



# Positive Conversations

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2021

**BAILLIE GIFFORD**

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

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# Welcome

Welcome to *Positive Conversations*, our Environmental, Social and Governance (ESG) and Engagement report.

Keystone Positive Change Investment Trust's *Positive Conversations* accompanies our annual Impact Report (which will be published in the summer). The Impact Report focuses on the impact of the products and services of the companies in the portfolio, whereas *Positive Conversations* focuses on the business practices of these companies, essentially how they operate. It also details our engagement, or positive conversations, with management teams as we seek to support and influence companies owned on behalf of our clients, over the long term.

We aim to own shares in exceptional companies that operate with honesty and integrity, treat their stakeholders well and are leaders within their respective areas. We also recognise that there is no perfect company and that there will inevitably be setbacks along the way. Thoughtful engagement is essential, hence our differentiated approach: we believe that engagement should be about meaningful conversations rather than box-ticking or a one-size-fits-all approach.

We engage with management teams to learn more about their company, support their long-term ambitions and influence for positive change where it matters: tackling important issues that are relevant to the future success of the business and society. Our engagements cover both business strategy (products and services) and business practices (ESG). We believe that taking this approach will lead to more interesting and effective conversations and actions over time.

We hope you find this report an interesting reflection on our ongoing conversations.

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# How we think about business practices

When assessing the impact of the companies in which we invest, we look at their business practices as part of our impact analysis. Responsible business practices are fundamental to delivering sustainable long-term growth and addressing global challenges.

As with all parts of our process, our understanding of a company's business practices is based on bottom-up fundamental research and covers the full value chain within which the company operates. It considers the following areas:

## Environment

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- What contribution does the company make to the wider environment?
- Is the company committed to reducing its environmental footprint and intensity?
- Is it ambitious with its targets and commitments?
- Are its emissions aligned with a 1.5°C (or less than 2°C) warming trajectory?

## Social

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- What societal contribution does the company make through its interaction with stakeholders, including employees, customers and suppliers?
- Are employees respected and treated fairly and is it a good place to work?
- Will customers share in the success of the company?
- Are suppliers treated equitably and are their practices sustainable?
- We also look at the broader contributions to society by analysing attitudes to issues such as paying taxes.

## Governance

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- How do governance structures support the responsible, long-term sustainable growth of the company through independent oversight, incentives and shareholder alignment?
- Does the board composition, experience and diversity support long-term growth?

## What is good practice?

What constitutes good practice is subjective and varies by company. For example, while high insider ownership and dual-class share structures are commonly seen as negative governance practices, in the right circumstances they can be beneficial in maintaining focus on a long-term vision.

Companies will not always perform well across all value chain components: there are significant differences in market practice between geographies, industries and levels of company maturity. However, our constructive engagement and sharing of best practice helps companies develop further.

While there may be variation at a detailed level, in general, exceptional companies not only perform well as individual organisations but can drive industry-wide improvements, constantly raising the bar on what is considered best practice.

## What is our role?

As long-term investors, we aim to be supportive shareholders of exceptional companies by helping management teams achieve their objectives over meaningful periods. However, an exceptional company is not a perfect company, and our role is crucial in helping steer companies to make good decisions over the long term. There are times when we need to provide constructive challenge to the companies in which we invest; we firmly believe challenge is most likely to be successful when positioned within the context of a long-term and supportive shareholding. We also believe that a positive and proactive approach to ESG issues can be a competitive advantage. Good governance can support better decision-making; good social performance can create a more productive workforce and good community relations can secure the social license to operate. Social performance and good community relations can provide resilience in bad times, while good environmental performance can lower operating costs and secure access to long-term natural resources.

## The portfolio

The diagram below illustrates the relative performance of companies within the portfolio based on our assessment of their business practices. While this is a static representation the reality is much more fluid – our understanding of business practices changes over time as we engage with companies and as governance structures evolve, transparency increases, incidents occur and performance against key metrics develops. The size of the circles represent how many companies are in it.



\*Private companies.

# E – Environment

In line with our dual objectives: to deliver superior investment returns and a positive social or environmental impact, we invest in companies that are providing game-changing positive solutions that address global challenges including climate change. However, the focus of this document is on portfolio companies' ESG business practices and we have similarly high expectations of companies that they have a thoughtful and ambitious approach to reducing their environmental footprint.

We believe there is an urgent need to accelerate the transition towards global net zero emissions and for asset owners and asset allocators to play a role in helping to deliver the goals of the Paris Agreement. While climate change is arguably the most significant environmental issue facing the planet, it isn't the only environmental risk. Biodiversity loss and water scarcity are also major threats.

Here, we report on the carbon footprint of the portfolio, assess climate-related risk for portfolio holdings and outline Positive Change's commitment to the Net Zero Asset Managers initiative, an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. We also provide an update on biodiversity loss.





## A focus on carbon

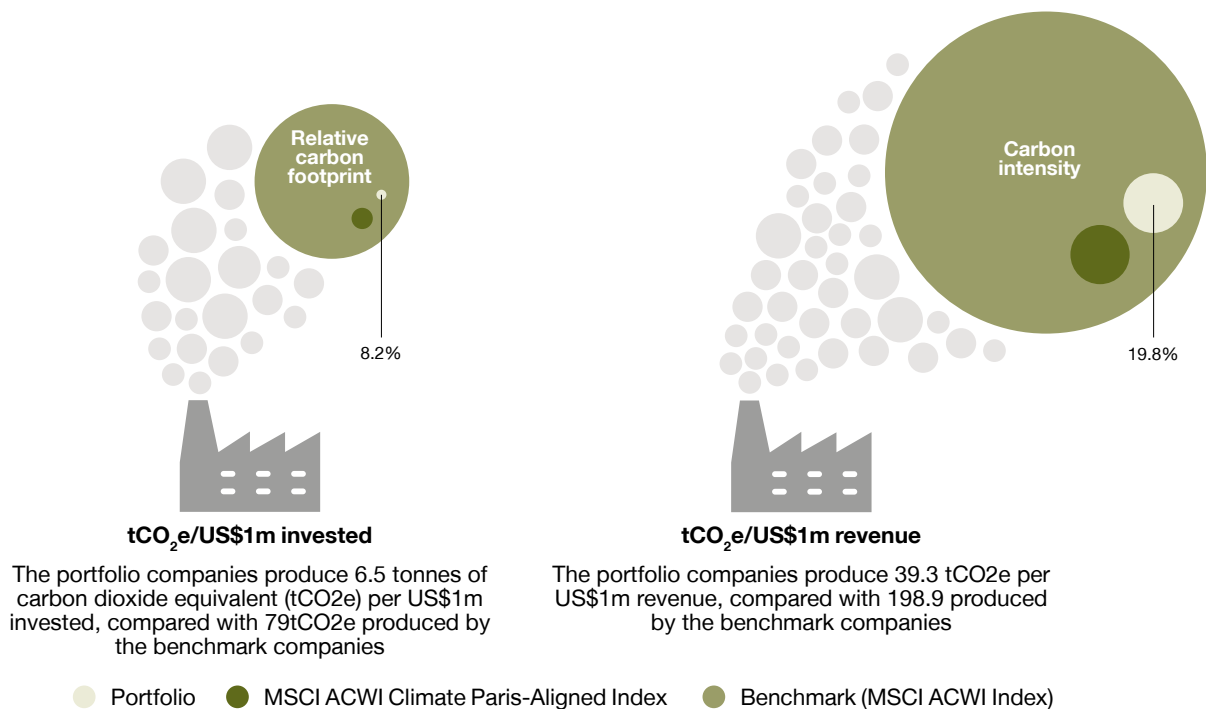
In November 2021, just an hour west of our office in Edinburgh, the world gathered in Glasgow for the 26th Conference of Parties (COP) with the sole aim of limiting global warming to 1.5°C. After two weeks of tough negotiations, the resulting deal was met with mixed reactions. Estimates suggest that if the new long-term pledges made are met, the world will warm to 2.1°C by the end of the century<sup>1</sup>.

While a far cry from 1.5°C, there is progress. Before COP26 the world was on track for 2.7°C of warming<sup>2</sup>, half the 6°C of warming predicted before the 2015 Paris Agreement. Climate action is accelerating, but clearly more is still required, and we want to do our part.

### Taking stock: reporting carbon emissions

#### Portfolio carbon footprint: scope 1 and 2

In the figures below, we represent the carbon footprint of the portfolio. We include direct operational emissions only, otherwise known as Scope 1 and 2 emissions, which arise mainly from burning fuel and using electricity. These figures are more widely reported and more accurately estimated than upstream and downstream emissions, for example, emissions that arise from the use of a product during its lifetime, otherwise known as Scope 3.



<sup>1</sup> <https://climateactiontracker.org/publications/glasgows-2030-credibility-gap-net-zeros-lip-service-to-climate-action/>

<sup>2</sup> <https://www.unep.org/resources/emissions-gap-report-2021>

We report our emissions against the MSCI ACWI Index, which is the benchmark for our investment performance, and the MSCI ACWI Climate Change Paris-Aligned Index, which more accurately reflects where emissions need to be to meet the Paris Agreement. This benchmark starts from a baseline of emissions 50 per cent lower than its parent index and then decarbonises approximately 10 per cent year-over-year to align with the trajectory of a 1.5°C climate scenario.

Comparing our portfolio's footprint to this additional index, provides insight into where the carbon footprint stands in relation to where it needs to be to meet the ambitions of the Paris Agreement and avoid the worst impacts of climate change.

The Keystone Positive Change Investment Trust portfolio has a carbon footprint just over half that of the Paris-Aligned Benchmark, but with a slightly higher carbon intensity. This is explained by the holdings with higher carbon intensities such as Ørsted (renewable wind energy) and TSMC (semiconductors, which are a vital component for the decoupling of economic growth from carbon emissions), both of which have an important role to play in the low carbon transition. We have not included the private companies in the carbon footprint analysis as this data is not currently available.

### Carbon footprint

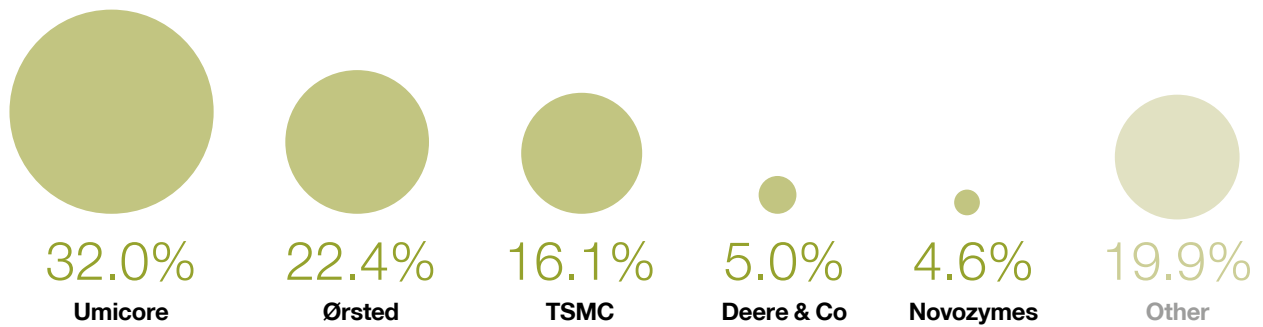
|   | Carbon emissions                 | Carbon intensity              | Weighted average carbon intensity | Carbon emissions data availability |
|---|----------------------------------|-------------------------------|-----------------------------------|------------------------------------|
|   | tCO <sub>2</sub> e*/\$m Invested | tCO <sub>2</sub> e*/\$m Sales |                                   | Market value                       |
| Keystone Positive Change Investment Trust | 6.5                              | 39.3                          | 43.6                              | 95.6%                              |
| MSCI ACWI Index                           | 79.0                             | 198.9                         | 151.5                             | 99.7%                              |
| MSCI ACWI Climate Paris-Aligned Index     | 11.5                             | 37.1                          | 44.1                              | 100.0%                             |

\*tCO<sub>2</sub>e (tonnes of carbon dioxide equivalent).



## Highest contributors to emissions

Conducting a carbon footprint allows us to understand the companies for which carbon emissions are most material in the context of the portfolio, reflecting both emissions and holding size. The figures below show the five largest contributors to the portfolio's carbon footprint, but it is important to set these in context. The products and services of the highest emitters all have an important role to play in enabling a transition towards a lower-carbon economy more broadly.



## Scope 3

In most sectors, the largest sources of a company's emissions lie upstream and/or downstream of its core operations, for example, the end use of a product. This makes Scope 3 emissions vitally important to reduce but significantly harder to measure. Of our holdings, 18 out of 38 publicly report Scope 3 emissions, including six of our top 10 holdings by weight. We will continue to engage with holdings around Scope 3 measurement, reporting and targets in 2022.

