

Positive Change Quarterly Update

30 September 2024



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Past performance is not a guide to future returns. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio. Material market or economic conditions will have an impact on investment results. The returns presented in this document are gross of fees unless otherwise stated and reflect the reinvestment of dividends and interest. Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction costs and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that recommendations/ transactions made in the future will be profitable or will equal performance of the securities mentioned.

Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

Any stock examples, or images, used in this paper are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style. A full list of portfolio holdings is available on request.

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

Positive Change is a concentrated, global equity strategy with dual objectives: to deliver attractive long-term returns net of fees and a positive social change. The strategy invests in high quality growth companies which can deliver positive social change in one of four areas: Social inclusion and Education, Environment and Resource Needs, Healthcare and Quality of Life; and Base of the Pyramid (addressing the needs of the world’s poorest populations).

Risk Analysis

Key Statistics

| | |
|----------------------------|-------|
| Number of Holdings | 32 |
| Typical Number of Holdings | 25-50 |
| Active Share | 96%* |
| Annual Turnover | 22% |

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

Accelerating Growth: underlying growth in the Positive Change portfolio is accelerating

An Abundance of New Ideas: companies across a diverse range of impact themes enter the portfolio

Deep Transitions: learning from the past to shape the future. The opportunities associated with profound change can be compelling



Key Facts

| | |
|--|-------------|
| Firm wide assets under management and advice | US\$293.0bn |
| Number of clients | 633 |
| Number of employees | 1708 |
| Number of investment professionals | 376 |

Positive Change is based on a steadfast belief in the ‘secret, silent miracle of human progress’, a simple but profound concept articulated by Professor Hans Rosling, which speaks to the positive long-term structural trends that society can often miss amidst short-term noise. We have written before of the power of this concept in helping us to identify impactful trends, but it applies equally to simple operational delivery of the portfolio.

Looking back over the past three months, the sound and fury of markets has remained largely centred on a handful of AI-related names, and we saw a sharp drop and quick correction in markets in early August. Against this noisy backdrop, Positive Change delivered muted returns that were behind the index. However, the share price returns over the quarter belie the real and steadfast progress being made at a portfolio level.

Excitingly, underlying fundamental growth in the Positive Change portfolio is accelerating. Predicted three year forward earnings growth for the portfolio stands at 19.8 per cent per annum¹ compared to 13.4 per cent a year ago, nearly double the predicted earnings growth for the index. Against this burgeoning growth, valuations remain reasonable. Price to Earnings on a one year forward looking basis is 28.1x for the Positive Change portfolio compared to 17.4x for the MSCI ACWI.

This quiet progress has not yet been rewarded fully by markets, but experience tells us in no uncertain terms that rewards will follow.

We are seeing recognition of progress for some portfolio companies. **Duolingo**, the mobile learning platform is one of the top contributors to performance over the period. It now has over 100 million monthly active users (a 40 per cent increase year-on-year) and has signalled that it expects over 38 per cent revenue growth this year. Most strikingly at its recent ‘Duocon’ (Duolingo’s annual virtual event) its CEO, Luis von Ahn, and his team introduced ambitious new features. These features are reminiscent of the Benjamin Franklin quote: “Tell me and I forget, teach me and I may remember, involve me and I learn.” Using leading AI technology, Duolingo is introducing interactive features such as real-time conversations by video call with an animated character to enable language-learners to practice their skills. Such developments contribute towards long term progress in its mission to develop the best education in the world and make it universally available.

MercadoLibre, the Latin American ecommerce platform and fintech, was also a top contributor to performance as it continued to enjoy a period to

remember with overall revenue growing by 42 per cent year-on-year to over \$5 billion. Underpinning this, is growth both in its fintech services (monthly active users of their fintech services grew by 37 per cent to 52 million) and its ecommerce platform which grew in terms of all key metrics (gross merchandise volume, take rate and revenue). These attention-grabbing ‘headline statistics’ are of course pleasing but the long-term progress underpinning them is of much greater import. In 2023 MercadoLibre commissioned an impact study which found that 1.8 million families depended on the platform for their main source of income, and more than half of the SMEs (small and medium sized enterprises) which use the platform could have access to credit through its fintech services for the first time.

In contrast, **Dexcom**, the manufacturer of continuous glucose monitoring systems (CGMs) for diabetics saw its share price fall sharply following an announcement of slower than expected growth and a reset of expectations for the rest of the year. Dexcom’s headache was related to disappointing execution following a recent reorganisation of its sales force, weaker than expected international sales and a softening of US revenue per customer. These missteps are somewhat out of character for a company such as Dexcom which has displayed impressive fundamental growth and is one of the top contributors to performance since the inception of Positive Change. We believe that there is a significant opportunity for CGMs and we remain optimistic about the potential of Dexcom’s new over-the-counter Stelo product. We are engaging with management to build conviction in their ability to overcome the current challenges and unlock the tremendous growth opportunity ahead.

Moderna, the innovative biotech company, has also had a difficult summer. In the face of weak Covid vaccine sales and a slow RSV vaccine launch, the company has decided to lower research and development (R&D) spending and focus its pipeline while pushing out cash-break-even until 2028. We met with Moderna CEO Stephane Bancel following this announcement to discuss these developments in more detail and will continue to engage with the company. Regardless of how exciting their technology platform is, its commercial engine has to function well in order for Moderna to achieve its potential. Moderna has made striking progress scientifically and commercially since we first invested in 2018 in (what was then) a small, pre-earnings biotech company. Over the subsequent six years, Moderna has hit numerous milestones along the way, not least successfully producing and commercialising vaccines for Covid. Looking forward, we want it to continue to harness the programmability of its mRNA technology to convert its

¹ As at 30 August 2024 in USD

rich pipeline into effective vaccines for a range of viruses and diseases, from influenza to cancer. We remain keenly vigilant for further progress.

