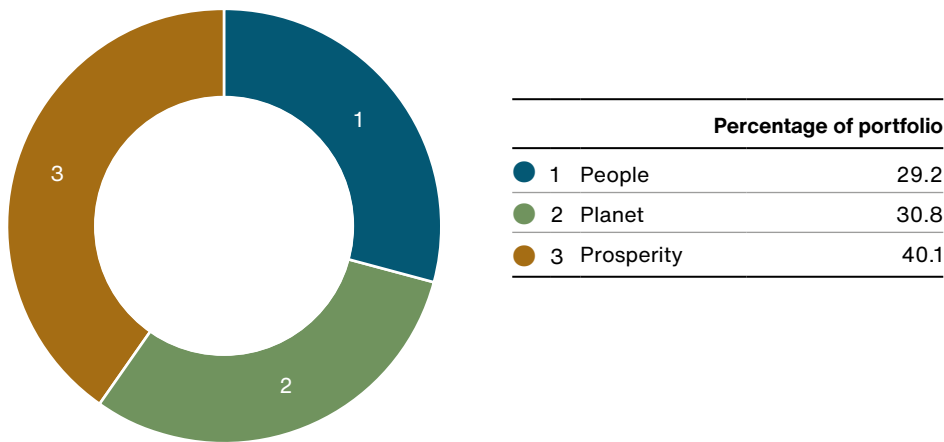
Over the past year, this analysis informed nine decisions to sell holdings. For example, for US industrial Fastenal, we felt deficiencies in the firm's diversity and inclusion practices could constrain the ability to attract and retain talent. Engaging with the management team suggested there was little likelihood of this improving in the near term. In the case of Tencent, we considered there was a risk of material harm to consumers relating to the use of sensitive personal data, which we didn't believe could be resolved through engagement.

The strong flow of new ideas enabled us to replace these with companies with the potential to significantly improve on the status quo – whether that is through Advanced Drainage Systems' products, which are helping to address the crisis in America's inadequate storm drainage, or Wise's commitment to drive transparency in the international money transfer market. We detail some of these existing and new holdings in the following pages.

# Making a difference: people, planet, prosperity

We seek to invest in companies that are benefiting society, either through the impact of their products or services or through the influence of their business practices on peers and the broader industry. For every prospective holding we try to understand which of the world's biggest problems the company is addressing, this could relate to people's welfare, the planet's condition or broadening prosperity. Within each of these, a diverse set of sustainability themes gives our clients a clearer picture of how the companies they invest in are making a difference.

## Portfolio exposures to sustainability themes

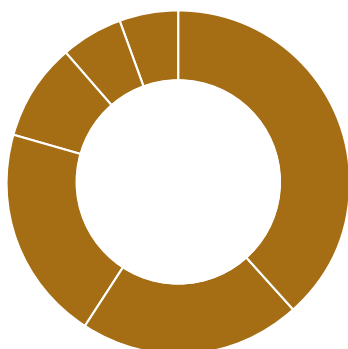




	Practices	Products	Total
<b>1 People</b>	<b>9.6</b>	<b>19.5</b>	<b>29.2</b>
Extending healthy life expectancy	2.6	11.9	14.5
Deepening financial inclusion	4.7	1.6	6.3
Enhancing access to healthcare	1.0	4.3	5.3
Improving food security		1.8	1.8
Promoting strong institutions	1.2		1.2



	Practices	Products	Total
<b>2 Planet</b>	<b>16.7</b>	<b>14.1</b>	<b>30.8</b>
Doing more with less	8.4	7.1	15.5
Enabling the energy transition	5.9	5.5	11.4
Preserving natural capital	2.4		2.4
Adapting to climate change		1.5	1.5



	Practices	Products	Total
<b>3 Prosperity</b>	<b>17.7</b>	<b>22.4</b>	<b>40.1</b>
Supporting innovation for growth	3.2	12.3	15.4
Lowering barriers to entrepreneurship	2.0	6.4	8.4
Fair and decent work	7.2	0.8	8.1
Safer lives online	3.7		3.7
Encouraging fair and transparent markets		2.3	2.3
Supply chains with integrity	1.7	0.5	2.2

<b>Grand total</b>	<b>44.1</b>	<b>56.0</b>	<b>100.0</b>
--------------------	-------------	-------------	--------------

Source: Baillie Gifford and Co. As at 30 June 2023.

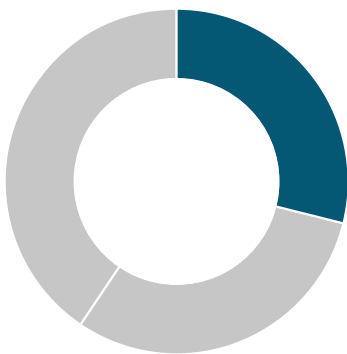
# People

Industry experts have predicted that the 21st century will be the century of biology, as our increasing ability to analyse and understand human diseases at the genetic level will transform medicine. This potential exploded into the public consciousness in 2020 with the rapid development of Covid-19 vaccines. Famously, it took biotech firm Moderna and gene sequencing company Illumina just four days to create their version: two days for Illumina to analyse the Coronavirus genome, then two further days for Moderna to apply its technology and come up with a solution.

We firmly subscribe to the view that we are on the cusp of something exciting in healthcare and hold stocks such as Denali, a biotech company seeking to cure neurodegenerative diseases, Staar Surgical, a US company seeking to disrupt traditional vision correction treatments, and Exact Sciences, which offers molecular cancer diagnostic tests.

Elsewhere in the ‘people’ category, we have insurers seeking to limit people’s risk exposure to illness or death, such as AIA or Prudential. Both are helping to meet a large and growing protection gap across Asia, where people are typically under insured, and are improving healthcare access by rolling out health insurance.

The New York Times is a relatively new holding that illustrates this category’s diversity. The eponymous newspaper plays an increasingly important role in promoting strong institutions in the developed world as its high-quality, rigorously-researched journalism has uncovered many high-profile scandals. This reputation for quality drives growth in subscriber numbers as one of the few remaining trustworthy news sources in a decaying environment.



Company	Fund %	Company	Fund %
UnitedHealth Group	2.6	Exact Sciences	1.3
AIA	2.5	New York Times Co	1.2
Mastercard	2.1	Pacira BioSciences	1.2
Experian	1.8	10x Genomics	1.1
Prudential	1.8	Sartorius Stedim Biotech	1.1
Kubota	1.7	Waters	1.1
Eurofins	1.5	Denali Therapeutics	1.0
HDFC Life Insurance	1.5	Progyny	1.0
STAAR Surgical	1.5	Wise	0.9
Illumina	1.4	Moderna	0.8
		<b>Total</b>	<b>29.1</b>



© Shutterstock/rarrarorro.

## Exact Sciences

### Products, extending healthy life expectancy

Exact Sciences is a molecular diagnostics company which analyses the genetic code found in our cells for markers of potential future disease. Its innovative diagnostic tests, such as Cologuard, which is a well-known brand in the United States, are revolutionising cancer detection and treatment.

Colorectal cancer is the second largest cause of cancer-related deaths in the US. Staggeringly, 80 per cent of cases could be treated if detected early. However, because the US does not have a nationwide screening programme for it, only two-thirds of adults aged 50–75 are up-to-date with their screening.

Cologuard is a non-invasive, at-home DNA test designed to detect the presence of abnormal cells or blood in the stool, which may indicate colorectal cancer or precancerous polyps. Unlike colonoscopies, which involve preparation, sedation and an uncomfortable procedure to visualise the colon, Cologuard is a convenient and less invasive option that can be done in the privacy of one's own home. Only those with a positive result require a follow-up diagnostic colonoscopy.

With over 95 per cent insurance coverage, Cologuard's market share has grown, increasing from 3 per cent in 2019 to 9 per cent today. This is still just a sliver of a, sadly, growing market, with a 40–50 per cent share being entirely plausible over our investment horizon. Additionally, for most patients, this is their first screening, which signifies an encouraging trend in driving the early detection and prevention of colorectal cancer. Cologuard has also recently been introduced to individuals aged 45–49, who would not routinely be offered a colonoscopy due to the minimal risk of this cancer for this age range.

Cologuard is rapidly becoming the industry standard test for colorectal cancer. It's a wonderful example of enduring good driving enduring growth – with the improved health and wellbeing of patients, alleviating stress on the healthcare system – and both elements stoking demand for pre-emptive cancer testing. We expect Exact Sciences to use this cash flow to expand its product portfolio into a broader 'continuum of care' for cancer patients.