Carbon Footprint based on the Keystone Positive Change Investment Trust, as at 31 December 2021.



## Net Zero Asset Managers initiative

We believe there is an urgent need to accelerate the transition towards global net zero emissions and for asset managers to play our part to help deliver the goals of the Paris Agreement. In this context Baillie Gifford has signed up to NZAMI (Net Zero Asset Managers initiative) and supports and commits to investing in alignment with the goal of net zero greenhouse gas (“GHG”) emissions by 2050 or sooner.

Positive Change fully supports this commitment; it is in many ways simply an expression of one element of our long-held philosophy that companies can help to provide solutions to social and environmental problems. The Positive Change Strategy has two objectives: to deliver superior investment returns and a positive social/environmental impact. Clearly, this includes climate change. Examples of portfolio companies providing solutions to climate change include Ørsted (offshore wind), Joby (electric aircraft), Northvolt (battery manufacturer), Umicore (battery materials and recycling) and Tesla (electric vehicles and energy transition). Our starting point, today, is therefore quite different to that of most portfolios.

To formalise our commitment to supporting a net zero aligned economy, 100 per cent of the assets in Positive Change will be managed in line with the overarching requirements and long-term ambitions of the net zero emissions commitment. Below we have set out our interpretation of how we will achieve that over time. Given the concentration of the portfolio and the objectives to deliver impact across a wide range of social and environmental challenges, we do not believe it is appropriate to set a target for the portfolio emissions as a whole. Instead we will monitor individual company metrics, as set out in our expectations below, reporting against them annually in this *Positive Conversations* publication.

Our expectations are largely focused on the next five years. We feel strongly that action on climate change cannot wait until 2050 or even 2030. Equally though, this means that we are working to an ambitious timetable of engagement. Some of the expectations are well understood, such as reporting of Scope 1 and 2 emissions, but on others, such as appropriate goal setting and performance, we will be learning alongside our investee companies and the wider investment community. For the best hope of limiting warming to 1.5°C, the whole economy must be decarbonised, with the goal of achieving net zero by 2050. Our expectations will therefore need to be challenging but flexible. Through our engagement and support for investee companies we believe that we, as investors, can make an important contribution to this global goal.



### Within the next 5 years:

- By the end of 2023 (or within 2 years of entering the portfolio) we expect 90% (by number) of the portfolio to be reporting their Scope 1 and 2 emissions.
- By the end of 2024 (or within 3 years of entering the portfolio) we expect 75% (by number) of the portfolio to be reporting material S3 emissions; with 90% reporting by the end of 2026
- By the end of 2026 (or within 5 years of entering the portfolio) we expect 75% (by number) of the portfolio to have appropriate net zero aligned targets;
- Appropriate targets may be those that have been verified by the Science Based Targets initiative or otherwise deemed to meet the required decarbonisation pathway for an individual company based on its activities, geography, emissions profile and previous emissions reduction performance.
- In addition to the expectations above we will assess the actual emissions reductions achieved by our investee companies on an annual and longer-term basis. These factors will increasingly feed into our thinking with regard to appropriate target setting for future commitments.

### Longer term:

- By the end of 2030 we expect 90% (by number) of the portfolio will have appropriate net zero aligned targets
- By the end of 2040 we expect we will have full alignment with reporting and established decarbonisation pathways that can achieve net zero across the portfolio by 2050 or sooner

Our ability to achieve these expectations will be governed by many things, including how the portfolio evolves and tilts towards different geographies, industries and company maturities over time. We will report in depth on our progress on a comply or explain basis. While committed to acting where our engagement and support has been unfruitful, we will allow flexibility where there is an opportunity to make a change for the better. Our ambition is ultimately for 100 per cent compliance as soon as we can, and we will work to this rather than wait for the target dates above. At the latest, we plan to review these expectations in 2025 to account for new learnings and evolving norms to ensure our approach remains robust and effective. At this time we have omitted companies that were private in 2021 from this data and our NZAMI commitments because they are at such an early stage of growth that disclosure is limited and the emissions of the companies are likely to be insignificant when compared to the larger companies in the portfolio. We will continue to review this approach as these companies grow and expect to add them over time.

As we report our progress against these expectations, we will also monitor and report on portfolio emissions against the Paris Aligned Benchmark and re-evaluate our expectations if the portfolio is significantly underperforming from an emissions perspective. Additionally, while our percentage targets are based on number of companies, reflecting the need for the full economy to act, we will also monitor and report on the equivalent percentage compliance weighted by emissions to ensure it is comparable. Perhaps most importantly however, we will continue to look beyond just a company's ESG business practices (including carbon footprint) and focus on companies that are providing game-changing positive solutions that address the challenges of climate change, such as renewable energy, carbon capture, and a circular economy. We will support and encourage these companies to quantify the positive impact that they are providing.

## Taskforce on Climate-related financial disclosures

While our commitments to NZAMI look to limit the portfolio’s impact on the climate, we also work to analyse the risks that climate change poses to the portfolio. This is in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations, and these risks come in the form of transition risks and physical risks. These can unfold gradually over time or through sudden shocks.

### Transition risks

When analysing transition risks, we aim to understand how Keystone Positive Change Investment Trust holdings will be impacted as society moves towards a zero-carbon world. These impacts could come in the form of changes to public policy, shifts in market demand and/or an increase in public pressure.

Companies particularly exposed to these risks are typically those with high emissions or those that produce products or services suited to the high-carbon economy. Of particular concern are companies that do not have detailed strategies in place to deal with this inevitable transition.

We can learn a lot about a company’s exposure to transition risks during our initial investment and impact analysis, which helps us to understand the nature of the products, the adaptability of the company and the intentions of management. In addition to this, we analyse company emissions trajectories using third-party providers and company-reported reduction efforts. This helps put a company’s emissions into perspective by providing a temperature trajectory for individual companies based on past emissions and forward-looking targets and strategies.

Through our work, we have identified Deere & Co and TSMC as priority companies to engage with. Analysis on these companies is on the next page.

### Physical risks

Companies may be exposed to the physical impacts of a changing climate, such as extreme and severe weather events, sustained higher temperatures, or sea level rise. These risks can manifest themselves in the disruption of operations and demand, or the destruction of property and infrastructure.

To identify which portfolio holdings may be most exposed to the physical risks of climate change, we rely on a combination of bottom-up research, third-party data and company-reported risk disclosures. These sources are not always accurate, so we continually monitor all companies to inform our research and engagement strategy. Currently, we have identified Deere, Beyond Meat Inc, and TSMC as being priority companies to monitor and engage with on physical risks. Analysis of these companies is on the next page.



## Analysis and Positive Conversations with our portfolio

### Deere & Co

Deere, the heavy equipment manufacturer and leader in precision agricultural technology, continues to be a focus for engagement. This is due to its exposure to both transition and physical risks, as a result of its high emissions, and the challenges its customers could face from extreme weather events and fluctuating weather patterns. We engaged with Deere twice in 2021 on these issues, increasing our understanding of the company's efforts regarding developing new products and supporting customers to adapt to a changing climate and low-carbon economy. We also advocated for ambitious emissions reductions targets and we look forward to their release next year.

### Beyond Meat

We have identified Beyond Meat, the plant-based protein company, as a company where we need to learn more about its exposure to climate risks and its strategy for decarbonisation. Operational challenges in the third quarter, primarily due to severe weather, highlighted the company's exposure to the physical risks of climate change. The company is still relatively young and has been focusing on rapid expansion since its IPO in 2019, but a call with Investor Relations in 2021 provided some comfort that ESG considerations are being elevated within the company. We also learnt it was taking initial steps to deliver a Sustainability Report, which would include disclosure on climate risks, carbon footprint and targets. We will be revisiting this subject with the company.

### TSMC

TSMC, the semiconductor manufacturer, saw emissions rise in 2021 despite achieving long-term target reduction. The company is exposed to a range of physical risks from climate change, including water scarcity, flooding and rising temperatures. It is also exposed to transition risks from the high energy demands of its manufacturing and the limited renewable energy production in its major production bases. However, our conversations with the company gave us confidence in the adaptation plans and strategies in place to mitigate these risks. Furthermore, TSMC's renewable energy consumption rose more than twice as fast as its non-renewable consumption, suggesting that it may be able to overcome its historical challenges and decarbonise in line with the Paris Agreement. However, the uncertainties here make TSMC an important company for us to engage with as we proceed with our NZAMI commitments.

### Umicore

Umicore, a recycler and battery components producer, is the highest emitter in the portfolio for the second year in a row. Umicore comprises almost one-third of the portfolio's total emissions, though it is important to keep in mind that this share is exaggerated by the number of low-emitting companies in the fund. Earlier this year, Umicore announced ambitious climate commitments which it believes will align the company to the Paris Agreement. These targets include a 20 per cent reduction in Scope 1 and 2 emissions by 2025, a 50 per cent reduction by 2030, and carbon neutrality by 2035. The vast majority of Umicore's emissions are within their Scope 3, however, and the company will be defining targets for these emissions in 2022. They have aimed to have all targets validated by the Science-Based Targets initiative. We applaud the company for this level of ambition and hope to see it meet the requirements for SBTi validation at 1.5°C. We will continue to engage with the company to understand its strategy and support it in its decarbonisation journey.

### Ørsted

Ørsted continues to be one of our top-five emitters, with emissions staying constant over the past year despite emissions reduction targets aligned to a 1.5°C trajectory. This was primarily due to a legal obligation to increase production at two coal-fired power stations in Denmark to keep the grid frequency stable and, as such, we remain confident that Ørsted will continue along its ambitious decarbonisation path.

### Ecolab

Ecolab helps companies optimise resource use and promote hygienic environments. In 2021, it was impacted by Hurricane Ida and the Texas Gulf winter freeze, demonstrating its exposure to extreme weather events through its facilities, supply chain and customers. We are aware that the company has long-standing processes in place to identify and manage these risks and will pick up the topic in subsequent engagements.







## Biodiversity

The loss of the Earth's biological diversity brings with it threats equal in their destructive power to those posed by climate change. As such, a huge movement is underway to reverse centuries of destruction and see nature in a better state by 2050 than it is today. Through the protection and restoration of the enormous variety of life on Earth, we can provide resilience to the planet's delicate natural systems which regulate the climate, water and nutrient cycles. In doing so, we can slow down climate change, improve food security and underpin sustainable development.

Traditionally, humanity's relationship with nature has been framed in terms of impacts and dependencies. Impacts can be destructive acts, like clearcutting forests or polluting rivers. Dependencies are natural occurrences that we benefit from, like pollination or protection from severe weather. How a company impacts and depends upon nature exposes them to different risks and opportunities.

In a similar manner to the risks associated with climate change, the risks associated with biodiversity loss can be divided into two categories: physical risks and transition risks. Physical risks arise from the physical impacts caused by the destruction of natural ecosystems, such as a reduction in the provisioning of goods or the cessation of supporting services. Transition risks arise from the policy, legal, technology and market changes that are necessary for the transition to a nature-positive economy.

To identify our exposure to these risks, we undertake bottom-up research, prioritising companies operating in sectors or geographies that are known to have a high exposure to biodiversity loss. We are still in the early stages, as is the industry, and following are summaries of our analyses on priority companies. We do not expect this process to remain static. We expect our methods and reporting to develop and change significantly over the next few years as the field develops and we identify third-party providers that can help us, or our holdings, with this analysis.

## Bank Rakyat Indonesia

As a financial institution, Bank Rakyat Indonesia may have a direct or indirect impact on biodiversity and deforestation through the activities of its customers. Given the extraordinarily high levels of biodiversity in Indonesia, and its precarity in the face of climate change and human intervention, there is the risk that these activities have outsized impacts on nature.

In 2020, 32 per cent of Bank Rakyat's total loans went towards economic sectors that have high impacts on biodiversity, such as construction, agriculture and forestry. Economic sectors that are directly dependent upon biodiversity, including agriculture and fishing, received 14 per cent of total loans.

The company is aware of its impacts on biodiversity and has policies in place to align with responsible lending. These include policies to only lend to sustainably certified palm oil projects; guidance on conducting environmental impact assessments; and monitoring borrowers' activities to ensure the loans are not used for new land clearing. However, our initial analysis found no mention of Bank Rakyat's dependence on biodiversity. Understanding how the company monitors and manages this issue, particularly for its more vulnerable micro, small and medium enterprises, will be the first step of our engagement.