An abundance of new ideas

Our ongoing quest to upgrade the portfolio can also be characterised as one of steadfast, but constant progress. In recent years, we have redoubled our focus on searching for new ideas.

This work has really begun to pay off, with seven new ideas entering the portfolio so far in 2024. Turnover has ticked up modestly to 22 per cent (still in line with our long-term holding period) Our own ‘Magnificent Seven’ of new ideas is diverse in terms of impact theme, geography, sector and maturity of business.

We have bought shares in US -based electric car manufacturer **Rivian** (founded in 2009) and Swedish mining equipment company **Epiroc** (which can trace its roots to 1873). We have invested in innovative Boston-based healthcare company **Vertex**, which has been focusing for the past 35 years on transforming the way serious diseases are treated. Also new to the portfolio is South-East Asian super-app **Grab** – a business founded just over a decade ago, but already building up dominance in its key markets and providing economic opportunity for over five million solo, micro and small entrepreneurs.

These four companies: Rivian, Epiroc, Grab, and Vertex, have been discussed in previous quarterly letters this year. So, let’s focus on the three companies that have entered the portfolio in recent months: Schneider Electric, Soitec and Insulet.

Electrification (replacing technologies or processes that use fossil fuels with electric-powered equivalents) is one of the most important strategies for reducing CO2 emissions from energy. This trend may fly beneath the market hype cycle, but it matters, and barriers to entry are high, so rewards will accrue to those with a strong competitive position. **Schneider Electric**, a French multinational is a leading provider of integrated electrification solutions for buildings, data centres, infrastructure and industries. It helps its customers manage the transition to a renewable dominant grid, and without Schneider, the pace of deployment of renewable generation infrastructure globally would be slower. Schneider is well-placed to benefit from the growing demand for electrical management products and services. Over the next decade and beyond, sales should compound at a mid-to-high single-digit pace, which, combined with margin expansion and sensible capital allocation, should result in attractive share price returns.

Coincidentally, in a summer when the eyes of many were focused on the sporting achievements of the Olympic Games in Paris, the second of our new buys is also French. **Soitec** is a designer and manufacturer of semiconductor materials, in particular engineered substrates for the semi-conductor industry.

You may be asking yourself why its products are relevant for the Positive Change portfolio.

The answer lies in the company’s silicon-on-insulator wafers, used for semi-conductor production. These substrates bring quality, performance, and cost advantages, and crucially allow end-applications to be more energy efficient. For example, Soitec’s wafers can be used in inverters for electric vehicle (EV) powertrains. Its wafers are cheaper than alternatives, can halve charging times and increase battery range by 10-15 per cent. It is exciting that Soitec’s product has the potential to address three important barriers to EV adoption – cost, convenience and range. This is just one application: structural growth for Soitec is underpinned over the long run by several megatrends including electrification, digitalisation, and the rise of Artificial Intelligence.

Unfortunately, not all progress in the world is so positive. The rising incidence of diabetes is a case in point: the International Diabetes Federation estimates that 537 million adults are currently living with diabetes and project that number is likely to rise to 783 million by 2045, driven by lifestyle factors, combined with ageing demographics. This may surprise those of us whose attention has been drawn by the omnipresent media commentary on GLP-1s.

The rise of non-communicable diseases and the ability of companies to help address the treatment, management and prevention of them has long been an active area of interest for the team, for example we made our investment in Dexcom back in 2017. New buy, **Insulet**, has a related technology, it makes insulin pumps that automatically calculate and deliver insulin to people with diabetes throughout the day based on their glucose level. Insulet is the only company with a tubeless design of pump. This makes the device more comfortable to wear and gives patients more flexibility. For example, patients can go swimming while wearing Insulet’s Omnipod device. Insulet has the opportunity to improve the lives of millions of diabetes patients while potentially saving healthcare systems significant costs.

Our new ideas were funded by trimming our positions in companies which have performed strongly, such as semi-conductor manufacturer **TSMC**, and by the complete sale of a company where we have lost conviction in their ability to generate attractive

investment returns over the long term: **Umicore**, the Belgian recycler of metals and manufacturer of automotive catalysts and battery cathodes.

A change of perspective: from three months to three centuries

In our search for that ‘secret, silent miracle of human progress’, taking a step back provides us with invaluable perspective, and we prioritise taking time to consider the long-term so we don’t miss those trends that will deliver impact and investment returns, writ large, over the long-term.

During September, Impact Director Ed Whitten participated in ‘Engagement Week’ an event hosted in Barcelona by the Government of Catalan. At the three-day event TIPC (Transformative Innovation Policy Consortium) and Deep Transitions brought together the private and public sectors: investors, academics, and government policy makers from around the world to discuss systems transformation.

Deep Transitions is an ambitious, global, interdisciplinary research project looking at the transformations needed to combat the great challenges of our time. It is a collaboration between the University of Sussex and the University of Utrecht. Baillie Gifford has been a supporter since its early days.

Deep Transitions aims to learn from the past to shape the future. The first phase of the project looked at the ‘surges of change’ that we have seen since the onset of the industrial revolution in the 1700s. The introduction of steam power and the railways is a good example of such a surge. These surges of change have led to great industrial progress and created huge wealth. However, there have also been associated ills, including resource depletion, pollution, climate change, and exacerbated inequalities.

The second phase of the project ‘Deep Transitions Future’ uses the findings of the past to explore future scenarios that put socio-technical system changes at their core to address these harms. System change goes further than just improving the way we currently operate: it radically changes the norms. To take one small example, electric vehicles are an improvement to the current system, but autonomous vehicles could provide system change if they disrupt the current model of individual car ownership.

Profound system change will not be easy, but Ed found the commitment of the diverse range of participants inspiring and valued the exploration of

practical models and actions for integrating system change into investment practices and policy making.