## Wise

### Practices, deepening financial inclusion

Wise was founded by immigrants, for immigrants. The two Estonian founders were working in the UK and found sending money home 'expensive, clunky and opaque'. Even today, banks will charge several per cent of a transaction for overseas card spending. In contrast, traditional remittance companies will charge over 5 per cent for some transfers. The impact of these costs can be very material – which is why the UN added a specific target to the Sustainable Development Goals around reducing the cost of remittances to below 3 per cent by 2030.

The goal of the company that these founders built is to allow people to live their lives across borders and transfer money conveniently, inexpensively, and with full transparency over the transfer costs. Wise has a company-wide mission of increasing the industry's transparency and reducing these costs, ideally to zero.

This has made it hugely popular with its customers (which have grown by over 30 per cent per annum over the past three years). By organising itself to meet its mission and disrupting pricing, we think it has had a knock-on impact on other companies, who have had to respond. This is an excellent example of a company where we believe the effect goes well beyond its immediate customers: its choices about how to run its business has had a broader, systemic influence on the industry.

This influence continues to grow as it deepens its infrastructure in markets such as Brazil and India and widens its product range to help solve more problems for more customers. Wise's growing scale also means it is healthily profitable today – though the company is transparent that the goal is to earn a 'fair' margin of about 20 per cent and reinvest any surplus into giving its customers a better service or a lower price. This philosophy of 'sharing' economics is one that Costco made famous, but today surprisingly few companies practice it. We think those that do have a good chance of sustaining growth for a long time.

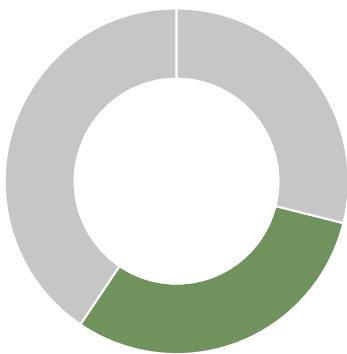
# Planet

Looking forward to a net zero world in 2050 there are some things we can be relatively certain about – appropriately priced carbon, electrification of transport, sustainable agriculture and increased city living all look set to feature prominently. These are fertile hunting grounds for stock pickers focused on sustainability, particularly those with time horizons as long as ours.

We look for innovators who can help avoid the worst effects of climate change or adapt to the physical impact should we not be so fortunate. For example, we need more efficient home heating and cooling methods, as they account for about 14 per cent of greenhouse gas (GHG) emissions here in the UK. This helps explain our holding in NIBE, with its ground source heat pumps that are twice as efficient as gas boilers. We will also need to convert a good portion of our road-based transportation to electricity, and Tesla is making great strides with its electric cars and other commercial vehicles. Building confidence in electric vehicles (EVs) means alleviating range anxiety, and firms like Samsung SDI of South Korea are central to the transport revolution. For more energy-intensive applications, such as industrial processes or longer-term storage, ITM's green hydrogen is a potential solution.

We also need influencers like L'Oréal with its industry-leading efforts to reduce the environmental impact of their products, or Danish freight forwarder DSV which is helping customers such as L'Oréal to find ways to reduce their supply chains' emissions-intensity. Recent purchase, Schneider Electric sets a high bar with its targets for emissions reduction and provides energy management systems that help other firms reduce their carbon emissions. The company aims to help its customers avoid 800 million tonnes of CO<sub>2</sub> by 2025, which would constitute a 0.3 per cent global reduction.

Reducing resource intensity is about more than climate change. Adevinta helps to promote the circular economy through its second-hand goods websites. At the same time, tyre company Bridgestone is focused on finding ways to reduce the footprint of manufacturing an essential good that even EVs will require.



Company	Fund %	Company	Fund %
Atlas Copco	2.7	NIBE	1.4
DSV	2.7	Spirax Sarco	1.4
Watsco	2.6	Dassault Systemes	1.3
L'Oréal	2.4	Wabtec	1.3
Beijer, G & L AB	2.3	Schneider Electric SA	1.0
IMCD	2.3	Adevinta	0.7
Tesla Inc	2.1	Zalando	0.5
Samsung SDI	1.7	Zoom Video Communications	0.5
Bridgestone	1.5	ITM Power	0.3
Advanced Drainage Systems	1.4	Moderna	0.8
		<b>Total</b>	<b>30.4</b>



© Rob Matthews / Alamy Stock Photo.

## Advanced Drainage Systems

### Products, adapting to climate change

Advanced Drainage Systems (ADS) makes plastic pipes for stormwater drainage in the United States. Drainage isn't the most glamorous topic – but it is a growing challenge in many parts of the world as the portion of built-up land mass grows and as weather patterns become more extreme due to the effects of climate change.

Various studies point to America's stormwater infrastructure requiring significantly more investment – indeed, the American Society of Civil Engineers grades the US stormwater infrastructure at 'D', meaning poor, and identifies an \$8bn funding gap. The effects of this are not limited to property damage from flooding, but also more significant waterway pollution.

Comparing ADS's high-density polyethylene (HDPE) pipes to the concrete from which most of America's infrastructure is currently built they help address this challenge in two ways. First, they are cheaper to buy and less expensive to install because they are far lighter and easier to handle. This takes days off the construction process and reduces costs on individual projects, which will make addressing the stormwater drainage challenge more affordable. Second, it is longer-lasting and more robust than concrete, with less chance of leakage. Therefore, plastic is taking a fair share of the US storm drain market (presently about one-third of the total), and ADS has 50-60 per cent of the plastic pipe market.

However, there is another big environmental benefit: about half of ADS's plastic feedstock is recycled, and the carbon footprint of a plastic pipe is roughly half that of an equivalent concrete pipe. Today, it is the largest buyer of recycled plastic in North America, purchasing over 275,000 tonnes of recycled HDPE in 2022, with ambitious targets to increase this.

Therefore, ADS is at a confluence of trends, including a ramp-up in infrastructure investment to help mitigate some of the growing impacts of climate change, a generational shift from concrete to plastic materials, and it is benefiting from the push to increase plastic recycling. In each case, we think it is doing its best to drive these trends, strengthening the long-term growth case.

## L'Oréal

### Practices, preserving natural capital

L'Oréal's story began in 1907. Eugène Schueller, a French chemist, created a 'safe' hair dye that would soon be loved by Hollywood stars and flapper girls alike. Over the past century, L'Oréal has expanded its product range and appeal to become the largest beauty company globally, with a circa 13 per cent market share.

The company uses this position to help improve environmental standards across the industry. There are several dimensions to this. It has one of the most complete emissions reduction targets of any major company, extending through its supply chain. It is investing heavily in improving the recyclability of packaging and new plastic recycling technologies. L'Oréal is regarded by many as the industry leader in thoughtfully applying life cycle analysis – the evaluation of a product's environmental impact from the sourcing and processing of raw materials to manufacturing, distribution, use, recycling and final disposal.

However, what is perhaps most striking is its commitment to remove 95 per cent of synthetic petrochemicals from its product portfolio by 2030, replacing them with abundant biological inputs – a target it freely admits can't be met with today's technology. This commitment is catalysing innovation in alternatives from its supply chain by creating demand for more sustainable alternatives, which in time may be taken up by competitors large and small.

Why does L'Oréal stake out this leadership position? We have asked L'Oréal's most senior executives this, and they give two answers. First, it is their responsibility as the industry's largest player to ensure that the industry has a positive impact on the environment and society. Second, the long-term horizon of its brands means that staying ahead of consumer expectations is fundamental to its future success – and solving the problem of better ingredients may help win or retain customers.

There may be an additional driver which is just as powerful: L'Oréal's success has been built on a reputation for being the most attractive home for marketing talent in the industry. We believe that this talent increasingly wants to work for the companies that are addressing these challenges.

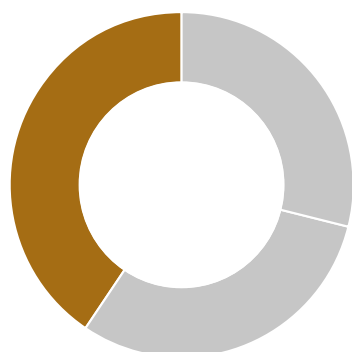
# Prosperity

If ‘people’ and ‘planet’ sit at the base of Maslow’s famous hierarchy of needs, then ‘prosperity’ sits further up, satisfying a requirement beyond the basic needs for a healthy body and a clean place to live. This category contains those companies that are creating or facilitating economic growth to address significant inequalities, pulling large sections of society out of poverty and giving them the security needed to live fulfilling lives. It is about thriving, not just surviving.