## Beyond Meat

As a food company, Beyond Meat directly impacts and depends on biodiversity through the production of raw ingredients in its supply chain. During our initial conversation with the company we learnt that most of its ingredients are organic, which reduces its impacts on biodiversity and minimises its exposure to transition risks. Furthermore, peas, which are the main ingredient in its products, are often planted as part of a farmer's crop rotation where it helps to replenish the soil with nutrients and increase soil microbial activity. As a self-pollinating crop, peas are less directly exposed to the physical risks of biodiversity loss but are still dependent on the supporting services, as are the other ingredients. When we engaged with the company on this issue in 2021, we advocated for it to consider biodiversity reporting in its upcoming sustainability report.

## Deere & Co

Deere produces machinery and equipment for the agricultural, forestry and construction sectors. The company is exposed to the transition risks and physical risks of biodiversity loss through its customers, and to transition risks through the sourcing of raw materials in its supply chain. We have discussed this issue with the company several times over the past two years and, while Deere is still at an early stage, we have already seen its thinking on the subject evolve. Its advances in precision agriculture creates opportunities to reduce its customers' impact on the environment through supporting practices such as cover cropping and no-till farming. The company has a Climate Change and Carbon Risk Team. Its main function is to monitor risks and opportunities around climate change, including biodiversity and land use.

## Umicore

Umicore is mainly exposed to biodiversity loss through the mining of raw materials in its supply chain, which can exact enormous direct and indirect impacts on biodiversity, often in highly biodiverse regions.

Umicore is much less exposed than many of its competitors due to the high percentage of recycled input materials, but there remains exposure from the remaining materials which come from primary origins. The company's recent sustainability strategy had many ambitious and admirable commitments, but there was a notable absence of biodiversity. Umicore has committed to the responsible and ethical sourcing of raw materials and we are keen to learn more about how biodiversity is taken into consideration.



## Novozymes

Novozymes has acknowledged its dependence on biodiversity for its bioprospecting efforts which takes samples of fungi, bacteria and enzymes found in nature and uses them to develop new biological solutions for customers. As such, the company is exposed to various laws and regulations in the countries in which it operates. It follows the Nagoya Protocol which lays out principles of Access and Benefit Sharing to avoid biopiracy of genetic resources. The company has identified biodiversity loss as an emerging risk and is working to understand what the implications may be for its business.

## Ørsted

Ørsted's growing portfolio of onshore and offshore wind farms is crucial to tackling climate change but risks significantly impacting biodiversity. Onshore wind farms have been found to negatively impact the habitats of birds and bats, and offshore farms alter marine habitats and risk promoting the spread of non-indigenous species. Ørsted has had an offshore wind biodiversity policy in place since 2018 which sets out the principles it follows during the site selection, design, construction and operation of any offshore farms. This year, the company went even further and announced its ambition to deliver a net-positive biodiversity impact from all new renewable energy projects commissioned from 2030 at the latest. This is the deepest consideration of biodiversity from any holding in the Keystone Positive Change Investment Trust portfolio and mirrors an incredibly thoughtful approach to responsibilities and risk management around climate change. We plan to engage with the company to continue learning on the subject, with a special interest in the technicalities involved in setting baselines and measuring progress during target setting.

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# S – Social

The importance of social factors has been brought to the forefront in recent times with companies' responses to the pandemic highlighting how they manage relationships with their workforce, and how they operate within societies and political environments.

We believe that encouraging responsible social practices is not only ethically sound but will benefit both our investment and impact cases for companies over the long term. We regard the materiality of social factors through three main lenses: how poor social practices destroy value; how good social practices create value; and, how companies solving social problems present attractive investments. While we cover the latter in our Impact Report, here we focus on our work on the first two areas.

Social business practices are complex and multi-faceted, not least given the wide differences in attitudes towards disclosure around the world. In 2021, through our research and engagement with companies, we have continued to deepen our understanding of some of the issues which we believe have enduring relevance to the portfolio. We report on many of these conversations in the Engagement section of this report and below we cover our research on inequality.

## Broadening research on inequality, homing in on solutions

### Inequality: a wicked problem

From the offset, Positive Change has sought to invest in companies whose products and services are contributing to a more inclusive world. We have been thinking about solutions to prevailing social inequalities for some time, but it is fair to say that the pandemic and other global events have drawn our focus to this area as never before and prompted us to take a more holistic look at our investee companies' role in society.

But, as with climate change, inequality is a wicked problem. Wealth concentration, unequal respect for human rights and power discrimination are vicious cycles and self-reinforcing, just as melting permafrost or glacial withdrawal are. Solving one problem often creates others elsewhere.

The complexity of the inequality problem promotes inaction and a tendency to tinker around the edges and pluck low hanging fruits. As a long-term investor – with a stake in promoting healthy, equitable societies – we promote action by prioritising our conversations on what matters most. This year, we have expanded our research to tackle this complexity head on.

## Multidimensional inequalities

Single measures of inequality, such as the Gini coefficient (developed by statistician and sociologist Corrado Gini), which highlights the gap between a country's richest and poorest people, fail to capture the spectrum of issues that constitute a person's well-being and life experience. Income and wealth are the dominant way of framing inequality. While very important, they are often the outcome of myriad overlapping inequalities and contributing behaviours rather than the cause of experienced inequality. We need, therefore, to be more bottom-up, and gain a better understanding of the many interactions between a business and various inequalities. A multidimensional approach embraces complexity and the interconnectedness of different inequalities.



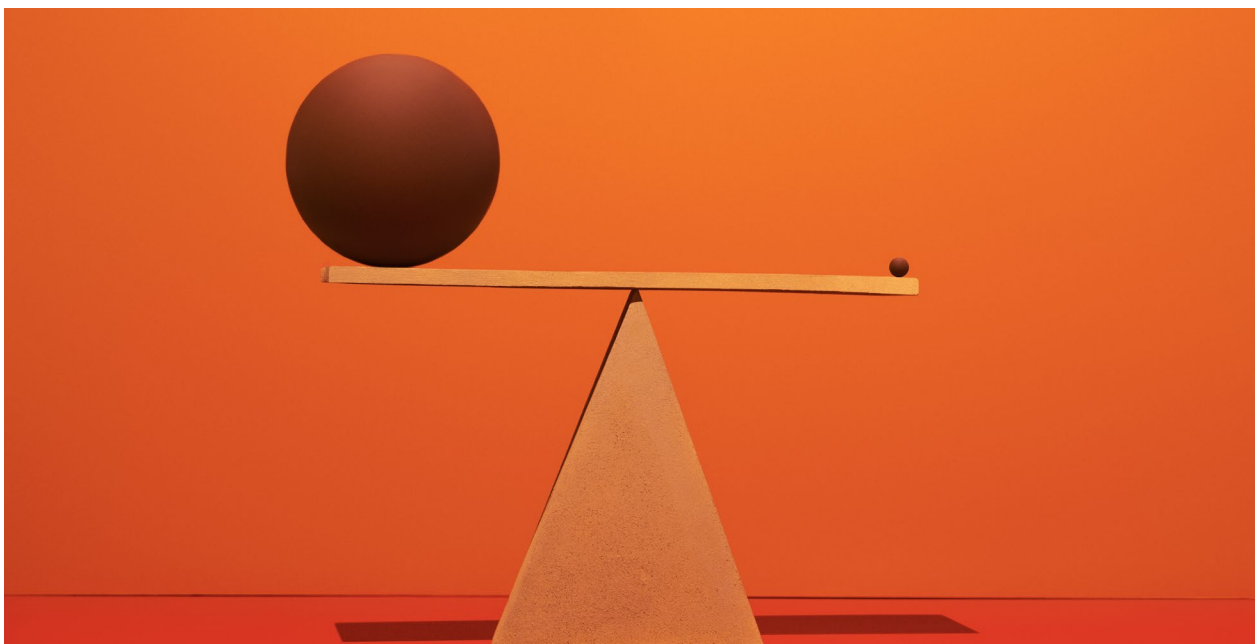
## Conducting an ‘Inequalities Audit’

There are very many touchpoints between a company’s actions and inequalities. Addressing some of these will be outside of its control and the connections will not always be obvious. A company’s carbon emissions could have a greater impact on long-term health inequality than its pricing strategy, its approach to unions or its board diversity. This provides a catalyst to map a range of possible intersections between company activities and prevailing inequalities.

We sought to identify how each company in the portfolio approached inequalities. Drawing on leading inequality research, we identified a dashboard of more than 60 factors that we deem the most relevant to prevailing social inequalities. The factors included everything from CEO pay ratios, to use of artificial intelligence (AI) and companies’ approaches to supply chain due diligence. We took into account the industrial and geographical context of each company, plus its size and stage of growth, when determining each company’s performance on inequality measures.

The below table provides some of these factors as an example of how we assess inequality.

|   | <b>Vertical inequalities</b><br>Factors supporting (in)equality of opportunity within target populations (eg income, basic needs, health outcomes)  | <b>Horizontal inequalities</b><br>Factors supporting (in)equality between different groups (eg gender, race, sexuality, religion)   |
|---|---|---|
| Product/service and distribution                            | <ul style="list-style-type: none"> <li>— Product access and distribution strategy</li> <li>— Digital strategy</li> <li>— Affordability/pricing</li> <li>— Product safety</li> <li>— Product role in automation</li> </ul> | <ul style="list-style-type: none"> <li>— Product design</li> <li>— Equity considerations in use of datasets and algorithms</li> <li>— Removing bias in AI</li> <li>— Human rights due diligence</li> </ul>  |
| Operational contribution and solutions (business practices) | <ul style="list-style-type: none"> <li>— Tax contribution</li> <li>— Lobbying activity</li> <li>— Executive pay</li> <li>— Fair pay for employees</li> <li>— Employee education – digital skills</li> </ul>               | <ul style="list-style-type: none"> <li>— Pay equity</li> <li>— Approach to diversity and inclusion in the workplace</li> <li>— Recruitment and hiring</li> <li>— Social policies in supply chain</li> <li>— Leadership diversity</li> <li>— International supply chain commitments</li> </ul> |



## What we learned

### What purpose this served:

**It gave us comparable and differentiated insight** into the steps that companies are taking to tackle inequalities and create inclusive cultures. In many cases, the factors measured were minimum standards, such as having a whistle-blower hotline. But it was particularly informative to see companies that go beyond minimum standards, such as Ecolab and MercadoLibre which claim to have no median gender pay gap. Similarly, US biotechs, such as 10X Genomics, tend to have significantly better parental leave policies than the average. On the other hand, we found companies with ambitious gender diversity targets, but with below-average policies.

**To help us prioritise our resources** – time and capital – onto companies and engagement topics that will have the greatest impact on reducing inequality. Looking at a company holistically helps us to do this. For example, Moderna's pricing may have a bigger impact on inequality than the treatment of workers in its supply chain, but the supply chain is where TSMC's or Tesla's key impact on inequality lies. Our research revealed companies that are particularly thoughtful about ensuring products are inclusive, such as Peloton, which has an accessibility strategy for the deaf and blind. It also revealed gaps that we need to focus on in the future. More than one-third of companies in the portfolio employ AI to inform decisions on customer access, benefit or safety, but few have publicly announced efforts to remove bias in datasets.

**To identify trade-offs.** Trade-offs should be reduced where possible, but the uncomfortable reality is that they will exist. One inequality relevant to almost half of the portfolio is the digital divide, which prohibits people without access to advanced digital technologies from benefitting from certain products and services. This is often not within the control of one company, but our research found that some companies, such as Bank Rakyat Indonesia, are supporting customers on their offline to online journeys.

## What are we doing?

We intend to use this research to inform further engagements in 2022. This year, we engaged on several issues that are important for reducing inequalities, many of which can be found at the end of this report. We have discussed with Moderna how it will best expand access to its vaccines in developing countries, we encouraged Umicore to focus on improving the health of those living close to its facilities, and emphasised the importance of product design safety at Peloton. We also highlighted how we would like to see lower injury rates for Safaricom's workers. We used our voting power to oppose CEO compensation at Abiomed, which is very high relative to the company's median employee, and to support more forced arbitration reporting at Tesla. With the votes not going in our favour, we separately communicated to both companies our desire to see improvements in these areas.