Poised for Growth to Remember

Baillie Gifford has been investing on behalf of clients since 1908, so has successfully invested in many of the ‘surges of change’ that the Deep Transitions research project has sought to understand: from the rise of automobiles and aviation in the early 1900s, to the information technology revolution later that century. Common to all ‘surges of change’ is the investment opportunity that accompanies them. Ultimately, it is well-run companies whose products and services are addressing the needs of the time that will see strong and rising demand which will fuel revenue and earnings growth. As growth investors, our fundamental belief is that it is precisely that fundamental growth in revenue and ultimately earnings that drives long term share price performance.

As we stated at the start of this letter, it is exciting that underlying fundamental growth in the Positive Change portfolio is accelerating. This great fundamental progress is not yet being fully recognised by the markets, but based on our decades of experience, we fully expect that recognition will come and that the rewards will be memorable.

Performance Objective

2% p.a. ahead of global stock markets over rolling five-year periods.

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 | -2.0 | 0.6 | -2.5 |
| 1 Year | 8.0 | 20.4 | -12.4 |
| 3 Year | -7.5 | 8.8 | -16.3 |
| 5 Year | 13.1 | 10.8 | 2.3 |
| Since Inception | 15.9 | 10.8 | 5.0 |
| USD | Composite Net (%) | Benchmark (%) | Difference (%) |
| 3 Months | 4.0 | 6.7 | -2.7 |
| 1 Year | 18.7 | 32.3 | -13.6 |
| 3 Year | -7.7 | 8.6 | -16.3 |
| 5 Year | 15.0 | 12.7 | 2.3 |
| Since Inception | 16.8 | 11.8 | 5.1 |
| EUR | Composite Net (%) | Benchmark (%) | Difference (%) |
| 3 Months | -0.1 | 2.5 | -2.6 |
| 1 Year | 12.6 | 25.6 | -12.9 |
| 3 Year | -6.5 | 10.0 | -16.5 |
| 5 Year | 14.5 | 12.2 | 2.3 |
| Since Inception | 16.3 | 11.3 | 5.1 |
| CAD | Composite Net (%) | Benchmark (%) | Difference (%) |
| 3 Months | 2.7 | 5.4 | -2.7 |
| 1 Year | 18.6 | 32.2 | -13.6 |
| 3 Year | -5.7 | 11.0 | -16.6 |
| 5 Year | 15.5 | 13.2 | 2.3 |
| Since Inception | 17.4 | 12.3 | 5.1 |
| AUD | Composite Net (%) | Benchmark (%) | Difference (%) |
| 3 Months | 0.1 | 2.7 | -2.6 |
| 1 Year | 10.4 | 23.1 | -12.7 |
| 3 Year | -6.4 | 10.1 | -16.5 |
| 5 Year | 14.4 | 12.1 | 2.3 |
| Since Inception | 18.2 | 13.1 | 5.1 |

Annualised periods ended 30 September 2024. 3 Month & 1 Year figures are not annualised.

Inception date: 31 January 2017

Figures may not sum due to rounding.

Benchmark is MSCI ACWI Index.

Source: Revolution, MSCI.

The Positive Change composite is more concentrated than the MSCI ACWI Index.

Discrete Performance

| GBP | 30/09/19- 30/09/20 | 30/09/20- 30/09/21 | 30/09/21- 30/09/22 | 30/09/22- 30/09/23 | 30/09/23- 30/09/24 |
|-------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Composite Net (%) | 72.4 | 35.6 | -30.8 | 5.8 | 8.0 |
| Benchmark (%) | 5.8 | 22.7 | -3.7 | 11.0 | 20.4 |
| USD | 30/09/19- 30/09/20 | 30/09/20- 30/09/21 | 30/09/21- 30/09/22 | 30/09/22- 30/09/23 | 30/09/23- 30/09/24 |
| Composite Net (%) | 80.9 | 41.5 | -42.7 | 15.7 | 18.7 |
| Benchmark (%) | 11.0 | 28.0 | -20.3 | 21.4 | 32.3 |
| EUR | 30/09/19- 30/09/20 | 30/09/20- 30/09/21 | 30/09/21- 30/09/22 | 30/09/22- 30/09/23 | 30/09/23- 30/09/24 |
| Composite Net (%) | 68.2 | 43.1 | -32.2 | 7.1 | 12.6 |
| Benchmark (%) | 3.2 | 29.5 | -5.7 | 12.3 | 25.6 |
| CAD | 30/09/19- 30/09/20 | 30/09/20- 30/09/21 | 30/09/21- 30/09/22 | 30/09/22- 30/09/23 | 30/09/23- 30/09/24 |
| Composite Net (%) | 82.5 | 34.2 | -37.9 | 13.9 | 18.6 |
| Benchmark (%) | 12.0 | 21.4 | -13.5 | 19.5 | 32.2 |
| AUD | 30/09/19- 30/09/20 | 30/09/20- 30/09/21 | 30/09/21- 30/09/22 | 30/09/22- 30/09/23 | 30/09/23- 30/09/24 |
| Composite Net (%) | 70.2 | 40.4 | -35.6 | 15.3 | 10.4 |
| Benchmark (%) | 4.4 | 27.0 | -10.4 | 21.0 | 23.1 |

Benchmark is MSCI ACWI Index.

Source: Revolution, MSCI.

The Positive Change composite is more concentrated than the MSCI ACWI Index.