Many of our emerging market holdings, such as the Latin American ecommerce platform MercadoLibre discussed here, have witnessed first-hand the societal benefits of economic progress. However, this is more than just a developing market phenomenon. Shopify, the Canadian ecommerce platform, is lowering barriers to entrepreneurship in the developed world by providing a suite of business tools that allows smaller merchants to compete with larger ones. Gone are the days when new business formation required vast amounts of capital to fit out server rooms. All an entrepreneur needs nowadays is a smart phone and a good idea. This is levelling the playing field between big companies and small ones.

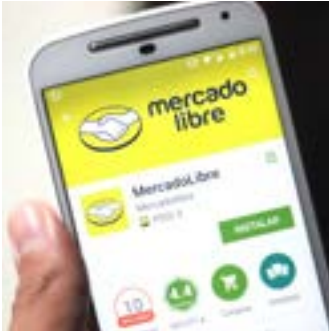
In the era of the gig worker, where individuals typically in the service sector are locked into temporary contracts weighted in the employers’ favour, fair and decent work is also an unmet need for many. Employment platform Recruit uses technology to improve transparency and efficiency in labour markets, reducing the economic hardship from frictional unemployment via its Indeed and Glass door websites. Recruit also works with employers to minimise discrimination and help marginalised groups find jobs, such as ex-convicts, for whom finding work materially reduces reoffence rates.

Few companies within the portfolio could address the societal challenge they’re tackling without using the huge amounts of computing power at our disposal thanks to cutting-edge semiconductors. From NVIDIA’s graphics processors, which are powering the development of artificial intelligence, to Texas Instruments, which provide the analogue semiconductors on which electrification depends, and TSMC’s foundries, the Sustainable Growth portfolio is exposed to the new infrastructure that underpins societal progress in the modern world.



Company	Fund %	Company	Fund %
Workday	3.4	Amazon.com	1.5
TSMC	2.9	Nintendo	1.3
MercadoLibre	2.8	adidas	1.1
Texas Instruments	2.6	Cognex Corp	1.1
NVIDIA	2.5	Meituan	1.1
Shopify	2.5	Upwork	0.9
Alphabet	2.3	Rakuten	0.6
MarketAxess	2.3	Warby Parker (JAND)	0.6
The Trade Desk	2.3	JD.com	0.5
Recruit Holdings	2.1	Ocado	0.4
FANUC	2.0	<b>Total</b>	<b>40.5</b>
Spotify	2.0		
Starbucks Corp	1.6		





© Newscast/REX/Shutterstock.



© iStockphoto/Robert Chen.

## MercadoLibre

### Products, lowering barriers to entrepreneurship

MercadoLibre is the largest ecommerce platform in Latin America and is emerging as a leader in the region's financial technology (fintech) industry.

The company is important in lowering barriers to entrepreneurship in Latin America. Like other ecommerce platforms, MercadoLibre gives sellers access to a more extensive and geographically diverse customer base and, in this way, supports livelihoods and economic growth.

What is unique about this ecommerce company is the market in which it operates. Not only is ecommerce penetration lower than in many other regions, but over 200 million people (more than 30 per cent of the region's total population) in Latin America live in poverty. This means that raising income levels and job creation in the region has a more significant impact. MercadoLibre is now the primary source of income for over 900,000 families and half a million small- and medium-sized enterprises (SMEs), 25 per cent of which are led by women.

While the ecommerce platform lowers barriers to entrepreneurship, MercadoLibre's fintech services promote financial inclusion by expanding access to financial services to previously unbanked consumers. It can do this thanks to the data it gets from its ecommerce platform.

We have been impressed by MercadoLibre's ambition to transform the lives of millions of Latin Americans. Its core products help solve some fundamental problems, supporting this impact further by its business practices. We believe that as ecommerce penetration in Latin America grows, MercadoLibre will be the platform of choice for SMEs and consumers.

## Workday

### Practices, fair and decent work

Enterprise resource planning software streamlines many of the operations that sit behind a company's core function. Workday offers these tools through a cloud-based service. It employs a 'land and expand' strategy, establishing itself as indispensable to its customers with slick human capital management apps, and using that as a foothold to cross-sell financial reporting software. Our enthusiasm for Workday is reflected in the fact that it is currently the largest position in the portfolio.

Baillie Gifford is one of around 8,000 companies that use Workday's systems. While we are just a tiny fraction of the 50 million workers that use the company's services worldwide, it gives us a good understanding of the system's value. It helps us manage our workforce while helping us to automate and simplify lots of manual and time-consuming processes. This value makes the product terrifically sticky.

However, Workday's role in housing our most sensitive data is especially influential in helping us manage our people better. This is part of a deliberate strategy: Workday has long aimed to develop the tools that the most forward-thinking and progressive employers will need, including learning from its own experience. It then makes those available to a far broader customer base across many industries.

An excellent example of that influence is in areas such as diversity and inclusion. Workday developed the tools that make it easier to track how our gender pay gap is narrowing and understand the trends in the make-up of our workforce in a granular way. It also developed the recruitment system that we use to reduce potential sources of bias in our hiring processes.

We view Workday as a company with a powerful sense of purpose which is using its influence to spread better practices. This is an important reason why its growth is so durable.

# Towards net zero: our climate commitment

Sustainable Growth is committed to investing in a way that is aligned with a scenario which limits global temperature increases to 1.5C.

The most important contribution will be made by the companies in the portfolio implementing plans to align their business with a 1.5C scenario, including investing in and supporting climate solutions. Encouraging our holdings to be ambitious is likely to be where we can have the most significant influence. We should also focus that influence on those companies that are likely to have the greatest impact on climate change and the energy transition.

As a reminder, Sustainable Growth's net zero commitment is as follows:

- By 2030, over 90 per cent of our climate-material holdings will be aligned with a 1.5C/net zero 2050 scenario. By 2040, all portfolio companies will be aligned. New buys will have an extra two years to meet the commitment.
- Between now and 2030, on an annual basis, we will audit the portfolio and report to clients on:
  - a. The progress of our holdings in aligning with a 1.5C scenario
  - b. Our climate-related engagement with portfolio holdings.

We define 'climate-material holdings' as those that account for 90 per cent of the portfolio's financed emissions. We also include any holdings in the world's largest 25 companies (by value) as being 'climate-material', as they have a systemic influence on supply chains, customers and broader society. Making this materiality distinction will help focus our engagement on those companies where alignment will make the most significant difference.

We expect Sustainable Growth's financed emissions to decline over rolling five-year periods, thanks to the progress made by portfolio holdings. If this is not the case, we will explain why this is consistent with our commitment to investing in a way aligned with a 1.5C scenario.

# Climate audit results

Our firmwide climate audit records Baillie Gifford’s assessment of company alignment with limiting global warming to less than 1.5C this century. This framework, we believe, sets a high bar. The minimum standard to be considered ‘Leading’ requires not just a target to be net zero by 2050 but comprehensive disclosures and targets across all material scopes of the Greenhouse Gas Protocol, with appropriate interim targets. We also look for strategic alignment, increasingly expressed through capital allocation, decision-making, the company’s wider narrative and use of its influence within its value chain.

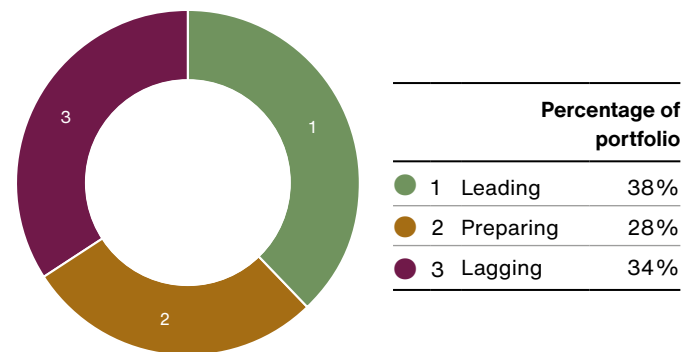
Our assessment currently has seven categories ranging from no disclosure to targets that demonstrate ambition that is well above average. The categories are organised into three groups to indicate how prepared a company is: Leading, Preparing and Lagging. Last year’s audit showed that approximately 19 per cent of the Sustainable Growth portfolio, by capital weight, was ‘Leading’ and 1.5C scenario aligned. This year, the portfolio’s climate audit shows that well over a third of the portfolio by capital weight is ‘Leading’ and aligned with a 1.5C scenario. This outcome is a consequence of impressive company progress, which we have been encouraging through our engagement and portfolio activities.

This evidences meaningful year-over-year progress towards our net zero commitment and shows that while Sustainable Growth is not a climate fund, per se, it is undoubtedly a climate-positive fund. However, there remains significant work to do. In our opinion, about a quarter of portfolio holdings still do not have adequate emissions disclosures. Fewer still have accredited science-based targets they are working towards.