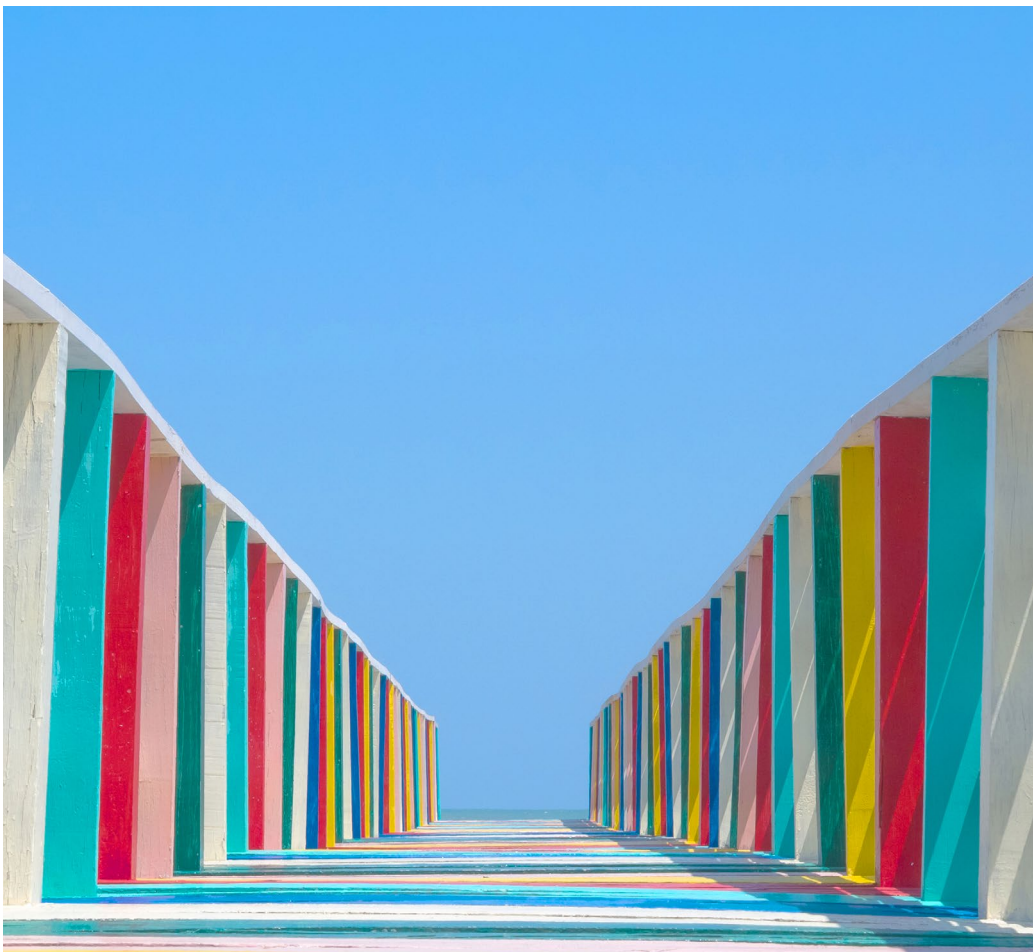
We are still at an early stage in addressing this challenging and complex topic, but through our investment decisions, voice and voting power, we hope to contribute to greater equality of experience and opportunity for all groups in society.

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# G – Governance

Effective corporate governance helps us build confidence that a company will deliver on its financial and impact objectives. It also helps us build trust in management to implement the culture and values required for success. Aligning the interests of management and shareholders is critical over the long term.

Corporate governance is a frequent topic of conversation when we speak with the management of portfolio companies. Just as there is no universally ‘right’ way to invest in the stock market, there is no ‘one-size-fits-all’ approach to corporate governance. We are open-minded about the different ways to govern and manage a company, and we are pragmatic about the significant differences in both expectations and actions that exist across different countries. Understanding the nuances of corporate governance across different markets and for companies at different stages of development is important, as we are looking to identify and encourage what works best for individual companies to achieve growth and impact.





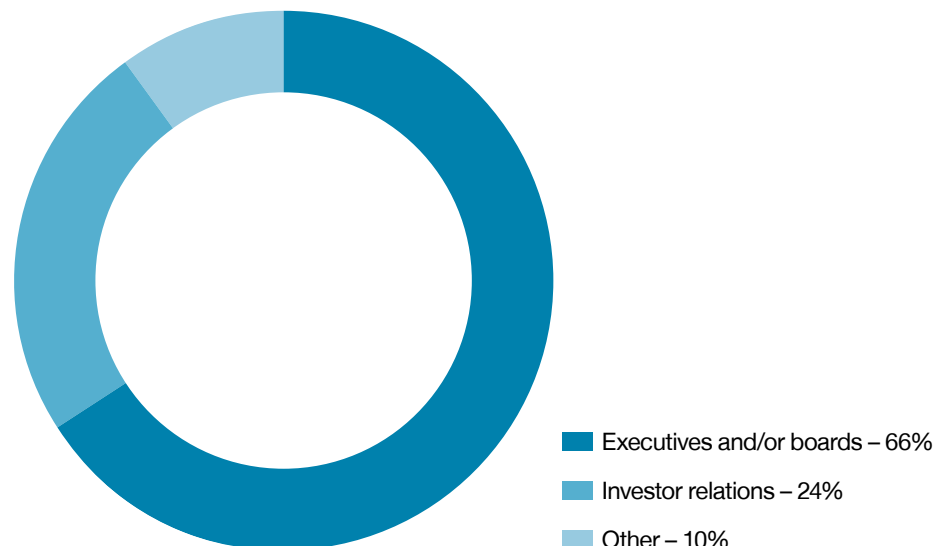
## Responsible business practices – it starts at the top

We believe that a company cannot be financially sustainable in the long run if its approach to business is fundamentally out of step with changing societal expectations, and that success will only be sustained if a business's long-run impact on society and the environment is taken into account.

As such, companies need to be encouraged and supported to establish responsible business practices which range from the fair treatment of employees, customers and the environment, to compliance with legal and regulatory requirements and establishing responsible tax practices. We recognise that no company is perfect in every category, but we want to see, and advocate for, a positive direction of travel towards continuous improvement in the companies in which we invest.

This requires leadership and good governance. Management and boards have a clear role to play in endorsing sustainable business practices and empowering their employees to build better companies. They should therefore understand and be involved in these aspects of their business, disclosing such information publicly alongside plans for ongoing improvement. To fully understand companies' governance frameworks, the direction of travel and any bespoke structures, it is important we speak directly to management teams and companies' board of directors.

### Who we met with



## Governance frameworks

We look to identify and support governance structures that work best for individual portfolio companies.

### Leading governance frameworks

We consider several portfolio holdings to be ahead when it comes to leading from the top.

Ørsted has fully integrated the responsibilities of sustainable business practices throughout its leadership. The Board of Directors sets the strategic direction for sustainability. The Audit and Risk Committee supervises and oversees ESG performance and reporting, and verifies the effectiveness of any sustainability programmes. In addition, the CEO chairs the Compliance Committee and the CFO chairs the Sustainability Committee, and each has ESG-related key performance indicator (KPIs) linked to their remuneration. There is clear senior focus, oversight and accountability on key ESG issues. As a result, Ørsted is one of our top performers in sustainable business practices, especially when it comes to environmental performance.

Another leader is Safaricom which, for a long time, has placed mission and impact at the centre of its business. The Kenyan government holds a majority share in the company and the board has codified its obligations towards responsible business practices in the company's charter. Safaricom's sustainability team is also empowered to help shape the company, and is often involved in the design and development of new products. We were very impressed when we met with the new CEO again earlier this year, given the depth of his knowledge and interest in ESG issues.

### Bespoke governance frameworks

Tesla and Umicore are two companies within the portfolio that exemplify our philosophy of staying away from prescriptive tick-box governance standards and appreciating that companies can operate differently, but equally effectively. Tesla is in a similar position to Deere in that its ESG Sustainability Council, which manages the prioritisation, measurement and disclosure of ESG topics, is overseen by the board but does not contain leadership representation. However, over the past couple of years, we have seen Tesla move fast to catch up on ESG disclosure and management, and our meeting with the sustainability team earlier this year highlighted their ambitions to become the best in class, reflecting the culture of ambition and empowerment that has helped Tesla's business excel. Umicore is another company with a similar dynamic between the ESG committee and the management board. However, we have seen the integration of sustainable business practices for several years, notably through part of the CEO's variable remuneration being linked to ESG KPIs and the ambition and range covered by the latest sustainability strategy. With a new CEO having joined in October, we will need to see how the company's approach to sustainable business practices continues to develop.

### Earlier stage governance frameworks

There are several companies in the Keystone Positive Change Investment Trust portfolio that have yet to develop strong ESG governance structures. Many of these companies are at an early stage and sit within our Healthcare and Quality of Life bucket, and have therefore prioritised building their business and, most importantly for the impact case, scaling and improving their products to tackle global healthcare challenges. We look to encourage these companies to lay the groundwork for strong governance frameworks, central to which is company culture. Over the year, we spent time with two very early-stage companies, AbCellera and Berkeley Lights, to understand how they are protecting and developing their culture during periods of rapid growth.

Over 2021, we also saw some portfolio holdings start to reorganise and prioritise sustainable business practices at the very top of their organisations. Beyond Meat, for instance, has amended the Charter of the Nominating and Governance Committee to provide more oversight of ESG practices, disclosure and engagement with stakeholders. It has also established an ESG Executive Steering Committee, involving the executive team meeting quarterly to discuss issues. Outside of the board and executive team, working groups throughout the company are being set up to action decisions made by the steering committee.

## Providing conversations on governance frameworks

Conversely, other better-established companies may not have the best structures in place and we have acted to try to help create a fair and aligned governance culture. In the cases of Xylem and Ecolab, we voted to remove limits on the number of shareholders who may aggregate shareholdings to reach the threshold to exercise rights of proxy access. We will continue to advocate for such changes where we believe they are in the best interests of the company and/or protecting the interests of minority shareholders.

At other times, we believe remuneration policies to be unfit for purpose. This year, we voted against the remuneration policy at Discovery and Bank Rakyat Indonesia because we did not believe that they would suitably encourage a long-term mindset at the company. We also voted against Abiomed's executive compensation package due to concerns that the quantum of the one-off equity awards granted during the year were excessive and unnecessary and could undermine the integrity of the standard compensation policy. We communicated our thoughts to the management, although ultimately the compensation package was approved so we will continue monitor executive pay and engage with Abiomed accordingly.

Sometimes further conversations are required to help understand a company's position. Following a reorganisation, Deere has been reevaluating the governance of its sustainable business practices. As of last year, Deere had five internal committees, covering a range of areas from health and safety to climate risk analysis, guided by the Corporate Governance Committee. However, many of these groups lack the direct involvement of members of the board or Executive team that we see with portfolio leaders, which could signal this work is seen as a comparatively low priority by the company's leadership. We look forward to continuing our conversations to better understand the dynamics within Deere.





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## Getting off on the right foot - Governance in private investments

Much of what we are looking for in public companies is mirrored in our approach in the private markets. In general, we look for governance structures that promote long-termism and responsible oversight, but with a bias towards backing passionate founders with a strong intent to achieve positive environment and social change. In addition to assessing a private company's impact, before investing we aim to learn what we can about its culture, its approach to business practices and how it is governed. We have assessed strong alignment on these factors for the three private companies currently held by the Keystone Investment Trust – Spiber, Northvolt and PsiQuantum. Yet, given these companies are still in the early stages of development, there are certain areas of governance that we give an enhanced level of focus to in the private markets and that we believe will best set them up for success.

### Management agility

Quality leadership is important in any company, but in companies that are yet to prove whether their technologies or business models can achieve scale, our confidence in management's ability to execute is essential. There is no one leadership model that fits all scenarios and when considering what is right for each company, we benefit greatly from our close collaboration with the experienced members of Baillie Gifford's Private Companies' team. In particular, we look for management teams that are determined and are demonstrably allocating capital for the long term yet are agile enough to react to inevitable missteps, shifting market dynamics and the growing demands of managing people well.

## Board evolution

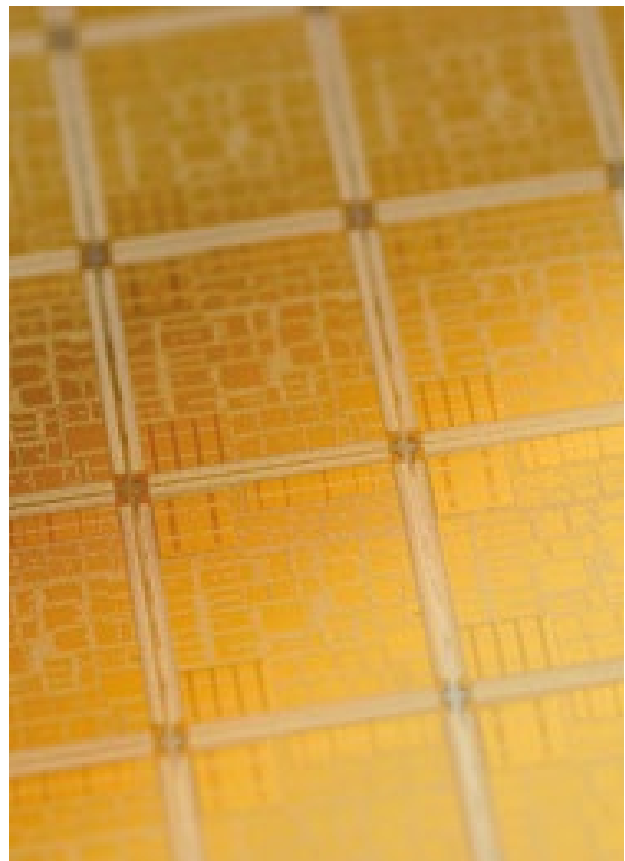
It is vital that we do not assess a static picture of a company's governance but spend time discussing with management how they expect it to evolve. At any one time, we are looking for appropriate board diversity and the right balance of expertise, but requirements will change over time as the company grows. Companies that have recently emerged from academic institutions, like Spiber and PsiQuantum, may initially require board directors who bring more commercial and industrial experience. The likes of Northvolt, however, founded within an industry and with a management team experienced in rapidly growing businesses, may require more strategic oversight and benefit from directors who bring expertise in raising capital.