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 30 September 2024

| Stock Name | Contribution (%) |
|-------------------------|------------------|
| MercadoLibre | 1.3 |
| Duolingo | 1.2 |
| Shopify | 0.6 |
| Tesla Inc | 0.5 |
| Illumina | 0.4 |
| Microsoft | 0.4 |
| Bank Rakyat Indonesia | 0.4 |
| Alnylam Pharmaceuticals | 0.4 |
| Novonesis | 0.4 |
| NVIDIA | 0.3 |
| Moderna | -2.7 |
| Dexcom | -2.2 |
| ASML | -1.7 |
| TSMC | -0.4 |
| Xylem | -0.3 |
| HDFC Bank | -0.2 |
| Soitec | -0.2 |
| Umicore | -0.2 |
| Apple | -0.2 |
| Abcellera Biologics | -0.1 |

One Year to 30 September 2024

| Stock Name | Contribution (%) |
|-------------------------|------------------|
| TSMC | 2.5 |
| MercadoLibre | 1.9 |
| Nu Holdings | 1.5 |
| Duolingo | 1.2 |
| Alnylam Pharmaceuticals | 1.1 |
| Novonesis | 0.8 |
| Shopify | 0.8 |
| ASML | 0.7 |
| Xylem | 0.5 |
| Ecolab | 0.4 |
| Moderna | -2.9 |
| Remitly Global | -2.5 |
| Dexcom | -2.4 |
| WuXi Biologics | -2.3 |
| Coursera | -2.1 |
| NVIDIA | -2.0 |
| Umicore | -1.3 |
| Bank Rakyat Indonesia | -1.2 |
| Sartorius Group | -1.0 |
| Deere & Co | -0.9 |

Source: Revolution, MSCI. Positive Change composite relative to MSCI ACWI Index.

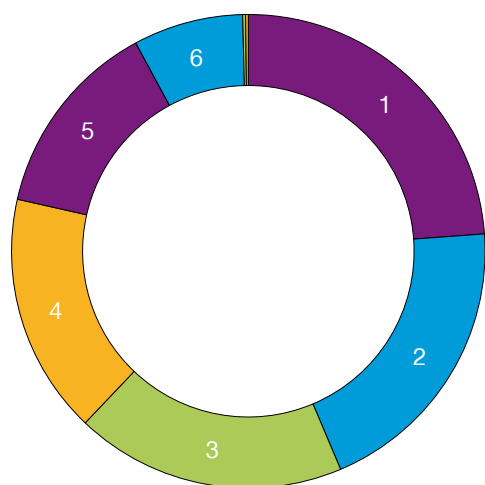
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions to the portfolio's performance and a description on how the attribution is calculated 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 |
|-------------------------|---|----------------|
| MercadoLibre | Latin American e-commerce and fintech platform | 8.9 |
| TSMC | Semiconductor manufacturer | 7.2 |
| Alnylam Pharmaceuticals | Drug developer focussed on harnessing gene silencing technology | 6.1 |
| ASML | Semiconductor equipment manufacturer | 6.0 |
| Duolingo | Designs and develops mobile learning platform | 5.5 |
| Shopify | Cloud-based commerce platform provider | 5.3 |
| Bank Rakyat Indonesia | Indonesian Bank | 5.0 |
| Nu Holdings | Latin American digital banking and financial services | 4.9 |
| HDFC Bank | Indian banking and financial services | 4.7 |
| Autodesk | PC software supplier | 4.5 |
| Total | | 58.1 |

Figures may not sum due to rounding.

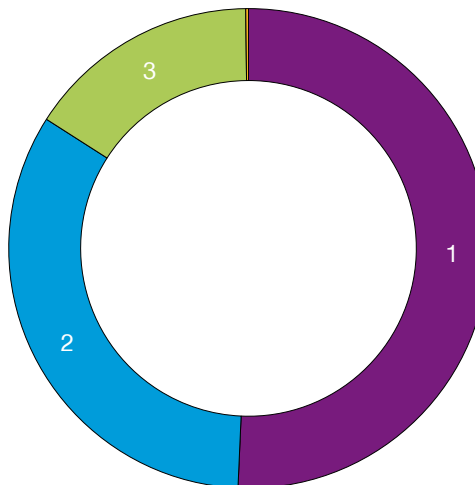
Sector Weights



| | % |
|--------------------------|------|
| 1 Information Technology | 23.8 |
| 2 Health Care | 19.8 |
| 3 Consumer Discretionary | 18.5 |
| 4 Financials | 16.4 |
| 5 Industrials | 13.6 |
| 6 Materials | 7.5 |
| 7 Communication Services | 0.2 |
| 8 Cash | 0.2 |

Figures may not sum due to rounding.

Regional Weights



| | % |
|--------------------|------|
| 1 North America | 50.7 |
| 2 Emerging Markets | 33.4 |
| 3 Europe (ex UK) | 15.8 |
| 4 Cash | 0.2 |

Voting Activity

| Votes Cast in Favour | | Votes Cast Against | | Votes Abstained/Withheld | |
|----------------------|----|--------------------|------|--------------------------|------|
| Companies | 4 | Companies | None | Companies | None |
| Resolutions | 32 | Resolutions | None | Resolutions | None |

Company Engagement

| Engagement Type | Company |
|-----------------|---|
| Environmental | ASML Holding N.V., Ecolab Inc., PT Bank Rakyat Indonesia (Persero) Tbk |
| Social | DexCom, Inc., Grab Holdings Limited, MercadoLibre, Inc., PT Bank Rakyat Indonesia (Persero) Tbk |
| Governance | ASML Holding N.V., DexCom, Inc., Illumina, Inc., Moderna, Inc., Rivian Automotive, Inc., Sartorius Aktiengesellschaft, Soitec SA, Xylem Inc. |
| Strategy | ASML Holding N.V., AbCellera Biologics Inc., Autodesk, Inc., Coursera, Inc., Deere & Company, DexCom, Inc., Ecolab Inc., Epiroc AB (publ), Grab Holdings Limited, Illumina, Inc., MercadoLibre, Inc., Moderna, Inc., PT Bank Rakyat Indonesia (Persero) Tbk, Remitly Global, Inc., Rivian Automotive, Inc., Safaricom PLC, Sartorius Aktiengesellschaft, Xylem Inc. |