These remain engagement priorities for the coming year, as detailed in the engagement section of this report. We expect to identify further priorities from a scenario planning exercise scheduled for the coming months. This will allow us to test the portfolio against various social, political, technological and physical outcomes that may result from the climate transition. However, as with any engagement, we are focusing our efforts on those cases where we think the potential impact of climate change on the company’s long-term success is most material.

## Target assessment

A company’s ambition and targets to reduce their direct and value chain emissions in line with the Paris Alignment.



### Leading

Companies committed to reductions in line with their fair share of a science-based 1.5C-aligned pathway, with appropriate demonstrations of targets, intent and strategic coherence.

### Preparing

Companies with disclosure and narrative that suggests they are preparing to set 1.5C-aligned targets in the near future.

### Lagging

Companies lacking sufficient disclosure or suitably robust targets, where the pathway to improvement is currently uncertain.

Source: Baillie Gifford and Co. As at 30 June 2023.

**Climate alignment**

<b>Transition role</b>	<p><b>Solutions innovator</b> Key enabler of decarbonisation</p>		<p>Tesla Inc</p> <p>Nibe Industrier</p>	
	<p><b>Potential influencer</b> Carbon light with an opportunity to be part of the solution</p>	<p>Market Axess      The New York Times</p> <p>Waters      The Trade Desk</p> <p>JD.com      Cognex</p> <p>Upwork      STAAR Surgical      Warby Parker</p> <p>10X Genomics</p> <p>Adevinta      Denali Therapeutics      Misumi</p> <p>Progyny      Exact Sciences      Pacira BioSciences Inc</p> <p>HDFC Life Insurance Co Ltd      Nintendo</p>	<p>Rakuten      Moderna</p> <p>Advanced Drainage Systems</p> <p>AIA      Experian</p>	<p>Recruit      Beijer Ref</p> <p>Dassault Systèmes      Mastercard</p> <p>Netflix      Sartorius Stedim Biotech</p> <p>Wise      Spirax-Sarco      Spotify Technology</p> <p>Workday      Atlas Copco      DMG Mori</p> <p>Prudential      Illumina      L'Oréal</p>
	<p><b>Potential evolver</b> Environmentally challenged with opportunity to be part of the solution</p>	<p>MercadoLibre</p> <p>TSMC      Kubota</p> <p>Texas Instruments</p> <p>Watsco</p> <p>Meituan      IMCD</p>	<p>Wabtec</p> <p>Shopify      Bridgestone</p> <p>NVIDIA</p>	<p>Amazon.com      Ocado</p> <p>Starbucks</p> <p>adidas</p> <p>Alphabet</p> <p>FANUC      DSV      Zalando</p>
	<p><b>Materially challenged</b> Environmentally challenged with limited scope for adapting</p>			
		<b>Lagging</b>	<b>Preparing</b>	<b>Leading</b>
		<b>Emissions reduction goals</b>		

# Emissions data: portfolio carbon footprint and intensity

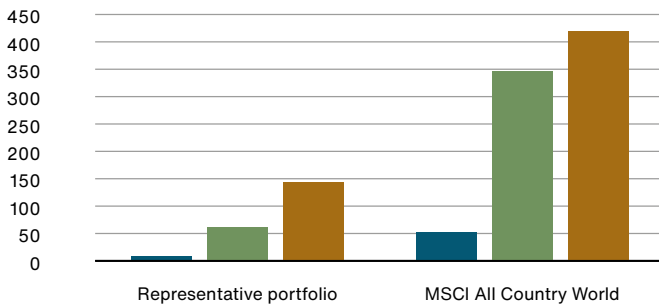
Measurements of the intensity of greenhouse gas emissions (GHGs) generally comprise two metrics: direct and indirect. The former is a measure of emissions directly resulting from a firm's operations. It is further split into scope 1, which relates to the combustion of fuels or from industrial processes, and scope 2, relating to purchased energy). The latter, indirect emissions (also known as scope 3), consider the prevalence of GHGs across the entire value chain of a company. For example, they may occur 'upstream' during product sourcing or 'downstream' in the use and disposal of purchased goods.

For ease of comparison across business types, we provide the emissions data that follows on an enterprise value basis (total value of debt, equity and cash). Footprint data is per million dollars invested, and intensity statistics are per million dollars of company revenues. On that basis, the direct GHG intensity of Sustainable Growth is less than a fifth of its comparative index, the MSCI ACWI. By virtue of a low starting point, this is roughly in line with 2022 numbers but represents significant progress since we started tracking these statistics in 2017, when direct emissions were three times higher.

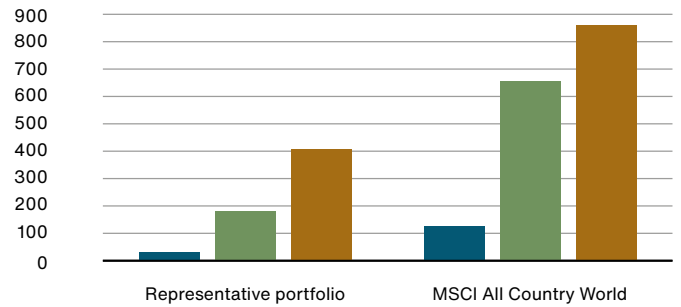
We do hold a small number of more GHG-intensive companies. Our top three holdings by direct emissions intensity are TSMC and Texas Instruments in semiconductor fabrication and Bridgestone, a Japanese tyre manufacturer. We also own some large emitters in absolute terms, with ecommerce giant Amazon the most significant contributor. However, we are comfortable with each of these. They are embracing the necessary changes and taking leadership within their respective industries on minimising the impact of their operations.

Our opportunity-focused approach also sees us gain exposure to several solutions providers. We class more than half of the portfolio by weight as climate 'innovators' or 'influencers'. Among others, holdings in Samsung SDI (battery technologies), Advanced Drainage Systems (recycled plastic pipes) and ITM Power (green hydrogen) are particularly climate-positive. However, carbon accounting methods are not yet sophisticated enough to quantify their contribution reliably, meaning we have not reported 'avoided emissions' metrics this year.

**Portfolio carbon footprint (financed emissions tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) per \$m)**



**Portfolio emissions intensity WACI/Revenue (\$m)**

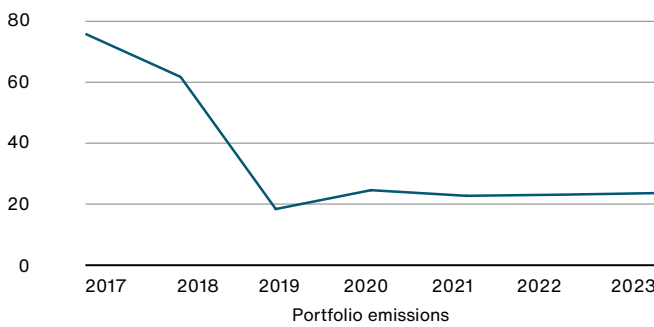


● Scope 1 and 2   ● Scope 1, 2 and est. Material 3   ● Scope 1, 2 and 3 est. All

Source: Baillie Gifford and MSCI. As at 30 June 2023.

Based on a representative portfolio. All data is pulled from MSCI, Sustainalytics, ISS and BoardEx, via the FactSet platform. It is fact checked by our ESG analysts and is considered correct at the time of publishing.

**Portfolio carbon intensity trend**  
Portfolio emissions (WACI = tCO<sub>2</sub>e/\$m revenues)



Weighted Average Carbon Intensity (WACI).  
Source: Baillie Gifford and Co. As at 30 June 2023.

# Engagement and ownership priorities

Our philosophy and processes are shaped around ‘products’ (what a company does) and ‘practices’ (how it does it). Similarly, sustainable investing is not just about what we own for our clients but also how we own it. One of Baillie Gifford’s ‘Shared Beliefs’ is that we should be actively engaged, supportive shareholders. This is particularly important for Sustainable Growth, where we support and influence companies to fulfil their strategic goals while making a difference for society.

Our approach to engagement is to focus on quality over quantity. We seek to own well-run companies with trusted management teams, and, in many cases, our role is to stay out of their way and let them deliver. However, no company is perfect. Part of our Compass framework is identifying where the greatest potential for progress is. This is to help focus our engagement activity on the most material issues for realising our investment case rather than a laundry list of requests.

Based on this analysis, the Sustainable Growth Team identifies an Engagement Priority List based on the feasibility and materiality of each potential engagement over a three-year time horizon. The names on the Priority List are those where a lack of progress on the stated issue would undermine our conviction in the investment case.