## An attractive mission

For private companies we also ask ourselves whether the current leadership and the business itself will be able to attract a support team that will best set it up for success. At this stage of growth, it is especially crucial that companies can attract employees with the right skill sets, a Board of Directors that will provide expert guidance and other shareholders who are aligned with the company's mission. During our due diligence, we try to meet a broad spectrum of these stakeholders helping us to understand their motivations and intentions for the company. For the holdings of Keystone, this is often because they are passionate about helping a company drive positive environmental and social change, something that we actively seek out. Sometimes, though, it is the capital that we provide that will help unlock a company's ability to entice the world's best talent.

## Openness and transparency

Finally, we must remember that unlike in the public markets, private companies choose us as investors as much as we choose them. Shareholders in private companies often play a much more direct role in company governance than in public companies. Demonstrating responsible ownership is not only our duty as shareholders, but it also helps us attract more companies seeking our investment and voice. We believe that using this voice to promote strong ESG practices over the long term, will ultimately set the company up for success. In return, we expect openness from management teams and a willingness to listen to our views. Northvolt's Investor Advisory Board meetings, in which we participate, are a good example of this.



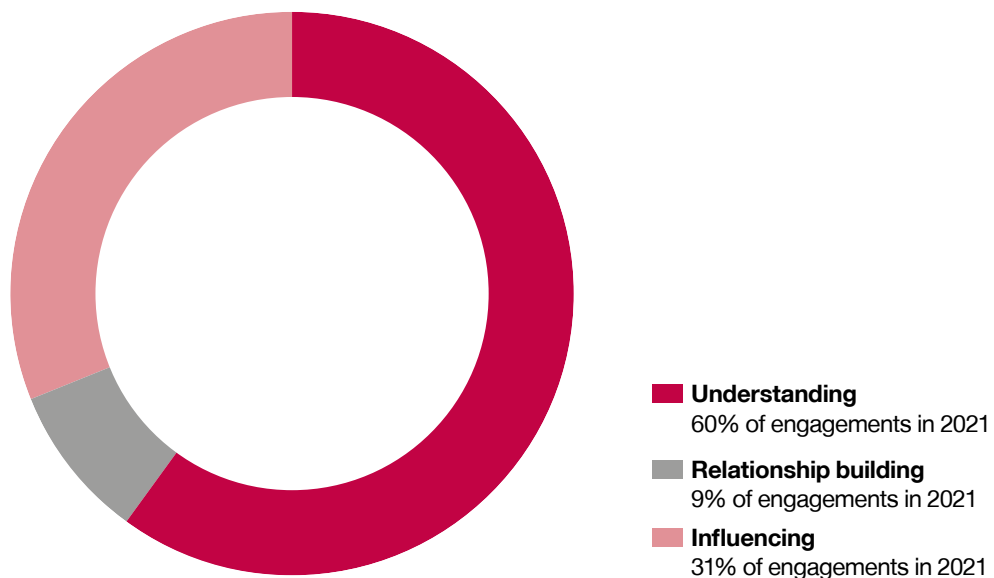
# Engaging for Positive Change – Company Conversations

Engaging with companies is fundamental to our role as investment managers, impact analysts and stewards of our clients' capital. We think deeply about what to engage with portfolio companies on, the best methods for doing so and how to prioritise our engagement efforts. Knowing our time with company management and board members is precious, we focus our resources on the most pressing companies and most relevant topics. In 2021, we had 58 engagements with 30 different companies held in the portfolio reflecting our good access to companies and strong relationships with management teams. We are not able to provide the full details of all our private company conversations.

## Our approach

Mirroring our approach to investing, we aim for our company engagements to be thoughtful, long term, and based on bottom-up analysis to maximise our impact. As we invest in companies that we are excited about and are run by people we admire, most of our meetings are 'positive conversations' about important topics which we believe are both relevant to the future success of the business and relevant to society as a whole. Many of our company engagements are ongoing, reflecting our multi-year approach and the nature of complex topics that won't be changed overnight or even over a few quarters. Our objectives when engaging with companies fall into the three categories: Understanding, Relationship Building and Influencing. Detailed examples are given of each, followed by a summary of all engagements with portfolio companies over the year.

## Objective of engagement





## 1. Understanding

This is the most common reason for us to engage with companies and is vital to help build our insight and conviction into the investment and impact potential of the portfolio holdings. Where possible, we aim to meet with investee companies every 18 months. We often collaborate with other Baillie Gifford strategies and we have systems for sharing insights across our investment department.

### Alibaba

**Objective:** Better understand how environmental and social matters are governed across Alibaba's many businesses to help inform our approach to long-term engagement with the company.

**Action:** As well as discussing the company's social impact with the CEO and CFO in January, we had an ESG-focused call with Investor Relations in May. We encouraged more detailed ESG reporting and discussed how this will be administered across the Alibaba Group.

**Outcome:** Ongoing. We have requested a further dedicated call on the governance of environmental and social matters and expect to see improved ESG reporting in 2022.

### Moderna

**Objective:** To explore the steps Moderna is taking to support greater access to its Covid-19 vaccine and to better understand some of the barriers it faces in achieving this.

**Action:** We discussed vaccine access in several meetings with Moderna this year and held a call specifically on this topic in September.

**Outcome:** Ongoing. We were delighted that Moderna plans to establish a manufacturing hub in Africa and is working with COVAX, the World Health Organisation-backed initiative set up to ensure Covid-19 vaccines reach the world's poorest people. Working closely with our Health Innovation Team, we plan to continue to encourage and support Moderna to take steps to expand access to its vaccines in low- and middle-income countries.

## 2. Relationship building

We regard building the right relationships with investee companies as a key objective, because it helps us achieve our other engagement objectives. From our experience, strong relationships are helpful in enabling impactful engagement. We, therefore, prefer to engage directly with companies, rather than through investor collaborations – although we consider each of these on merit and frequently speak with other investors on key issues.

### Safaricom

**Objective:** Deepen our relationship with the company’s Head of Sustainable Business and Social Impact, Karen Basiye, to help us understand how we can best support Safaricom’s impact objectives. We also wanted to draw the company’s attention to several ESG matters that concern us, such as the debt crisis in Kenya, injury rates among staff, gender pay and impact reporting.

**Action:** We covered all these points in a focused meeting with Karen Basiye. She committed to further work on injury rates and it was encouraging to hear of its initiatives on financial education.

**Outcome:** Ongoing. We plan to continue our conversations and hopefully visit Safaricom in 2022. We introduced Safaricom to an organisation that may be able to help with the company’s impact analysis.

### Umicore

**Objective:** To establish a dialogue with the ESG team to express support for its sustainability efforts.

**Action:** After attending the launch of Umicore’s new sustainability strategy, we had a follow-up call with the ESG team and sent a further communication encouraging limited use of carbon offsets to meet targets, where possible. We also encouraged the company to focus on solving its local environmental challenges, as this will be beneficial over the long term.

**Outcome:** Ongoing. Umicore’s new sustainability strategy is admirably ambitious. We want to support the company’s efforts and encourage capital allocation to achieve these.





### 3. Influencing

While our primary impact is through the allocation of capital to companies achieving positive change, we also aim to have a positive impact through engaging with investee companies. We will offer our insight where we identify actions that might maximise a company's potential to pursue growth and impact.

Where we believe a company's behaviour is detrimental to either we will engage, offering our views and encouraging change where appropriate. If we take voting action against management, we tell the company our reasons for doing so, as we did after the Tesla and Discovery AGMs in 2021. Measuring the progress of these engagements, many of which will take place over several years, is challenging but is something we are actively working on.

#### FDM

**Objective:** We have long encouraged FDM to pay its 'Mounties' (trainees) during their initial training period because this will make FDM a more attractive option for a broader spectrum of talent, rather than only those who can afford it. We first discussed this topic with them in July 2018.

**Action:** We met with FDM's CEO and CFO in February and again emphasised our support for paying UK trainees at least the minimum wage.

**Outcome:** Complete. In June, FDM announced that it will pay trainees in the UK, bringing its practice in line with other regions at an annual cost of approximately £2m.

#### Abiomed

**Objective:** We were concerned that the Board of Directors at Abiomed had limited diversity and its lack of medical expertise was limiting its effectiveness, so we decided to engage to encourage change.

**Action:** In 2020, we held a meeting with Abiomed's Lead Independent Director and discussed how the board interacts with management. We suggested greater cardiology experience on the board and encouraged a focus on diversity.

**Outcome:** Partially complete. In 2021, Abiomed's board announced two director appointments, improving its medical expertise, and its gender and racial diversity. We continue to monitor the effectiveness of Abiomed's board.

## Company engagement

**R** Relationship  
building

**U** Understanding **I** Influencing

|                  |          |          |  |
|------------------|----------|----------|--|
| <b>AbCellera</b> | June     | <b>R</b> | We continued to build our relationship with new holding AbCellera. We spoke with Chief Executive Officer (CEO), Carl Hansen, and Chief Financial Officer (CFO), Andrew Booth, about how the company plans to use the royalty incomes from its Covid-19 antibody discovered for Eli Lilly. We were encouraged that AbCellera plans to invest the proceeds back into the business to strengthen its technology platform and expand capacity. We also discussed how the company has managed its culture during a period of rapid growth.  |
|                  | October  | <b>U</b> | We had a short call with CEO and CFO where we mainly discussed culture. We learnt that when AbCellera assesses people during hiring decisions they think about two axes: technical competency and personality, with a preference towards hiring the right personality and training them in the technical competencies they need.   |
|                  | December | <b>U</b> | We had a call with AbCellera's CEO to deepen our understanding of the technology stack that the company is building. It will enable antibody therapeutics to get to market faster and extend their disease coverage. We also discussed the potential of recent and future acquisitions and the importance of maintaining a strong culture as the business scales rapidly.  |
| <b>Abiomed</b>   | August   | <b>I</b> | We had a call with the CFO and General Counsel of cardiac assist device manufacturer Abiomed, to discuss recent changes to the compensation plan. We were concerned by the compensation committee's decision to grant recovery grants during the year. We believed these awards undermined the integrity of the standard compensation policy and misaligned the experience of the senior management team and shareholders. We disagreed with the rationale for granting these special payments, outlining our strong belief that we did not consider them to be appropriate and our intention to oppose the executive compensation resolution. At the AGM, the pay proposal narrowly passed with 51 per cent support. Given the strength of the oppose vote, we think it is important for the company to engage with shareholders and we look forward to encouraging better pay practices in the future. |
| <b>Alibaba</b>   | January  | <b>U</b> | We had a call with the chairman and CEO and CFO of Alibaba where they reiterated three key growth opportunities: providing the digital infrastructure for consumption; rising adoption of cloud services; and growth outside China. The CFO noted the importance of commerce to contributing to the economic development of China and that the cloud opportunity in China could be at least the size of that in America. We discussed regulatory developments. Alibaba's response was that it sees no changes in the big picture, providing it continues to contribute to society through creating jobs, generating consumption and upgrading digital infrastructure. It was also encouraging to hear management's thoughts on nurturing and empowering the next generation of talent.   |
|                  | May      | <b>I</b> | A call with Investor Relations allowed us to discuss and better understand some of the company's strategies in cloud, grocery and logistics. We also covered Alibaba's continued commitment to being customer focused and developing services to support China's rural population. One of the objectives of this call was to encourage improvement in Alibaba's ESG reporting, which has been minimal since 2018. We were able to do this and offered our assistance going forward, receiving encouraging responses and commitments for comprehensive ESG reporting by 2022. We also gained more insight into how sustainability is managed across the group's vast businesses and hope to follow this up with further engagement this year.   |