| Company | Engagement Report |
|---------|---|
| ASML | <p>Objective: We travelled to ASML's headquarters in Veldhoven, Holland, to spend time with the new chief executive (CEO), Christophe Fouquet, and some of the technology specialists following the retirement of the chief technology officer (CTO). We were keen to find out about the management transition and future ambitions.</p> <p>Discussion: in our four hours with the team at ASML we learned that the transition in management had been carefully planned and successfully executed. Christophe Fouquet was very involved in establishing the technology roadmap with the outgoing CTO, providing reassurance in the technical capability and continuity of the executive team. While there is continuity in the technology roadmap, the incoming CEO has adapted management structures to prepare ASML for its next phase of growth as a bigger business and one with evolving customer needs. We noted a shift in tone on technology towards focusing on lowering the cost of its highly sophisticated products. Pleasingly, the long termism came through in conversations, both in the team highlighting new sites that have been secured for factory expansion beyond 2030 and technology roadmaps spanning 10-15 years ahead.</p> <p>Outcome: We left reassured that the management changes had been thoughtfully planned and successfully executed, impressed by the new CEO and eager to learn more about the technology road map at the Capital Markets Day later this year.</p> |
| ASML | <p>Objective: To gain insights into ASML's strategic direction under the new chief executive officer (CEO) Christophe Fouquet.</p> <p>Discussion: Our visit to ASML's Eindhoven facility provided a valuable opportunity to engage with the new CEO and other key executives. Christophe Fouquet was appointed CEO in April 2024 joining ASML in 2008. Our impression is that succession planning was well thought through, with Fouquet largely taking full control a year before the official handover date. As seamless as this transition has been, we do not underestimate the changes that Fouquet's appointment will bring. While the previous decade was characterised by the strong leadership of the former CEO and chief technology officer, Fouquet appears to be fostering a more distributed leadership approach across the company's 40,000+ employees. Given ASML's success over the past decade, we were intrigued to hear Fouquet openly discuss areas he aims to improve to ensure continued success. His humility was striking, exemplified by an anecdote where he requested a demotion upon joining ASML to first learn the ropes of lithography. Fouquet's strategic focus now is on adapting to individual customer requirements, acknowledging the diverse needs of major clients such as TSMC and Intel. The introduction of dedicated customer teams, led by the new Chief Customer Officer, Jim Koonmen, further demonstrates ASML's commitment to becoming even closer to its customers. Fouquet also emphasized the importance of ongoing cost reduction for clients, aiming to reduce the cost per exposure by 30% by the end of this decade.</p> <p>Outcome: The meeting reinforced our confidence in ASML's culture of long-termism, strategic direction and technological leadership. Though the company remains confident in long-term demand, the roadmap is more complex than in the past. Fouquet has a clear vision for what the company needs at this stage in its evolution. His ability to reduce costs for clients while at the same time boosting ASML's margins will likely define the success of Fouquet's era. We will continue to monitor.</p> |

| Company | Engagement Report |
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| Autodesk | <p>Objective: We had a video call with the Board Chair and CEO to discuss the outcome of the internal investigation on accounting practices and the letter from activist shareholder, Starboard.</p> <p>Discussion: The Chair provided details about the origin, process, and outcome of its internal investigation on historical accounting practices. The company was glad that no restatement was necessary, but acknowledged that certain business decisions were made based on their impact on FCF and operating margin. The CEO then talked about the decision to split the CFO function into two separate roles, with one focusing on reporting and another focused on strategic planning. Regarding the activist shareholder, the CEO said there are certain elements of the shareholder demand with which the company agrees, such as the opportunity for margin expansion through improved sales and marketing efficiency. However, he also said Autodesk will continue to invest in R&D and lon</p> <p>Outcome: It was reassuring that no restatement was necessary, but the revelation that certain business decisions were made based on their impact on short-term financial outcomes was disappointing. We encouraged Autodesk to improve its remuneration practices to avoid incentivising management to hit specific short-term financial metrics. Instead, more of the management's financial incentive should come from stock ownership and options with long-term vesting periods. We largely agree with Autodesk's response to Starboard.</p> |
| Autodesk | <p>Objective: We spoke with Autodesk's chief financial officer (CFO) and Chief Customer Officer to receive a quarterly update and discuss the company's approach to customer service.</p> <p>Discussion: Autodesk's second quarter results were robust, although the numbers are affected by transaction model changes. We discussed both the near-term demand across Autodesk's end markets and long term opportunities. We also discussed the impact of the transaction model changes and what the new model will enable Autodesk to achieve over the long term. With the Chief Customer Officer, we learned how Autodesk monitor customer success and engage with customers to ensure they maximise the value of using Autodesk's software. We also heard examples of how Autodesk integrate customer feedback into product development.</p> <p>Outcome: the call was helpful to gain more insight into how Autodesk treats its customers.</p> |
| Coursera | <p>Objective: We had a call with the Lead Independent Director of Coursera, the online education provider, to understand the company's progress and what it takes for the business to succeed over the long term.</p> <p>Discussion: We discussed the Board's assessment of Coursera's operational performance since it became a public company in 2021. The Lead Independent Director believes the Consumer division is Coursera's crown jewel, where performance, notably for Professional Certificates, has been strong, but the Enterprise and Degrees divisions have underperformed. We discussed some of the difficulties facing Coursera, including budget headwinds for corporate customers and the poor product-market fit for Degrees. We got a sense of some dissatisfaction with execution and the pace of technology innovation in the core platform, but the Lead Independent Director continues to remain excited about Coursera's long-term opportunity. We also provided feedback on our assessment of the company's performance and the management team.</p> <p>Outcome: It was a helpful discussion with the Lead Independent Director of the Board. It's reassuring to hear that the Board is actively monitoring the company's performance and able to provide critical feedback on the management team. We will continue to monitor Coursera's operating performance over the next few quarters and signs of management changes if performance doesn't improve.</p> |