We assign a lead from the team responsible for liaising with other holders internally and coordinating the engagement activity. We generally have around 5–10 engagements on this Priority List, which is reviewed quarterly. At our most recent meeting, we removed Fastenal, Chegg and Twilio from the list after selling these holdings and added six new names.

We do not disclose the details of our current Priority List, as this might diminish our ability to establish a dialogue on an issue. However, we can share that our current list includes 12 names across various industries and geographies, with some common issues. For nine of the companies, we are prioritising engagement on climate because we feel a lack of leadership on environmental matters would undermine our investment case. Employee welfare is a priority in four instances, and governance or succession planning features for another four.

We provide an update on our engagement activity in our quarterly client reports and we have highlighted some of the most interesting case studies over the past year here.

## Supporting companies to be exceptional

### Recent engagement examples





© Starbucks.

## Case study

---

# Starbucks

## Global coffee shop chain

### Why we own it

There remains a long runway for growth for Starbucks' brand, including in China, where coffee consumption levels are less than 1/20th of US levels and growing fast. Starbucks is the world's largest buyer of Arabica coffee beans and expects its demand to double over the next decade to support further growth. Conversations with non-government organisations (NGOs) and others have confirmed the leading role that Starbucks has played in improving conditions for the 12.5 million smallholder coffee farmers globally. It has used its influence to ensure decent pay, remove child labour, and help farmers manage price volatility and adapt to climate change.

### Issue

Starbucks has a strong record of treating its employees very well and has historically had highly satisfied employees or 'partners', partly because their pay and benefits have been much better than their competitors'. However, our research highlighted that operating through the pandemic had increased the strains on some partners, which had led to some branches voting to unionise. The company mishandled its initial response to this. Before taking a holding, we wanted management assurance they would respect employees' rights to unionise.

### Engagement

As part of a series of discussions with a range of executives in Seattle in September 2022, we met with the chair, Melody Hobson. We received an assurance that management respected employees' rights to unionise. The executives also made it clear that improving employee experience was their top priority – and could demonstrate that their considerable effort was resulting in higher job satisfaction and lower levels of turnover.

### Outcome

Following this meeting, we took a holding for the portfolio. However, we have continued to encourage the company to maintain the progress it's been making on improving employee experience and to provide investors with evidence of this. At this year's annual general meeting, we voted in favour of a shareholder proposal requesting an assessment of worker collective bargaining rights, which subsequently passed. This issue is material to the investment case, as we have explained to management before the vote, and we believe this assessment would help to evidence its assurances.





© Image Courtesy of Illumina

## Case study

# Illumina

## Gene sequencing equipment

### Why we own it

As a global leader in gene sequencing, Illumina's products are used by researchers and clinicians worldwide to study human health and disease. Its products enable scientific and medical advances, and there remains a significant growth opportunity as the machines become more affordable and move from research settings to clinical ones.

### Issue

For some time, we have had concerns about leadership and decision-making at the company, alongside questions about innovation and growth in the core business. In particular, chief executive (CEO) Francis deSouza's decision to repurchase GRAIL and close the deal before full regulatory approval cast severe doubt on management's judgement. GRAIL, a business that develops non-invasive liquid biopsy tests that screen for multiple types of cancer at the very early stages of the disease, was initially spun out of Illumina in 2016.

### Engagement

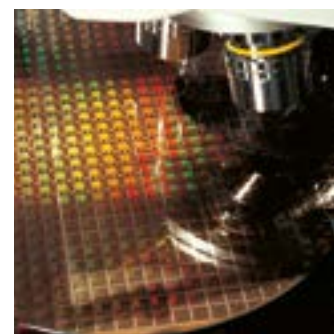
Growth under deSouza has been somewhat disappointing. Despite being the global leader in its field, slower price deflation, accusations from customers that it was using its leadership position to keep prices elevated, and patent expirations that open the door to more competitors were key considerations in our review. Furthermore, activist investor Carl Icahn took a stake in the company

in February 2023, proposing three nominees to the board and the rapid resolution of the GRAIL acquisition. Illumina reached out to us to discuss the matter, and we agreed to support management on that occasion, using the engagement as an excellent opportunity to discuss our concerns and agitate for change.

In May 2023, we met with various directors and executives, including the chair of the audit committee, the chair of the nomination and corporate governance committees, and the CEO and chief financial officer (CFO). The discussion was broad, but we addressed our key concerns around leadership and growth from here. We found the individuals to be humble, open and highly engaged with the day-to-day operations and excited about Illumina's future.

### Outcome

Not long after, deSouza's resignation was announced, with the board beginning an immediate search for his replacement. We are optimistic about the stewardship of Illumina under the gaze of this group of individuals. They have a range of skills and experience and, crucially, a strong record of replacing CEOs at other companies with more suitable candidates. Following this engagement, our conviction in the core business stabilised, and we are enthused about a new CEO joining the firm. We would like to see the individual prioritise improving growth and stakeholder engagement.



© Taiwan Semiconductor Manufacturing Co., Ltd..

## Case study

# TSMC

### Why we own it

As the world's largest – and most advanced – independent foundry, TSMC occupies a critical position in the semiconductor industry. By enabling chip designers to outsource manufacturing, the company allows for faster and more capital-efficient innovation across lots of industries.

### Issue

We spoke with numerous researchers and academics from Taiwanese think tanks and NGOs to understand the challenge TSMC faces in decarbonising its operations. The island relies heavily on imported fossil fuels, and nuclear power will be phased out by 2025. In 2021, renewables contributed just under 6 per cent to its energy mix, and their expansion has been sluggish. Issues have included, but are not limited to, constrained land availability for solar supply chains and wind farm permitting. Given the direction of the current energy policy, Taiwan's grid will likely remain carbon-intensive for some time. Approximately 62 per cent of TSMC's reported carbon emissions come from its electricity use. With most of its manufacturing taking place in Taiwan, the company's ability to decarbonise will be dependent on Taiwan's success in decarbonising. This is not just a moral imperative or environmental concern – some of TSMC's customers have ambitious scope 3 emissions reduction targets. If TSMC cannot manufacture greener semiconductor chips, the company may increasingly find itself at a competitive disadvantage. We wanted to hear from the company about how it was addressing this challenge.

### Engagement

In two meetings with the company this year, one with the CFO, we raised our awareness of the company's challenges in decarbonising its operations in Taiwan. The company recently improved its target, aiming to achieve 40 per cent of electricity consumption from renewable sources by 2030. The company has also signed the world's largest purchase power agreement with renewable energy company Ørsted. Our estimates suggest that even accounting for its contribution meeting its 2030 goal will be challenging.

However, several other examples of the company ambitiously pursuing renewable purchasing exist. For instance, it has been purchasing almost 98 per cent of Taiwan's renewable energy certificates (T-RECs), is self-installing renewables on new fabrication plants and supporting suppliers to purchase renewable power. We encouraged the company's efforts to be proactive and stay ahead of these issues. We have expressed our full support as long-term shareholders for the company incurring the short-term costs needed to ensure the long-term sustainability of its energy supply.

### Outcome

Despite the constraints facing TSMC, given the nature of Taiwan's electricity grid and the direction of its energy policy, we believe the company is showing genuine ambition to decarbonise and take confidence that its commitment to greening its electricity supply is sincere.

# Proxy voting

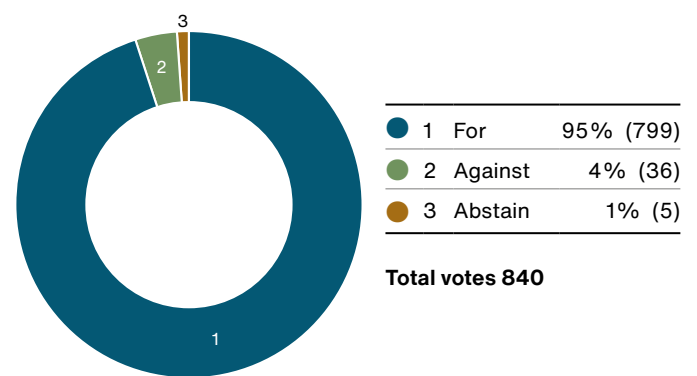
Proxy voting is central to our engagement strategy: it enables us to support, influence, or challenge the management teams of the companies we invest in. We aim to vote on behalf of our clients for all shares worldwide wherever feasible, ensuring their voice is heard in corporate decision-making. In consultation with other investment teams, we carefully assess proposals, focusing on what we think will best serve our clients' long-term interests. Should we choose to vote against management, we aim to ensure that we discuss our concerns and inform them of our decision before submitting our vote.

During the past year, we voted at 70 company meetings on 840 resolutions. Ninety-five per cent of votes (799) were cast in line with management's recommendation, 4 per cent (36) were cast against, and 1 per cent of votes (5) were cast as abstentions.