|                        |                       |   |
|------------------------|-----------------------|---|
| <b>ASML</b>            | March<br><b>U</b>     | We had a video conference with the long-standing CEO of ASML, Peter Wennink. We discussed how the semiconductor equipment maker had coped over the last year, the operational impact that Covid-19 has had and the silver linings that can be taken from the experience. We also discussed succession planning and Peter's confidence in the operational and technological outlook for the next decade and beyond.  |
|                        | June<br><b>U</b>      | Our meeting with Lucy Lau, Sustainability Strategy Manager, delved into ASML's climate-related targets and perspectives. The company is underpinning the continuation of Moore's Law thanks to its increasingly advanced lithography machines to print silicon wafers onto semiconductor chips. While the latest machines are increasingly power-hungry, they also enable products that in turn allow for greater energy efficiency. There are therefore important trade-offs that need to be examined. We discussed the company's Scope 3 emissions, which it began reporting in 2019 – an area that Lau acknowledged is still work-in-progress. ASML has made a public plea to encourage suppliers to accelerate their reporting. In our view, ASML's reporting, targets and narrative stand out well: it is one of the few companies that has 1.5°C compliant targets for direct emissions, and it openly recognises it must take more action. Next steps include continuing to reflect on how properly costed resources, such as energy, water and greenhouse gases, might disrupt the geographic layout of the current semiconductor supply chain. In addition, we plan to deepen our understanding of the extent and pace of climate-related trade-offs associated with the industry. We will also further explore the physical risks of climate change – both in terms of disrupting access to fresh water (critical for the big chip fabricators) and the 30–40 year outlook for sea level rise/flooding. |
|                        | September<br><b>U</b> | We attended ASML's virtual Capital Market Day, at which management highlighted its increased confidence in the growth outlook for the semiconductor industry and substantially raised long-term guidance for the business. Adoption of ASML's leading-edge extreme ultraviolet lithography (EUV) equipment continues to be very encouraging, while earlier generation deep ultraviolet lithography (DUV) equipment demand has been more resilient than expected. These trends are expected to persist as chip demand ramps up across multiple different industries and geo-political tension stimulates domestic capacity additions – 'semiconductors are the new oil'.   |
| <b>Bank Rakyat</b>     | May<br><b>U</b>       | On a call with Bank Rakyat, we covered the company's renewed focus on providing loans to small and micro businesses across Indonesia and its role as a growth driver. The company has launched various initiatives to support the micro and SME segments during the pandemic, including helping merchants sell online, and it is now seeing the micro segment recovering well. We also discussed progress with Bank Rakyat's relatively conservative digital strategy, which recognises that there is still a large digital divide in Indonesia, and the role that its agents are playing in addressing this.   |
| <b>Berkeley Lights</b> | September<br><b>I</b> | We met with Eric Hobbs, CEO of Berkeley Lights, to discuss some of the allegations raised in a recent short-seller report. While much of the report is sensationalised, the CEO acknowledged that there were elements of truth in that Berkeley Lights technology is in its early stages and there are many ways it can be improved, including accessibility, accuracy and throughput. The CEO added that he believes the company could have done a better job in communicating with customers. Overall, we remain confident in the investment and impact case for the company.   |

## Company engagement (continued)

|                    |                       |  |
|--------------------|-----------------------|--|
| <b>Beyond Meat</b> | February<br><b>U</b>  | We had a video call with the CEO, Ethan Brown and CFO, Phil Hardin, at plant-based meat alternative pioneer, Beyond Meat. The next few years will be crucial for Beyond Meat as it executes on the international growth opportunities and the recently announced strategic partnerships with McDonald's, Yum! Brands and PepsiCo provide. Success would lead to a significantly higher top-line and a greater contribution to alleviating climate change through its plant-based meat alternative products. We also were able to glean more insight into Beyond Meat's culture, an important driver of long-term success.  |
|                    | May<br><b>I</b>       | We caught up with Investor Relations to discuss impact, business practices and growth. We learned of recent steps to elevate ESG considerations within the company, including the establishment of an ESG Steering Committee and initial steps being taken to deliver a Sustainability Report. We offered to feed into the development of this report and advocated for the reporting of product impact and the inclusion of risks and opportunities relating to biodiversity loss.  |
|                    | July<br><b>U</b>      | We had a meeting with Beyond Meat's founder and CEO, and Vice President FP&A and Investor Relations, Lubi Kutua. Our discussion focused on company culture and the recent changes to senior management. We learnt more about what attracts people to work at Beyond Meat and how the company strikes the balance between innovation and commercialisation.   |
|                    | December<br><b>I</b>  | Beyond Meat has had a few difficult quarters due to the ongoing Covid-19 disruptions on the foodservice sector and supply-side challenges. We had a call the CEO and CFO to discuss. We were reassured by the steps that the company is taking to address those issues, in particular recruiting experienced hires with backgrounds in operations and supply chain. We remain enthusiastic about the long-term growth potential of plant-based meat and believes that Beyond Meat has a good chance of success. We relayed our support to the management team.   |
| <b>Chr. Hansen</b> | January<br><b>R</b>   | In our call with the CFO at Chr. Hansen we discussed her previous experience at Microsoft and how this might be applied at Chr. Hansen as the company continues its innovation-driven journey, leverages the strong foundations of the core business and develops exciting new opportunities such as biotherapeutics (using probiotics as medicines). It is estimated that the probiotics market will be worth €1bn by 2025 and we discussed the importance of scientific data and education to unlock the opportunity. The competitive advantage in new growth markets will be similar to that in its core markets: the scale of its library of microbial strains, the ability to manufacture at scale and strong customer relationships. |
|                    | October<br><b>U</b>   | We had a call with Chr. Hansen's CEO. We discussed the opportunity in human health and Chr. Hansen's science-based approach, which is particularly important when it comes to building evidence for the relationship between probiotics consumption and health. We also discussed the opportunity in animal health, especially the replacement of antibiotics. It feels as if the growth requires more regulatory support and consumer awareness, as the CEO acknowledged that antibiotics alternatives such as probiotics are still more expensive.   |
| <b>Coursera</b>    | September<br><b>R</b> | We had a meeting with the online education platform Coursera's CEO and CFO. Since participating in the IPO earlier this year, Coursera's progress has been encouraging. The consumer business has been strong, and we discussed topics including how Coursera thinks about the signalling value of its certifications and the opportunity in entry-level professional qualifications. We also discussed higher education. Coursera is excited about the international opportunity in higher education and Coursera for Campus.   |

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| <b>Deere &amp; Co</b> | March<br><b>I</b>     | Deere is the world's largest agriculture equipment maker and leader in precision agriculture. We had a call with Investor Relations to discuss the company's recent Sustainability Report. We used the time to discover more about its ambitions to monitor the impact of its products, and how environmental issues such as climate change and biodiversity loss is incorporated into research and development strategies. We also advocated for stronger climate commitments, such as a net-zero ambition or targets validated by the Science Based Targets initiative.   |
|                       | June<br><b>U</b>      | We had a video call with Deere's CEO, John May, and CFO, Ryan Campbell. May articulated the benefits of the company's re-organisation last year, which included being closer to customers and the ability to quickly leverage new technologies across the organisation. We also discussed the potential for software and subscription revenues. While this is still at a nascent stage, it could become more meaningful over time, and we were glad to hear that Deere is willing to experiment with different business models in this new area. Finally, we talked about the opportunities and challenges for Deere in emerging markets.               |
|                       | October<br><b>I</b>   | We had a call with the Sustainability Manager and Head of Investor Relations at Deere, the world's largest agriculture equipment maker and leader in precision agriculture, where we learnt about the research the company is doing to understand its product impacts and its ambitions around measuring and setting targets. We also used this time to probe management's thoughts on the long-term future of sustainability in agriculture, including practices such as cover cropping and no-till, biofuels versus electrification, and autonomous vehicles.   |
|                       | December<br><b>U</b>  | At our usual quarterly catch up with Investor Relations, we discussed Deere's opportunity in digital products including monetisation. We also discussed alternative technologies for propulsion (electrification, hydrogen, biofuel) and opportunities in construction.   |
| <b>Dexcom</b>         | March<br><b>U</b>     | We had a call with Kevin Sayer, CEO of Dexcom, and his Investor Relations colleagues during which we discussed how the company is preparing for scaling production and increasing consumer awareness of Continuous Glucose Monitoring devices (CGMs). The company has made bold investments in capacity and marketing, while also increasing the accessibility of its products through lower price channels. Despite this investment, it has made remarkable progress toward becoming profitable. It was particularly exciting to explore longer-term opportunities, such as the use of CGMs in hospitals and for patients suffering from pre-diabetes. |
| <b>Discovery</b>      | March<br><b>I</b>     | We had a call with health insurer Discovery's CFO and the senior management team following the company's half-year result. We were pleased to hear that the company's core insurance businesses in South Africa and the UK were holding up well despite the impact of Covid-19 on members. We heard that new businesses, including Ping An Health in China, continue to grow strongly. We provided our ongoing support for continuing to invest in technology to ensure that it can provide a seamless user experience as competition from insurtech start-ups intensifies.   |
|                       | September<br><b>U</b> | We had a meeting with the CFO and other members of the senior management team. Covid-19 severely impacted the company's life insurance business in South Africa, and we discussed the company's response to this, including supporting the vaccination drive and raising provisions. We also discussed the company's joint venture with Chinese Ping An. The opportunity in the Chinese health insurance market remains very attractive and after some reorganisations within the Ping An Group, Discovery believes its partnership is well-placed to capitalise on a very long-term opportunity.   |

## Company engagement (continued)

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| <b>Ecolab</b>  | March<br><b>U</b>     | In our call with Investor Relations at Ecolab, we discussed the transition of the CEO role from Doug Baker to Christophe Beck. We look forward to monitoring how the new CEO will enhance the company's growth opportunities with its hygiene products and water treatment solutions by leveraging its robust platform. The company has always focused on helping customers operate in more sustainable and efficient environments and that mission is now more critical than ever. Despite the challenges of the backdrop, the company continues to invest in product innovation, salesforce productivity and digital offerings. It was particularly interesting to learn how the company is addressing the rising challenge of antibiotic resistance through one of its newer platforms, Animal Health: better sanitation and improved biosecurity reduces the dependence on antibiotics for dairy, poultry and pig farms.  |
|                | September<br><b>R</b> | On a call in September, Christophe Beck – who took over as CEO in January – provided us with his vision for Ecolab's future. We discussed why Ecolab is uniquely placed to help businesses achieve their environmental targets across a huge range of industries and achieve its mission of supporting its customers to protect people and natural resources. We encouraged him to be brave and bold with investments today that will help the company capitalise on future opportunities and to maximise its positive impact. We also probed on the potential for the company to upgrade the environmental credentials of its products using emerging technologies, such as synthetic biology. This first meeting with Beck as CEO was also useful in helping us better understand the company's 'people first' working culture, how it has changed and how its environmental mission is helping the company attract talent.   |
| <b>FDM</b>     | February<br><b>U</b>  | We had a call with FDM's CEO, Rod Flavell and Chief Operating Officer (COO), Sheila Flavell to understand further how their approach to impact was developing. We discussed the different impact challenges that FDM are addressing in geographies outside the UK and the value from integrating its inclusive approach to recruitment into its customer organisations, albeit noting the challenges of measurement. Covid-19 has been a particularly challenging time for FDM but it has responded by not furloughing any staff and instead choosing to supplement its training. The company is now looking to use its experience to support remote learning to offer further remote opportunities in the future. The CEO and COO articulated the value that FDM confers through its training offering for both its customers and Mounties (trainees). It is a complex area and one that we will continue to engage on but found the call affirming to our positive change hypothesis. |
| <b>Glaukos</b> | February<br><b>U</b>  | We had a video call with the CEO and CFO at Glaukos. We discussed the long-term opportunities for Glaukos beyond its glaucoma product, and the company's competitive edge in these newer areas.   |