| Company | Engagement Report |
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| Coursera | <p>Objective: We had a call with management to learn more about the company's performance in the second quarter.</p> <p>Discussion: After a disappointing Q1 results, Q2 was better than expected. In the Consumer segment, while there is still some noise in the US market, the company believes its newly launched Professional Certificates will start to contribute to revenue growth in the following quarters. Management also spoke of how it's leveraging AI to improve offerings, such as translating courses to other languages. The Enterprise and Degrees segments remain challenging, the former due to reduced budgets for corporate learning and the latter due to poor product-market fit.</p> <p>Outcome: Coursera's learning platform remains unique and valuable, as evidenced by the user growth. Monetising the platform has been trickier. It's reassuring to see some stabilisation in the Consumer segment, but solving the difficulties in Enterprise and Degrees might take longer. As a next step, we have requested to speak with the board.</p> |
| Deere & Company | <p>Objective: To receive a quarterly update from the Investor Relations team at agricultural equipment manufacturer, Deere.</p> <p>Discussion: We heard more details of Deere's plan to make the business leaner during the current cycle. This includes efforts to streamline the back office and manufacturing. We also discussed Deere's Precision Agricultural offering, which is gaining adoption in North America and is currently being introduced in Brazil. Farmers are seeing a payback period of less than 1 year and company is working on software and subscription offerings.</p> <p>Outcome: This was a regular call with the Investor Relations team which helps us better understand the company, especially as it navigates the current cycle.</p> |
| DexCom | <p>Objective: To gather the chief executive officer and chief financial officer's perspectives on Dexcom's revised full-year revenue guidance and evaluate the strategic measures the company is implementing. We aimed to determine whether the current challenges are temporary or indicative of deeper structural issues within the competitive landscape and growth opportunities.</p> <p>Discussion: Dexcom's unexpected downgrade in full-year guidance resulted in a 40 per cent drawdown in share price in August 2024. According to the management team, several factors were responsible: the lack of visibility in sales, particularly in the Durable Medical Equipment (DME) distribution channel which has a data lag of four to six weeks; the strategic pivot towards the Pharmacy channel, which inadvertently strained relationships with DME partners; and a salesforce reorganisation. Dexcom's proactive measures to tackle these challenges include a commitment to channel agnosticism, co-branding initiatives with DME partners, and a realignment of their salesforce to better serve specialists, endocrinologists and primary care physicians.</p> <p>Outcome: We will continue to monitor and engage with the company as we still have questions about whether this is a transitory situation or a structural shift due to short-term execution issues, growing competition, or both.</p> |

| Company | Engagement Report |
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| DexCom | <p>Objective: The purpose of this call was to discuss the recent surprise downgrade to guidance. We spoke to the chief executive (CEO) and chief financial officer (CFO) to find out what has been going on, what actions are being taken and the visibility they have on the business.</p> <p>Discussion: The management team provided more detail around execution mis-steps relating to changes to the sales team and relationships with channel partners, along with some other challenges that weren't as self-imposed. The company is taking actions to re-establish relationships with key channel partners and continues to work on the sales team restructuring.</p> <p>Outcome: Management showed humility over the mis-steps and outlined how they intend to rebuild relationships with channel partners which will be a key milestone to monitor. There is still a significant growth opportunity as continuous glucose monitor (CGM) use expands into new patient cohorts which Dexcom should be able to capitalise on if it can rebuild relationships and improve the functioning of its restructured salesforce.</p> |
| Grab | <p>Objective: We met with Grab's chief financial officer (CFO) to receive a quarterly update from the company.</p> <p>Discussion: Grab had a good second quarter with robust growth across its business divisions. We discussed Grab's affordability initiative, which helps the company address more price-sensitive customers. We also discussed the current competitive environment in ride-hailing and food delivery across different countries in Southeast Asia. Finally, we discussed the progress of Grab's financial service offerings.</p> <p>Outcome: We are pleased by Grab's operating performance in core on-demand services and financial services. It was a useful meeting to continue building our understanding of the business.</p> |
| Moderna | <p>Objective: We were pleased to have the opportunity to meet with the chief executive (CEO) and chief financial officer (CFO) at our office in Edinburgh following the company's downgrading its forecast, pushing out the time line to cash breakeven and strategic changes to prioritise R&D and focus on commercialisation. We were eager to find out how the company plans to commercialise its powerful technology platform and understand how it prioritises R&D.</p> <p>Discussion: The discussion was somewhat frustrating. The CEO shared details on plans to improve commercialisation of the respiratory vaccine franchise which sound sensible if late in coming. However, while his detailed knowledge was impressive, we were underwhelmed by the lack of broader reflections and lessons learned.</p> <p>Outcome: mRNA is a powerful technology, evident in the higher success rates from clinic to approval compared to the broader industry. However, developing exciting products is one thing, commercialising them successfully is equally important to long term returns. We will continue to closely monitor commercial execution.</p> |
| Bank Rakyat Indonesia | <p>Objective: We had a call with Bank Rakyat's ESG team to discuss environmental risks and dependencies, and how client financial health is being assessed. This is potentially an increasingly significant topic, given weakness in the bank's microfinance portfolio.</p> <p>Discussion: Dependencies are clearly not yet being considered, and assessment of environmental risks need further work. Although scenario analysis has been conducted, this focuses on carbon pricing, and so the effect of physical risk on microfinance clients is not well reflected. Similarly, BRI have conducted a survey of clients, but generally appears to have done limited work on financial health.</p> <p>Outcome: It was great to see that the ESG team are clearly considering these areas carefully and we should continue to encourage the firm to gather more data concerning these ESG risks as they are material for the impact case, and could also affect the risk levels in the microfinance portion of the portfolio.</p> |