This stance of overwhelming support is to be expected. One of the core elements of our sustainable investment framework is to assess companies on trust (see p6). Essentially, this explores whether the company's culture is that of a responsible business and if the management team is well-aligned with external shareholders. That is not to say, however, that we have not challenged management nor supported shareholder resolutions that we thought were worthwhile. We supported around a quarter of shareholder proposals tabled in the period.

## Proxy voting record

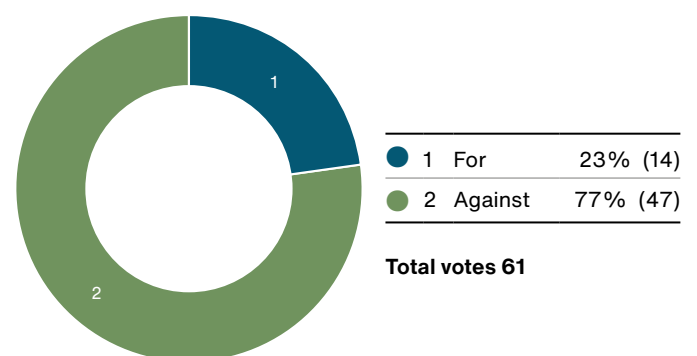
1 July 2022 to 30 June 2023



Source: Baillie Gifford and Co. As at 30 June 2023.

## Shareholder resolutions

1 July 2022 to 30 June 2023



Source: Baillie Gifford and Co. As at 30 June 2023.

## Supporting shareholder proposals

Thoughtful shareholder proposals can act as a catalyst for constructive change. In an ever-changing business landscape, they assist in challenging companies to remain responsive to the evolving needs of their stakeholders. Below are a few examples from this year where we supported shareholder proposals when voting.

### Alphabet

We supported a shareholder resolution requesting that the company report upon the alignment of YouTube policies and procedures with comprehensive and rigorous online safety regulations to minimise legislative risk. Failure to adequately prepare for the implementation of forthcoming legislation could have a material financial impact on the company through regulatory fines and penalties, which is why we believe that enhanced disclosure is in shareholders' interest.

### Amazon

We supported a shareholder resolution requesting that the company issue a report on plastic packaging pollution, including an assessment of its efforts to reduce environmental impacts. Plastic pollution poses financial, operational and reputational risks to the company. We continue to believe that Amazon is making progress in this area, but that there is more that could be done, for example, regarding how it influences its manufacturers. Overall, making progress in addressing this issue will help position the company for long-term growth. This resolution received more than 20 per cent overall voting support, highlighting the perceived significance of the topic.

### Starbucks

In light of several recent high-profile controversies, and consistent with our previous engagement activity (detailed on p24), we supported a shareholder proposal. It proposed commissioning an independent, third-party assessment of Starbucks' adherence to its stated commitment to workers' freedom of association and collective bargaining rights. This resolution received more than 20 per cent overall voting support, showing the importance of the issue to shareholders.

### Tesla

In the past, Tesla has been criticised for how it treated employees, an issue we have previously engaged with the company on. In 2022, we supported a shareholder proposal requesting additional disclosure on Tesla's efforts to address harassment and discrimination in the workplace. Our past engagement indicated that Tesla is committed to addressing these issues. However, we believe that quantitative disclosure including, for example, metrics on dispute settlements, resolution times and pending complaints would provide valuable insight, helping shareholders better understand and monitor the company's progress in this area. This resolution received more than 20 per cent overall voting support, emphasising the understood importance of the problem.



# Appendix: a portfolio to be proud of

## A portfolio to be proud of

Company	Products /practices	Theme	Sub theme	Sustainable development goal	Hypothesis in a nutshell
10X Genomics Inc	Product	People	Extending healthy life expectancy	3.4	10X Genomics has commercialised single-cell sequencing, ushering in a new era of genetic research and enabling a growing number of scientific and medical breakthroughs.
Adevinta	Product	Planet	Doing more with less	12.5	Through its second-hand marketplaces, Adevinta reduces the need for newly produced goods and contributes to the circular economy, helping people live more sustainably.
adidas Group	Product	Prosperity	Fair and decent work	8.5	Adidas is committed to fair pay and working conditions throughout its supply chain, leading the industry on transparency and audit quality.
Advanced Drainage Systems	Product	Planet	Adapting to climate change	13.1	ADS's recycled plastic pipes improve the quality and quantity of stormwater systems in the US, which will become increasingly essential as the frequency and severity of urban flooding increases.
AIA Group	Product	People	Enhancing access to healthcare	3.8	AIA provides life and health insurance mostly in emerging Asia, helping customers manage risks related to illness or death and offering security where social safety nets are limited.
Alphabet Inc	Product	Prosperity	Supporting innovation for growth	9.C	Alphabet's largely free tools have helped revolutionise access to information and learning, and allowed smaller businesses to scale fast. Today the company is at the forefront of innovations in fields such as artificial intelligence, and we believe it has a catalysing effect on innovation in many realms.
Amazon.com	Product	Prosperity	Supporting innovation for growth	9.5	Amazon Web Services is the largest source of profit for Amazon, and the biggest driver of growth. AWS plays a critical role in helping companies and governments realise the benefits of moving their technology to the cloud, which include faster innovation cycles, lower costs and better reliability.
Atlas Copco	Product	Planet	Doing more with less	9.4	Atlas Copco helps its customers to reduce the energy intensity of their operations, through providing more efficient compressors and tools – and it is increasingly helping them to switch away from the use of fossil fuels.

Company	Products /practices	Theme	Sub theme	Sustainable development goal	Hypothesis in a nutshell
Beijer Ref Group	Practices	Planet	Enabling the energy transition	7.3	Buildings account for 40 per cent of global emissions. As the only global distributor of air conditioners and heat pumps, Beijer has the opportunity and ambition to steer both customers and manufacturers towards more energy efficient units.
Bridgestone Corporation	Practices	Planet	Doing more with less	9.4	Tyres are an essential product, especially when it comes to heavy, high-torque electric vehicles. Bridgestone is focused on reducing the environmental impact of the industry by investing in sustainable materials and recycling.
Cognex Corporation	Product	Prosperity	Supporting innovation for growth	9.5	Cognex is a leader in technology for machine vision, which enables greater automation in a wider range of industries and tasks. In particular, Cognex's products reduce waste and improving quality control in manufacturing.
Dassault Systèmes	Product	Planet	Doing more with less	9.4	Dassault provides industry-leading software that helps design, build, and manage products more efficiently, reducing resource use and waste while accelerating innovation.
Denali Therapeutics Inc	Product	People	Extending healthy life expectancy	3.4	Denali Therapeutics' pioneering next-generation treatments for neurodegenerative diseases could revolutionise treatments for one of the most significant medical challenges of our time.
DSV	Practices	Planet	Doing more with less	9.4	DSV is one of the world's largest buyers of freight, and is committed to using this scale to help reduce the carbon intensity of its customers' logistics networks, with a significant influence on their customers and the shippers.
Eurofins Scientific	Product	People	Extending healthy life expectancy	3.9	Eurofins plays a critical role in society through the provision of analytical testing services, the benefits of which range from facilitating food safety, to measuring environmental impact, supporting drug testing and development, and advancing medical research.
Exact Sciences	Product	People	Extending healthy life expectancy	3.4	Colorectal cancer is the second leading cause of cancer deaths in the US, despite the fact that 80 per cent of cases are treatable if caught early. Exact's Cologuard is quickly becoming the industry standard screening test for colorectal cancer and has the potential to save thousands of lives.

<b>Company</b>	<b>Products /practices</b>	<b>Theme</b>	<b>Sub theme</b>	<b>Sustainable development goal</b>	<b>Hypothesis in a nutshell</b>
Experian	Practices	People	Deepening financial inclusion	8.10	Experian's core role is to make it easier to issue credit by ensuring lenders have accurate data. It uses its influence as the largest credit bureau to try and promote financial inclusion, by giving consumers more insight and control over the data that lenders use.
FANUC	Product	Prosperity	Supporting innovation for growth	9.5	Fanuc is the world's leading provider of industrial robots. Automation increases the accuracy, efficiency and safety of manufacturing, and Fanuc's innovative 'co-bots' widen the range of applications especially among smaller enterprises.
HDFC Life Insurance Co Ltd	Product	People	Deepening financial inclusion	1.3	HDFC Life provides life insurance and savings products in the Indian market, which help bridge the protection gap and are particularly impactful for customers close to the poverty line.
Illumina	Product	People	Extending healthy life expectancy	3.4	As the global leader in gene sequencing, Illumina occupies a privileged position in the genomics value chain and has clear potential to make a difference by enabling scientific and medical advances.
IMCD Group	Practices	Planet	Doing more with less	12.2	IMCD's expertise in specialty chemicals and formulations helps its customers reduce the environmental footprint of their products, without compromising on performance. It is a particularly important enabler for small- and medium-sized customers, and actively spreads best practice across industries and geographies.
ITM Power	Product	Planet	Enabling the energy transition	7.2	ITM's technology positions it as a key player in the nascent green hydrogen industry. Green hydrogen, as a clean energy source, will play an important role in reducing carbon emissions and dependency on fossil fuels.
JD.com	Product	Prosperity	Supply chains with integrity	9.1	JD.com's heavy investments in its platform and infrastructure help consumers in rural China access affordable, safe and authentic products, and smaller merchants to reach a wider audience.
Kubota	Product	People	Improving food security	2.4	Through its provision of innovative agricultural machinery in Japan and South East Asia, Kubota is contributing to food security in ageing and urbanising societies.