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| <b>Illumina</b>     | December<br><b>U</b>                               | Our meeting with CEO Francis deSousa was an opportunity to explore the growing contribution of genome sequencing, and specifically Illumina, to healthcare. DeSousa's central message was that the pandemic has accelerated the development of genomics by at least five years. Now that hundreds of millions of people have received mRNA vaccines, some of the biggest regulatory bars have been crossed, making future approvals meaningfully easier. DeSousa also sees a common policy aim to make this the last pandemic, implying that biology is now seen as a defence priority. The acquisition of Grail provides Illumina with the first mass-market screen for disease, though he acknowledged the difficult regulatory challenges still facing the acquisition. Genomics also appears to be entering the mainstream much more broadly than before, suggesting that Illumina's growth story has moved from primarily oncology to embracing the top-ten big diseases, including cardiovascular and pulmonary. Recognising the importance of sound leadership to seize these opportunities, we discussed recent board changes as well as management changes at Grail. We will continue to monitor Illumina's ability to execute on operational performance at what seems to be a significant juncture for the company, genomics and healthcare as a whole. |
| <b>MercadoLibre</b> | November<br><b>U</b>                               | We had a meeting with the CFO of MercadoLibre to learn more about its ecommerce and fintech businesses. In ecommerce, we learnt that MercadoLibre will continue to focus on geographical expansion and category expansion to drive incremental growth, which is built on top of the depth of inventory and logistic capabilities. In fintech, MercadoLibre has restructured the organisation based on end customers rather than products and is working backwards from the customer's viewpoint to understand their needs.   |
| <b>Moderna</b>      | September<br><b>U</b><br><br>September<br><b>U</b> | In our meeting with Moderna's CEO, Stéphane Bancel, we explored a range of topics. We came to understand how deeply he thinks about the firm's culture and the approaches being taken to maintain and strengthen this culture as the company expands at pace. We were particularly impressed by the examples he gave of staff being relentless and collaborative, both of which are traits that Bancel actively encourages among his team. We also explored the power of the technology platform that the company has built, and how it can be leveraged to deliver impact and improve accessibility, not just through consumer pricing but at a system level.<br><br>In a separate call with Investor Relations, we continued our conversation on the company's approach to maximising access to its Covid-19 vaccine. We are very supportive of Moderna's tiered pricing model and its reinvestment in an expanding pipeline of vaccines and treatments, but continue to encourage efforts to ensure universal vaccine access. This was a helpful call to explore some of the steps Moderna is taking and some of the challenges it has faced. It was also encouraging to hear how the company is facilitating vaccine donations from countries with excess supply.  |

## Company engagement (continued)

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| <b>NIBE</b>      | August<br><b>I</b>                            | We engaged with heating technology company NIBE's CFO, Hans Backman, to understand further its impact reporting practices and encourage improved disclosure on the emissions avoided from the use of its products. Improved awareness of the benefits of heat pump technology can act as a catalyst for wider adoption. It was confirmed that Scope 3 emissions calculations remain a work in progress and are made more complicated due to NIBE's decentralised structure. Subsidiaries receive reporting guidance in the form of environmental and financial handbooks, but retain a lot of autonomy. The company is not yet ready to set a science-based target, but it is actively considering it. We also explored the proactive role NIBE is playing in the promotion of heat pumps as climate solutions, its exposure to whole-home heating solutions and forthcoming innovations in the form of the 'Internet of Things' connected products. We will continue to monitor reporting progress.   |
| <b>Northvolt</b> | June<br><b>U</b><br><br>December<br><b>U</b>  | We joined private company and lithium ion battery manufacturer Northvolt's Investor Advisory Board meeting in June, discussing emerging demand and the company's increasing range of partnerships. Northvolt recently acquired Cuberg and we heard from its co-founding CEO Richard Wang on the call. Northvolt's U.S. operations, led by Cuberg, will develop next-generation battery cells for the electromobility market with a lower price point, better performance and increased safety.<br><br>In the Investor Advisory Board meeting we heard from management further details on Northvolt's partnership with Volvo to open a joint R&D centre in Gothenberg. We also discussed the JV with Galp, the Portuguese energy company, to develop Europe's largest and most sustainable integrated lithium conversion plant – an important step towards reducing the environmental footprint of the battery supply chain. Both of these partnerships are very supportive of our impact and investment objectives for Northvolt. We also received an update on operations, and talent and customer development.   |
| <b>Novozymes</b> | April<br><b>U</b><br><br>November<br><b>U</b> | We had a video call with Novozymes' Chief Science Officer and CFO. It formed part of our ongoing work to understand the changes following the arrival of the new CEO, Ester Baiget, in 2020. We discussed the changes that Novozymes has made to its research and development department and the innovations that the company is excited about over the coming years. We also discussed the opportunities in plant-based proteins and probiotics.<br><br>In November we were delighted to have an in-person meeting with the CEO in February 2020. During the meeting, we continued to explore the changes she has implemented, growth aspirations and culture. Under her leadership, the company is becoming more commercially and market aware in how it deploys its extensive research capabilities. It was encouraging to hear her speak about investing in innovation where it can have an amplified impact. We provided our support for investment that will help Novozymes to capitalise on exciting growth opportunities such as human health and plant-based products. Given its edge in strain identification and development, and ability to scale, the company is well-positioned to enable its customers to develop and provide desirable and sustainable products. |







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| <b>Ørsted</b>  | April<br><b>U</b>   | In a meeting with Investor Relations, the team was able to give us an update on progress in both the offshore and onshore wind segments of the business. In offshore wind, there are plenty of opportunities and Ørsted is now in a position where it needs to prioritise which opportunities to pursue. Competition is increasing but less so in the more complex sites where Ørsted has a significant advantage. In onshore wind, Ørsted is continuing its approach of acquisition and takes cultural integration very seriously, with great significance placed on the teams that come with the acquired businesses. We were able to use the call to delve deeper into a cable issue that arose at the end of the first quarter and will continue to engage on this as stabilisation and investigation works continue this year. Finally, we discussed Ørsted's involvement in developing hydrogen projects which it views as a significant opportunity in the coming decade to support global decarbonisation efforts.  |
| <b>Peloton</b> | February<br><b>R</b><br><br>May<br><b>I</b><br><br>August<br><b>I</b><br><br>November<br><b>I</b> | <p>We were delighted to have the opportunity to meet the founding CEO of Peloton before initiating a holding. CEO John Foley's sense of ambition and mission is palpable. The conversation helped further our understanding of the company's competitive edge and its culture; it was also very pleasing to hear Foley volunteer his thoughts on diversity.</p> <p>Due to the news concerning the safety of Peloton's treadmill products and the subsequent recalls, we met with its CFO. The meeting helped provide a fuller picture of the events that led to the recall, including insight into Peloton's relationship with the Consumer Product Safety Commission. We gained assurance of Peloton's ability to overcome the safety issues of its products and were greatly reassured by management's intentions to lead the industry in this area.</p> <p>We continued our dialogue with the connected fitness equipment company by speaking to members of Peloton's ESG team. The focus of our discussion was planned enhancements to its supply chain and how it thinks about climate change. Peloton's investment in a production facility in Ohio will deliver several benefits. These include improving the stability of its supply chain by reducing geopolitical risk and lowering its carbon footprint by manufacturing equipment closer to its core end markets. We also provided some guidance with regards to Peloton's upcoming inaugural ESG report. We encouraged the company to focus on material environmental, social and governance issues and how these align with its long-term strategy. Furthermore, we repeated our support for Peloton to be innovative and different and aim to produce a document that outlines the real impact the business has on its customers and other key stakeholders. We look forward to reading the report and continuing our engagement with the business.</p> <p>We engaged extensively with the CEO and CFO to explore the current challenging backdrop. Demand for its connected fitness products has softened as Covid-19 related restrictions have been lifted. This coincided with rising costs associated with logistics and materials, as well a higher cost base following investment to become more vertically integrated. These factors, combined with the company lowering the price of its original bike, meant the company reduced its near-term growth expectations. Our conversations with management helped us understand the challenges, allowed us to explore how these might be addressed and provided us with the opportunity to express our support to maintain a long-term focus in its actions.</p> |

## Company engagement (continued)

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| <b>Safaricom</b> | November<br><b>U</b>  | On a call with Safaricom's CEO and CFO, we discussed the company's growing ambitions to deliver on its position of social impact outside of Kenya and to continue to transform Safaricom into a technology company. We were very encouraging of the company's plans to leverage its central position in Kenyan society to deliver better services in the agricultural, education and healthcare sectors and are looking forward to seeing these develop. We also discussed ESG topics with the CEO and suggested a greater focus on reporting the impacts of its products and services.  |
|                  | November<br><b>I</b>  | After we met with management, we requested a further meeting with the new Head of Sustainable Business and Social Impact, Karen Basiye. In this meeting, we discussed the positive impact the company is delivering, as well as several areas that we would like to understand better and see improvement in. It was particularly encouraging to hear about the steps that Safaricom is taking to reduce over indebtedness in Kenya and improve financial literacy. Following some research into labour inequalities across our portfolio companies, we had identified that injury rates were high among Safaricom's workforce. Safaricom operates in a market with poor road safety, which contributes to most of the injuries in its workforce. While it has taken some positive steps to tackle this, we encouraged the company to do more and discussed plans to work with its third-party suppliers to improve safety.  |
| <b>Shopify</b>   | June<br><b>U</b>      | We spoke with some of the management team at Shopify, including the Sustainability Fund Director, Stacey Kauk, regarding its approach to positive climate influence across the ecommerce value chain. Shopify reports its direct emissions and runs both its own and cloud-related activities on 100 per cent renewable power. Just as importantly, it is a direct investor in carbon reduction and removal innovators. This creates a deep knowledge of the offsetting market which it then, in turn, puts at the disposal of Shopify-enabled merchants that wish to offer offsets to their customers. We also discussed the company's interactions with logistics operators and carriers and were pleased that Shopify is exploring ways to accelerate its offer of lower-carbon warehousing and distribution. The company also acknowledged that it may be able to deploy the deep dataset it is gathering on ecommerce purchases to further educate and empower consumers on product carbon footprints. Shopify displays a strong pro-climate narrative in its communications, and we look forward to seeing how this continues to develop into direct action for decarbonisation. |
| <b>Teladoc</b>   | September<br><b>U</b> | We first met with the head of Teladoc's Hospital Systems business and then with its CEO and CFO to learn more about the company's vision for virtual health, which is ambitious and sophisticated. We also discussed rising competition in the industry following the pandemic and how Teladoc is differentiated from other providers. We gained some comfort that Teladoc is pushing hard for innovations to provide holistic care to patients as well as a unified experience for doctors to practice medicine.  |

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| Tesla | March<br>           | <p>We gained further insight into Tesla's culture of relentless innovation, long-termism and sustainability during a conversation with Martin Viecha, Head of Investor Relations. He pointed to the example of Tesla's Artificial Intelligence team which is attempting to use video instead of static images to train its autonomous driving software – a highly complex task that has barely any academic research and which no other company has attempted before. Similarly, on hardware, the company is charging ahead with plans for a more affordable and profitable \$25,000 vehicle thanks, in part, to making battery cells that will require no cobalt or nickel. We also used our meeting to ask Viecha about the company's recent investment in Bitcoin. The company is concerned about potential inflation and therefore concluded that a gold-like asset with fixed supply was the right place to allocate a portion of cash reserves (8 per cent at the time of purchase). Viecha underlined that the decision was not taken lightly and that board approval was sought.</p> |
|       | July and August<br> | <p>This quarter we met with Tesla's Investor Relations twice to discuss its impact Report. From its reporting over the past two years, we have seen Tesla moving forward with regards to both ESG disclosure and impact reporting. These meetings demonstrated that the company intends to continue to develop and improve. Work in the pipeline on lifecycle analyses and operational footprints is evidence of this. Moreover, these meetings helped us to gain comfort that Tesla continues to have a wider impact within the industry by challenging the incumbents, not just by its presence, but now more actively in policy and industry circles and through its disclosures.</p>   |
|       | September<br>     | <p>Ahead of Tesla's AGM, we spoke with Chairwoman Robyn Denholm. We discussed the meeting resolutions and broader sustainability topics. The board has been impressed by Tesla's global expansion, with significant progress made at its Shanghai, Berlin and Nevada gigafactories. In support of these new facilities, talent development and regionalisation of local workforces have been key focuses. The company's 2020 Impact Report provides a comprehensive overview of how Tesla manages its operations, its treatment of stakeholders, as well as the environmental benefits of the company's core products. We provided feedback on last year's Impact Report and were pleased to see that Tesla responded well as the 2020 version is much improved. We are equally encouraged to see the company's governance practices also evolve. However, we outlined our support for the board to move at a pace that allows Tesla to remain nimble and focus on its long-term strategy.</p>   |
| TSMC  | August<br>        | <p>We had a meeting with TSMC's Investor Relations to better understand its semiconductor manufacturing business. We covered a range of subjects including the long-term drivers of growth, how the company prioritises investments, its approach to pricing, and the evolving competitive landscape. We also learnt that the company plans to expand its geographic footprint over the next decade are driven by geopolitics, a desire to reduce dependence on Taiwan, and to attract global talent. Throughout the conversation, TSMC's long-term approach to investing, pricing, and working with customers was very apparent.</p>  |

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## Company engagement (continued)