| Company | Engagement Report |
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| Bank Rakyat Indonesia | <p>Objective: Bank Rakyat's microfinance segment has seen a rise in non-performing loans. Given this segment's vulnerabilities, we wanted to understand trends in the financial health of microfinance clients and see how ESG risks are being appraised more broadly. Therefore, we had a call with Bank Rakyat's Head of ESG.</p> <p>Discussion: Bank Rakyat has not specifically focused on monitoring the financial health of its microfinance clients, but has completed some customer surveys, which give the team a degree of visibility over financial health. Since 2019, times have been tough, and Covid, high interest rates, food price inflation, El Nino and elections, mean that there has been little progress in financial health since 2019. Given that El Nino has been a concern, we asked about the monitoring of climate risk - scenarios have principally focused on carbon pricing, which is likely to underestimate the risks faced by smaller businesses. We learnt more about the structure of the ESG division which fits under Compliance - and focuses on risks and regulations - but is increasingly looking to operationalise sustainable practices.</p> <p>Outcome: Scenario analysis and client surveys are good starts to monitoring ESG risks within Bank Rakyat, but the organisation could benefit from doing more to monitor the financial health of its microfinance clients and to understand the climate risks it faces given the impact these factors could have on business performance. We noted that we were ready to offer support and advice in both regards and have also followed up these comments with feedback in an ESG-related survey that Bank Rakyat sent to shareholders.</p> |
| Remitly Global | <p>Objective: We had a call with management to learn more about the company's performance in Q2.</p> <p>Discussion: Remitly had a strong Q2 with solid user and revenue growth. Beyond discussing the growth in remittance, we also discussed the company's investment in new products, including its multi-currency account, Circle. Management sees an opportunity where it can offer an account that both senders and recipients can access. By addressing more pain points for customers, Remitly believes it can increase customer loyalty and stickiness.</p> <p>Outcome: It was a pleasing update from Remitly that continues to support our investment enthusiasm.</p> |
| Remitly Global | <p>Objective: We had an introductory call with Remitly's new chief financial officer (CFO) to learn more about him and provide investor feedback.</p> <p>Discussion: We discussed the new CFO's background and his motivation for joining Remitly. We provided our feedback on the company and emphasised our continued desire for Remitly to invest for the long-term, focus on its customers, and balance profit and societal impact.</p> <p>Outcome: This was a helpful introduction to the new CFO and provided an useful opportunity for emphasising our long-term perspective.</p> |

| Company | Engagement Report |
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| Rivian Automotive | <p>Objective: Our visit to Rivian's headquarters and factory in Normal, Illinois, aimed at delving into the company's production ramp-up challenges, cost reduction strategies, and the implications of the joint venture (JV) with Volkswagen (VW) on our investment hypothesis, especially concerning the capital bridge leading to the R2 launch (its mid-sized SUV due 2026).</p> <p>Discussion: The Rivian-VW JV is a cornerstone of Rivian's strategy, not merely for the immediate capital infusion but for its broader implications on Rivian's market positioning and technological edge. This partnership is pivotal in bridging the capital gap towards the R2 launch, which is expected to expand Rivian's Total Addressable Market (TAM) significantly. Rivian's innovative zonal network architecture, which simplifies the vehicle's electronic control units (ECUs) from over a hundred to just seven, is at the heart of this JV. This breakthrough not only streamlines production and reduces costs but also positions Rivian as a potential industry standard-setter. The JV with VW is anticipated to bring Rivian \$5bn, marking a crucial step in Rivian's journey towards financial sustainability and growth. It's not just about the capital; the JV is expected to reduce sourcing costs significantly and, in the future, potentially transform into a profit centre for Rivian. This partnership is seen as Rivian's "AWS moment," as it has a chance at revolutionising the automotive industry's approach to vehicle architecture and electronic systems. Beyond VW, Rivian plans to expand this technology to other automakers, further solidifying its position in the industry. The company's financial trajectory, bolstered by this JV, shows a clear path towards a positive gross profit in the near term, underpinned by solid vehicle deliveries and an expanding product lineup. The JV's success is critical, with regulatory approvals and technical evaluations from VW pending, but the optimism in Normal suggests a strong belief in the partnership's transformative potential.</p> <p>Outcome: The engagement with Rivian underscored the strategic importance of the JV with VW, particularly in addressing the capital requirements leading up to the R2 launch. This partnership not only secures necessary funding but also leverages Rivian's technological advancements to potentially redefine the EV landscape. The visit reinforced our confidence in Rivian's ability to navigate its growth trajectory, with the JV serving as a critical component in expanding its market reach and enhancing its financial stability.</p> |
| Sartorius | <p>Objective: We had a call with chief executive (CEO) Kreuzburg and the Sartorius investor relations team following the CEO's recent announcement that he will not seek another term as CEO when his contract expires in November 2025. Although the decision was not a surprise, we wanted to learn more about the rationale for it and also about the company's succession plans.</p> <p>Discussion: Kreuzburg explained that the decision had been taken for personal reasons, given the demanding nature of an executive role. Having been at the helm of the company for over 20 years, he now wants to focus on his other non-executive roles and positions on scientific bodies, notably the Max Planck Institute. He has given early notice of his intention not to renew his contract - and the company now have 16 months to find a successor. He noted his intention to work with and support a successor until his contract expires in November 2025. The appointment process will be the responsibility of the Supervisory Board, who appear to have already started the search. Kreuzburg noted that innovation orientation is a key attribute for his successor.</p> <p>Outcome: These were early days following the announcement. We were reassured by Kreuzburg's rationale for retiring, but also plan to follow up with the Supervisory Board in the coming months to see how the recruitment process is progressing.</p> |