Company	Products /practices	Theme	Sub theme	Sustainable development goal	Hypothesis in a nutshell
L'Oréal	Practices	Planet	Preserving natural capital	12.4	L'Oréal is using its position as the largest global cosmetics company to improve environmental standards across the industry. It has ambitious goals to reduce the climate and biodiversity impact of its products and supply chain, enabled by world-leading life-cycle analysis.
MarketAxess Holdings	Product	Prosperity	Encouraging fair and transparent markets	10.5	MarketAxess's platform dramatically reduces the costs and improves the transparency with which bonds are traded. This has subtle but far-reaching benefits for investors (such as pensioners) and bond issuers (such as governments). Penetration of electronic trading today is only around 40 per cent, and regulators are determined to increase this to promote transparency.
Mastercard	Practices	People	Deepening financial inclusion	1.4	Mastercard has ambitious goals for financial inclusion, partnering with the World Bank and other NGOs to bring one billion individuals into the financial system by 2025, with a focus on unbanked communities and women.
Meituan	Product	Prosperity	Lowering barriers to entrepreneurship	9.3	Chinese food delivery platform Meituan has launched industry-leading initiatives to help millions of small restaurants reduce food and packaging waste, and is establishing infrastructure for recycling.
MercadoLibre	Practices	Prosperity	Lowering barriers to entrepreneurship	9.3	MercadoLibre has expanded from an ecommerce platform to a major provider of logistics infrastructure and financial services in Latin America, playing an important role in lowering barriers to entrepreneurship and promoting financial inclusion.
Moderna Inc	Product	People	Extending healthy life expectancy	3.4	Moderna's vaccine saved millions of lives during the Covid-19 pandemic, and it has reinvested the profits in heavy R&D. Its strong pipeline of vaccines for everything from flu to HIV could be game changing for public health.
The New York Times	Practices	People	Promoting strong institutions	16.10	The New York Times is one of few news organisations to have consistently invested in its journalism and product offering in a period of intense disruption of media. This high quality journalism, with a strong focus on ethical and truthful reporting, plays a vital – and increasingly unique – role in holding institutions to account.

Company	Products /practices	Theme	Sub theme	Sustainable development goal	Hypothesis in a nutshell
NIBE Industrier	Product	Planet	Enabling the energy transition	7.3	Buildings account for 40 per cent of global emissions. Nibe's heat pumps are vastly more efficient than existing heating and cooling systems, helping society transition to a low-carbon economy as well as helping countries to meet their net zero targets.
Nintendo	Practices	Prosperity	Safer lives online	n/a*	Nintendo distinguishes itself by creating family-friendly, accessible, inclusive and educational gaming content that promotes positive values and enables parental control of content and usage.
NVIDIA	Product	Prosperity	Supporting innovation or growth	9.5	Through its high-end chips and wider ecosystem, NVIDIA is providing the 'picks and shovels' for innovation and technological progress – notably in AI.
Ocado Group	Product	Prosperity	Doing more with less	9.4	Ocado has developed innovative technology for the end-to-end automation of online grocery. This has the potential to improve efficiency, reduce waste, and relieve labour shortages – as well as making life more convenient for all of us.
Pacira BioSciences Inc	Product	People	Extending healthy life expectancy	3.5	Through its innovative non-opioid pain relief alternatives, Pacira is positively impacting hospital, patient and broader societal outcomes, by reducing surgery-related opioid use and subsequently decreasing the risks associated with opioid dependence and abuse.
Progyny	Practices	People	Enhancing access to healthcare	3.7	Through its comprehensive benefits solutions, Progyny contributes to increased access to reproductive health-care services, supports informed decision-making around family planning, and promotes better health and well-being for individuals and families seeking fertility treatment.
Prudential plc	Product	People	Enhancing access to healthcare	3.8	Prudential is now focused on providing life and health insurance in Asia, helping customers manage risks related to illness or death and offering security where social safety nets are limited. Its growth will be increasingly driven by helping people meet their healthcare needs.
Rakuten Group Inc.	Practices	Prosperity	Supporting innovation for growth	9.C	Japanese ecommerce giant Rakuten is in the process of disrupting the incumbent telecom oligopoly, accelerating innovation and benefitting its millions of customers.

\*Most holdings show clear alignment with a sustainable development goal, however where that alignment is not sufficiently strong we will not stretch to show a tenuous connection.

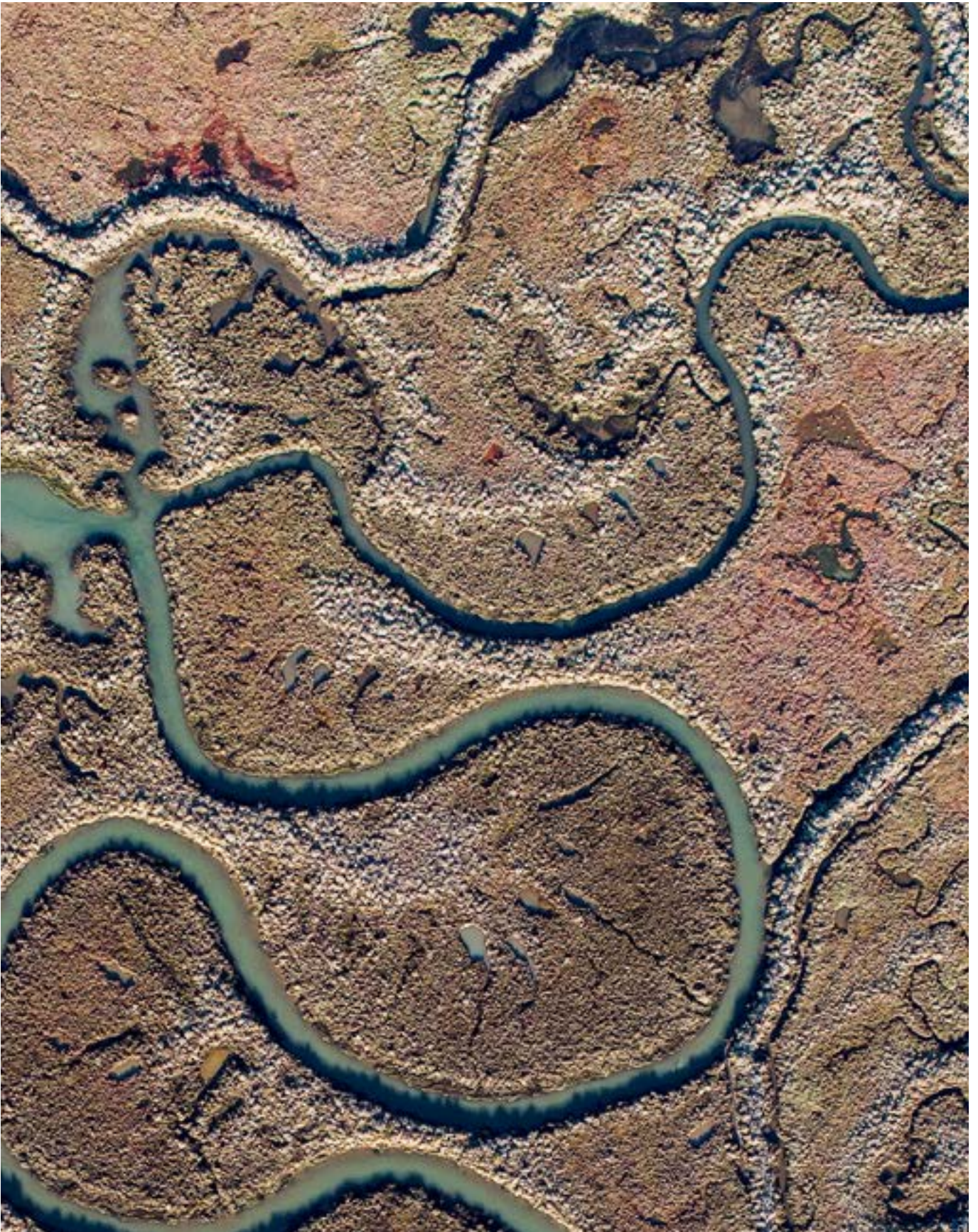
Company	Products /practices	Theme	Sub theme	Sustainable development goal	Hypothesis in a nutshell
Recruit Holdings	Practices	Prosperity	Fair and decent work	8.5	Recruit’s recruitment platforms and matching technology improve transparency and efficiency in the labour market, reducing economic hardship from frictional unemployment. The company seeks to go further by proactively working with employers to reduce discrimination and help marginalised groups find work.
Samsung SDI Co Ltd	Product	Planet	Enabling the energy transition	7.2	Samsung SDI plays a pivotal role in the energy transition by developing and supplying critical battery technology, enabling and enhancing the utilisation of both renewable energy sources and electric vehicles.
Sartorius Stedim Biotech	Product	People	Extending healthy life expectancy	3.4	Through its comprehensive portfolio of innovative manufacturing equipment, Sartorius SB enables biologic advancement, development and production efficiencies, thereby contributing (albeit indirectly) to better health for more people worldwide.
Schneider	Practices	Planet	Enabling the energy transition	7.3	As a manufacturer of electrical equipment, Schneider is enabling the energy transition while showing leadership in holding itself to high environmental standards, while inspiring suppliers and competitors to follow suit.
Shopify	Product	Prosperity	Lowering barriers to entrepreneurship	9.3	Shopify provides the infrastructure that enables merchants of any size to sell online – via their own websites and on their own terms. Its growing suite of products, from payments to advertising, levels the playing field for small businesses.
Spirax-Sarco	Practices	Planet	Doing more with less	9.4	Spirax Sarco provides niche industrial components for heat transfer and fluid dynamics. It partners with customers to identify opportunities to improve their operational efficiency and reduce their environmental footprint.
Spotify Technology	Practices	Prosperity	Lowering barriers to entrepreneurship	9.3	Through its music streaming platform and wider ecosystem, Spotify is contributing significantly to the growth of the creative economy and democratising access to income opportunities for artists and creators.

Company	Products /practices	Theme	Sub theme	Sustainable development goal	Hypothesis in a nutshell
STAAR Surgical	Product	People	Extending healthy life expectancy	n/a*	Staar's implantable lens enables long-lasting vision correction without the need for invasive surgery. Its low-risk procedure is a meaningful improvement on the status quo, and is suitable for a wider range of patients including those with severe myopia where the quality of life improvement is most significant.
Starbucks	Practices	Prosperity	Supply chains with integrity	12.6	Starbucks have pioneered a stakeholder-centric approach to running their business since they were founded. They have extended this approach through to its coffee supply chain, where it uses its influence as one of the largest buyers in the world to help promote more sustainable farming practices, and raise transparency in the industry, including developing the industry's first ethical sourcing standards.
Tesla Inc	Product	Planet	Enabling the energy transition	7.2	Tesla is significantly contributing to the global adoption of clean and renewable energy through its fully electric vehicles, solar energy solutions, and energy storage products. In doing so, the company is reducing the world's reliance on fossil fuels and playing a major role in driving the transition towards sustainable energy.
Texas Instruments	Practices	Prosperity	Supporting innovation for growth	9.5	Texas Instruments designs and manufactures analog semiconductors, providing customised chips to over 100,000 customers for use in products from wind turbines to traffic lights.
The Trade Desk	Practices	Prosperity	Safer lives online	16.10	Trade Desk is a critical gatekeeper in the digital advertising industry. It enables targeted advertising in a way that protects consumers and maximises transparency over how data is used, with strong ethical guidelines that influence many other actors in the system.
TSMC	Product	Prosperity	Supporting innovation for growth	9.5	As the world's largest – and most sophisticated – independent foundry, TSMC occupies a critical position in the semiconductor industry. By enabling chip designers to outsource manufacturing, TSMC enables faster and more capital-efficient innovation across a wide range of industries.

\*Most holdings show clear alignment with a sustainable development goal, however where that alignment is not sufficiently strong we will not stretch to show a tenuous connection.

<b>Company</b>	<b>Products /practices</b>	<b>Theme</b>	<b>Sub theme</b>	<b>Sustainable development goal</b>	<b>Hypothesis in a nutshell</b>
UnitedHealth Group	Practices	People	Extending healthy life expectancy	3.4	As the largest healthcare management organisation in the US, UNH plays a crucial role in allocating scarce resources, improving patient outcomes, and containing costs. As the population ages, it is leading the industry in a shift to more integrated care.
Upwork Inc	Product	Prosperity	Fair and decent work	8.5	Upwork’s online work marketplace reduces the friction associated with hiring and working flexibly. The company empowers freelancers to build independent careers on the platform, contributing to a more dynamic and inclusive labour market.
Wabtec Corporation	Product	Planet	Doing more with less	9.4	Wabtec is the dominant manufacturer of locomotives and related parts in the US. Through its leading investment in emissions reduction technology, Wabtec will play a significant role in supporting carbon emissions reductions within the rail industry – which is already the most environmentally friendly way to transport goods or passengers.
Warby Parker	Practices	Prosperity	Fair and decent work	10.3	Warby Parker is a small eyewear company with the potential to have a disproportionate influence via its progressive approach to issues such as racial equality in the workforce. As well as acting as a role model for other (larger) companies, this is an integral component of the company’s brand and its proposition to employees.
Waters Corporation	Product	People	Extending healthy life expectancy	3.4	Waters is the industry leader in high-end lab equipment and consumables for liquid chromatography, enabling innovation in healthcare, industry and academia.
Watsco	Practices	Planet	Enabling the energy transition	7.3	Buildings account for 40 per cent of global emissions. As the largest distributor of air conditioning systems in the US, Watsco is helping educate a huge fragmented base of installers and contractors on the benefits of more energy efficient units.
Wise plc	Practices	People	Deepening financial inclusion	10.C	Wise is a mission-driven company focused on providing low-cost, transparent, and efficient cross-border transactions for individuals and SMEs. By reducing remittance costs and easing the financial burden of living across borders, the company fosters greater financial inclusion.

<b>Company</b>	<b>Products /practices</b>	<b>Theme</b>	<b>Sub theme</b>	<b>Sustainable development goal</b>	<b>Hypothesis in a nutshell</b>
Workday	Practices	Prosperity	Fair and decent work	8.2	Workday is best known for its cloud-based HR software, which improves the efficacy of human capital management within large enterprises. Workday partners with its customers to promote fair and decent work by sharing best practice in areas such as diversity and inclusion.
Zalando	Practices	Planet	Doing more with less	12.2	Zalando's scale and influence should enable it to drive meaningful change within the fashion industry by improving transparency and encouraging both consumers and brands to make sustainable choices. Zalando is also exploring opportunities to contribute to a circular economy in fashion.
Zoom Video Communications	Product	Planet	Doing more with less	8.4	Zoom's mission to reduce the friction of video communications has seen it become a key enabler of remote/hybrid working. Growth has slowed after viral adoption during the pandemic. It aims to reaccelerate growth by upselling innovative solutions to its significant enterprise customer base.



## Important information

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

### Financial Intermediaries

This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

### Europe

Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018. Baillie Gifford Investment Management (Europe) Limited is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. Baillie Gifford Investment Management (Europe) Limited is also authorised in accordance with Regulation 7 of the AIFM Regulations, to provide management of portfolios of investments, including Individual Portfolio Management ('IPM') and Non-Core Services. Baillie Gifford Investment Management (Europe) Limited has been appointed

as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. Through passporting it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions ("FinIA"). The representative office is authorised by the Swiss Financial Market Supervisory Authority (FINMA). The representative office does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

### Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 and a Type 2 license from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Telephone +852 3756 5700.

### South Korea

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.



### **Japan**

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

### **Australia**

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a "wholesale client" within the meaning of section 761G of the Corporations Act 2001 (Cth) ("Corporations Act"). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this material be made available to a "retail client" within the meaning of section 761G of the Corporations Act.

This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

### **South Africa**

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

### **North America**

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

### **Israel**

Baillie Gifford Overseas Limited is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755-1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This material is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

### **MSCI**

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



Calton Square, 1 Greenside Row, Edinburgh EH1 3AN  
Telephone +44 (0)131 275 2000

Copyright © Baillie Gifford & Co 2023.