| Company | Engagement Report |
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| Soitec | <p>Objective: To encourage simplification of executive pay plans and the strengthening of minimum ownership requirements for executives.</p> <p>Discussion: We spoke to the chair of the remuneration committee, Delphine Segura Vaylet, following this year's AGM. On the call, we outlined reservations over the complexity of executive pay plans. We also queried the suitability of some non-financial performance metrics included in the latest policy. Delphine explained that the committee adopts a benchmarking approach each year, but acknowledged our concerns. She added that the non-financial metrics discussed would be reviewed by the committee. Finally, we sought to understand the board's thinking on building executive ownership. We noted levels of executive ownership and corresponding requirements are both relatively low. Delphine agreed that this was a topic the board could pay more attention to going forward.</p> <p>Outcome: Delphine appeared open to the feedback provided, intimating that action would be considered by the remuneration committee. She also asked if we could share our updated remuneration principles, which we have committed to doing. We look forward to being consulted on executive pay going forward and will monitor related developments.</p> |
| Xylem | <p>Objective: We had a call with Xylem's chief financial officer (CFO) to discuss the company's progress on digitalisation and long-term growth opportunities.</p> <p>Discussion: Xylem believes the broader water market will grow at 3 per cent p.a. over the next three years. Faster growth could be unlocked by more concerted efforts by governments, including improving federal funding, fairer pricing of water, or more extreme weather events. Xylem's strategy is to be placed in attractive verticals to capture above-market growth. Those include the energy sector, micro-electronics, and healthcare. The company is also investing in technology and digital offerings and believes its partnership with water software experts Idrica can unlock opportunities in the utility sector. Finally, we also discussed the company's 80/20 initiative, where Xylem is pruning its portfolio to focus on high-value, high-growth offerings.</p> <p>Outcome: We were pleased to spend more time with the new CFO now that he had time to settle into his new position. This was a useful meeting to continue to better understand the business and develop our relationship over time.</p> |
| Xylem | <p>Objective: To discuss the Xylem's approach to executive compensation given our track record of voting against the compensation package at Annual General Meetings.</p> <p>Discussion: Xylem wanted to better understand our concerns, respond to our feedback and repeated dissent based on concerns over the lack of sufficiently challenging performance targets, as well as present changes to the approach in light of chief executive (CEO) changes. We also updated the Company on the evolution of our thinking on executive compensation.</p> <p>Outcome: We welcomed the removal of the overlap of the metrics under incentives and agreed with the choice of performance metrics. Moreover, we positively noted high actual share ownership of executives as well as the pay duration of 2.3 years, which higher than average. However, we expressed dissatisfaction with the threshold level being set below median. We were largely supportive of the changes presented, but encouraged Xylem to think about simplifying its pay structure and considering the introduction of post-vesting conditions or extending the current vesting horizons. Ahead of making a vote decision next year, we will be assessing performance targets, long-term alignment, quantum and response to our feedback.</p> |

Votes Cast in Favour

| Company | Meeting Details | Resolution(s) | Voting Rationale |
|--|---|---------------|---|
| Autodesk | Annual 16/07/24 | 5 | We supported a shareholder resolution requesting shareholders owning fifteen per cent of the company's shares be able to call a special meeting. We believe this threshold strikes an appropriate balance between enhancing shareholder rights and the protection of long-term shareholder interests. |
| Companies | Voting Rationale | | |
| Autodesk, HDFC Bank, Nu Holdings Ltd., Safaricom Ltd | 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 |
|--------------------|---|
| Insulet | Insulet is a medical device company specialising in diabetes care. There are 11 million type 1 and insulin-intensive type 2 diabetes sufferers in the USA and overseas markets. Insulet's pump, the Omnipod, is a clear market leader within insulin pumps due to its compact, tubeless design, ease of use, and improvement in medical outcomes. Insulet's innovations are not only limited to hardware but are also evident in the software that runs its devices. This powerful combination means diabetes patients have more time in an optimal glucose range. As impressive as Insulet is on the medical side, the company also enjoys a competitive advantage within distribution. Unlike competing devices, the Omnipod is disposable, allowing it to be sold through retail pharmacies in the US at a lower upfront cost and directly marketed to patients. Attracted by still low penetration rates and Insulet's competitive advantage, we decided to take a holding. |
| Schneider Electric | Schneider Electric manufactures and sells hardware and software for energy management and industrial automation. The company's products are critical to upgrading and expanding energy infrastructure. Electrification, load growth, and the need to meet climate challenges should support a structural growth opportunity that will last multiple decades. Due to its broad product portfolio and extensive distribution network, Schneider Electric is well-placed to benefit from rising demand. We believe the company can compound its earnings at an attractive pace for a long period of time. |
| Soitec | Soitec makes engineered substrates for semiconductors that are used instead of silicon. These substrates bring a range of enhanced properties including reduced energy consumption, heat generation and signal interference. Soitec has built a dominant position in substrates for radio frequency (RF) applications in mobile handsets and infrastructure, and has a range of other established and nascent growth opportunities in areas including smart devices, electric vehicles and signal filters. Its edge is solidified by a heavily patented process which enables the company to remove an ultra-thin, uniform layer of one substrate and bond it to another. Structural growth is underpinned by several megatrends including electrification (auto power train and green energy infrastructure), digitalisation and AI (data centre photonics and edge computing). Soitec's share price has been weaker as its RF customers work through stockpiles built up following COVID related supply chain issues. We believe this has created a compelling valuation opportunity to take a holding for clients. |

Complete Sales

| Stock Name | Transaction Rationale |
|------------|--|
| Umicore | Umicore is a materials company with three core activities: precious metal recycling, catalysis for combustion engine vehicles and other markets, and cathode manufacturing for rechargeable batteries. Umicore's recycling and catalysis businesses have performed well since our initial investment, but the battery business has disappointed. The company's execution has been poor, and a succession of CEO changes has reduced our confidence that Umicore can navigate a fast-changing market and grow profitably. |

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