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| <b>Umicore</b> | February  | We had a call with Umicore's CEO, Marc Grynberg, during which we were able to discuss his recent, and unexpected, retirement announcement. We asked for his thoughts on the skillset required and likely priorities for his successor. We also heard about recent developments in the structure of the lithium-ion battery industry and discussed opportunities and challenges posed by the medium-term technology roadmap. And lastly, we discussed the competitive dynamics in the cathode markets, new technologies and chemistries, and the opportunities in battery recycling.  |
|                | June      | During a group meeting with the CEO and Chief Technology Officer (CTO), we heard about the company's new and encouragingly ambitious sustainability strategy. As well as maintaining its commitment to minimising harm and ensuring the ethical supply of metals, Umicore aims to commit to science-based emissions targets next year and to have net zero Scope 1 and 2 emissions by 2035. While much innovation is required to achieve this, and we plan to follow up with the company on some aspects of its strategy, we believe this, is an industry-leading position and one which will be viewed favourably by Umicore's customers. With that in mind, we requested and received a commitment from the CEO to better report the positive impacts of its circular products.                                  |
|                | August    | We had a meeting with the outgoing CEO, Mark Grynberg before his October departure. We, reassuringly, explored the circumstances behind the reshuffle of divisional heads at the battery materials and recycling company. We also learnt of the work the departing CTO has spearheaded to increase the focus on long-term research and development projects. We discussed the acceleration of electrical vehicle adoption in Europe and the US, where Grynberg was keen to emphasise that he remains optimistic but cautious about the speed of progress.  |
|                | September | After attending the launch of Umicore's Sustainability Strategy in July, we met with the company's Investor Relations and members of the ESG team to ask some follow up questions. We also took the opportunity to commend the company's efforts in reporting the avoided emissions from its metal recycling and explored some of the challenges it faces in measuring and scaling this up. Umicore continues to make notable progress in reducing the diffuse emissions from its Hoboken plant to protect human health in the local area, and remains a leader in removing child labour from its cobalt supply chain. We expressed our support for further investments in both areas and explored the potential of the Global Battery Alliance's 'Battery Passport' initiative in which Umicore is participating. |
|                | November  | Following calls earlier in the year on Umicore's sustainability strategy, we followed up with further questions on its detail and encouragement for setting appropriate targets. Our objective is to discourage the use of offsetting in net zero plans, where possible, which we communicated to the sustainability team. We have engaged with Umicore on its sustainability strategy for several years and are very encouraged by its ambitious plans to reduce its environmental impact. We were also pleased to see the company commit to the Science Based Targets initiative process in October. Working with its suppliers will be an important aspect of this and we plan to follow up in future with further positive engagement in this area.  |
|                | December  | We had a call with Umicore's new CEO, Mathias Miedreich. We discussed his long-term vision for Umicore. We emphasised our support for aggressive investments to capitalise on the opportunity that exists in the electrification of transport.   |

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| <b>Xylem</b> | November<br><b>U</b> | Following Xylem's Investor Day, which we attended virtually in September, we had a call with Investor Relations to go into depth on key topics. Xylem's long-term strategy is to shift towards more digital water management products and services, and we discussed how Xylem works with its conservative customer base to drive adoption of digital technology. Linked to this topic, we discussed the likely pace of growth and were reassured by the strong organic order growth rate. We also deepened our understanding of Xylem's approach to innovation and how the company works to develop potentially breakthrough technologies. |
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## Industry engagement

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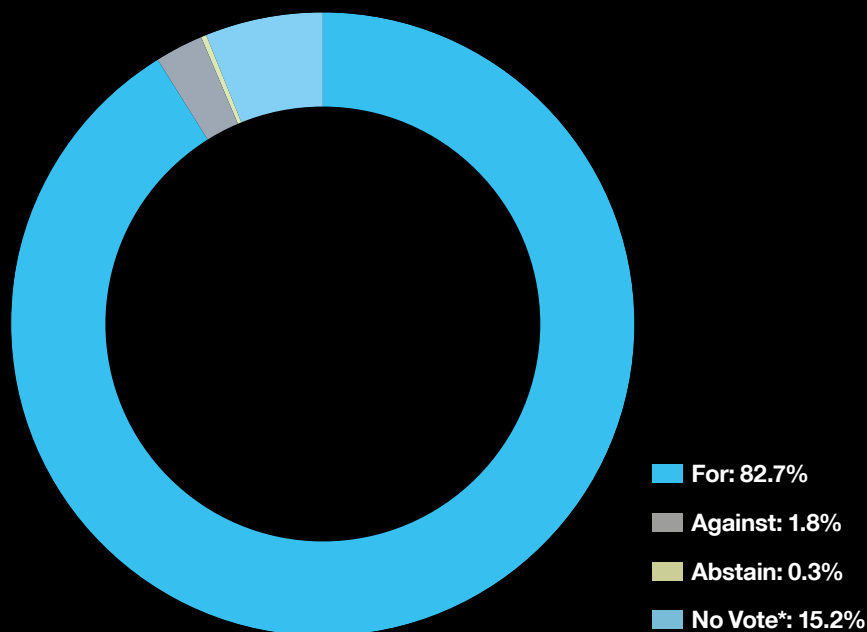
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|---|----------|---|
| <b>Deep Transitions Futures Project</b> | Ongoing  | The Deep Transitions Futures Project is an interdisciplinary research project that seeks to develop a new signature investment strategy for transformation, termed 'Transformative Investment', which places sustainability and socio-technical system change at its core. As members of the Global Investors Panel, we attended panel sessions throughout the year. We explored topics on what the future of three socio-technical systems (Food, Mobility and Energy) could look like in three future world scenarios, Frugality, Do No Harm and Earthshot. This helped us identify niches that might help bring these worlds about. We have begun looking into how transformative investment might help support the development of niches and how to apply Deep Transitions theory in investment decisions to drive transformative outcomes.   |
| <b>Global Impact Investing Network</b>  | Ongoing  | The Global Impact Investing Network (GIIN) aims to build a consensus around best practice and, as an active member of its Listed Equities Working Group, we are feeding into the GIIN's plans to develop market guidance on impact investing. In 2021, we participated in a learning session on the implications of the EU Sustainable Finance Disclosure Regulation for impact investors, including practical insights on implementation. Later in the year, we attended a Listed Equities Working Group meeting as part of Phase 3 of the GIIN's work on developing guidance for impact investing. This later session focused on sharing views and understanding the additionality of impact investors and how impact should be integrated into strategies.   |
| <b>Impact Management Project</b>        | Complete | The Impact Management Project (IMP) is a leading forum for building global consensus on how to measure, compare and report ESG risks and positive impacts. As a member of the Advisory Board, we attended meetings with the Investor Advisory Group throughout the year. We contributed to the progress of IMP in bringing together organisations from different reporting frameworks, who are now collaborating to simplify corporate reporting on ESG. As planned, the IMP in its current form is coming to an end in 2022 and we are looking at how we might further contribute to the development of the broader impact investing industry in the future. The initiative has exceeded expectations in terms of influence and we are very grateful for the hard work of Clara Barby and her team in achieving this. We hope to see the fruits of the IMP, such as the Impact Management Platform, progress well in the future. |

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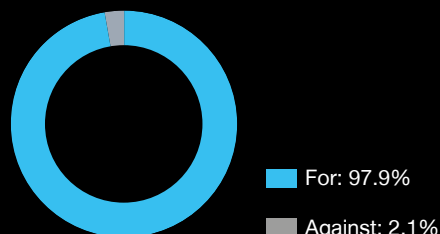
# Proxy voting

We vote on all resolutions proposed at AGMs or EGMs for our holdings. All voting is completed by our internal ESG Services team, in consultation with investment teams. As well as a summary of all voting, we show the detail of our voting record where we have voted against resolutions proposed by management, and we show all votes (for and against) resolutions by shareholders.

## Keystone Positive Change proxy voting record



### Management votes



### Number of meetings

41

### Number of shareholder resolutions supported

3

\*due to the sale of a stock or because the stock is in a blocking market (where a sale is restricted during the period between submitting our vote and the meeting taking place).

Source: Baillie Gifford & Co, based on a representative portfolio. Figures may not sum due to rounding..

## Resolutions voted for

| Company   | Meeting type    | Res Proposed by | For (%) | Against (%) | Abstain/ Withhold (%) | Result | Reason for vote  |
|-----------|-----------------|-----------------|---------|-------------|-----------------------|--------|--|
| Ecolab    | AGM<br>06/05/21 | 4 Shareholder   | 37.5    | 61.8        | 0.7                   | Fail   | We supported the shareholder resolution to remove the limit on the number of shareholders who may aggregate shareholdings to reach the threshold to exercise rights of proxy access. This is because we believe that it will better protect the rights of minority shareholders, who would struggle to reach the threshold with the current aggregation cap in place with regard to the size and ownership profile of the company. |
| Tesla Inc | AGM<br>07/10/21 | 7 Shareholder   | 44.8    | 51.8        | 3.5                   | Fail   | We supported a shareholder resolution requesting a report on the company's use of arbitration to resolve employee disputes. We think additional disclosure and transparency on this provision would be helpful in understanding Tesla's workplace practices.   |
| Xylem     | AGM<br>12/05/21 | 4 Shareholder   | 43.9    | 56.1        | 0.0                   | Fail   | We supported the shareholder resolution to remove the limit on the number of shareholders who may aggregate shareholdings to reach the threshold to exercise rights of proxy access. This is because we believe that it will better protect the rights of minority shareholders, who would struggle to reach the threshold with the current aggregation cap in place with regard to the size and ownership profile of the company. |

## Resolutions voted against

| Company       | Meeting type    | Res       | Proposed by | For (%) | Against (%) | Abstain/ Result withheld (%) | Result | Reason for vote   |
|---------------|-----------------|-----------|-------------|---------|-------------|------------------------------|--------|---|
| Abiomed       | AGM<br>11/08/21 | 2         | Management  | 51.4    | 48.6        | 0.0                          | Pass   | We opposed executive compensation due to concerns with one-off equity awards granted during the year.   |
| Discovery Ltd | AGM<br>24/11/21 | 12<br>NB1 | Management  | 90.7    | 9.3         | 0.0                          | Pass   | We opposed the Remuneration Policy due to concerns with the backward-looking performance period.  |
| Tesla Inc     | AGM<br>07/10/21 | 3         | Management  | 35.8    | 3.8         | 19.4                         | Fail   | We opposed a management resolution to eliminate supermajority voting requirements from the company's bylaws and to adopt a simple majority voting standard, in line with management's recommendation. They believe this governance provision is still relevant protection to allow them to remain focused on the long-term success of the business. |
| Tesla Inc     | AGM<br>07/10/21 | 5         | Shareholder | 53.0    | 44.0        | 3.0                          | Pass   | We opposed a shareholder resolution requesting to declassify the board. We believe that full declassification of the board is not in the best interests of shareholders at this time, and have instead supported management's alternate proposal for partial declassification.  |
| Tesla Inc     | AGM<br>07/10/21 | 6         | Shareholder | 54.5    | 41.3        | 4.2                          | Pass   | We opposed a shareholder resolution requesting additional reporting on Tesla's diversity and inclusion efforts. We believe the company continues to make good progress in relation to its diversity, equality and inclusion approach and reporting, and believe this proposal does not warrant support at this time.                                |



| Company   | Meeting type    | Res | Proposed by | For (%) | Against (%) | Abstain/ Result withheld (%) | Result | Reason for vote   |
|-----------|-----------------|-----|-------------|---------|-------------|------------------------------|--------|---|
| Tesla Inc | AGM<br>07/10/21 | 8   | Shareholder | 31.7    | 62.1        | 6.2                          | Fail   | We opposed a shareholder resolution requesting the appointment of an independent 'human capital management' committee. We believe the company are making good progress in this area, and are unconvinced that an additional committee would add any value for shareholders. |
| Tesla Inc | AGM<br>07/10/21 | 9   | Shareholder | 25.1    | 72.0        | 3.0                          | Fail   | We opposed a shareholder resolution requesting a report on the company's approach to human rights. We think Tesla's current policies and practices are reasonable and improving, making this proposal unnecessary.  |
| Xylem     | AGM<br>12/05/21 | 3   | Management  | 85.5    | 14.5        | 0.0                          | Pass   | We abstained on the resolution to approve executive compensation as we do not believe the targets within the long-term incentive plan are sufficiently stretching.  |

## Resolutions withheld

We did not withhold on any resolutions during the period.

Please note the voting results data set out above has been provided to us by a third party. No member of the Baillie Gifford group (being Baillie Gifford & Co, Baillie Gifford Overseas Limited and any of their subsidiaries, subsidiary undertakings, holding companies and affiliates from time to time) is responsible for the accuracy or completeness of information supplied by third parties.





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**[bailliegifford.com/actual-investors](https://bailliegifford.com/actual-investors)**

**Calton Square, 1 Greenside Row, Edinburgh EH1 3AN  
Telephone +44 (0)131 275 2000 / [bailliegifford.com](https://bailliegifford.com)**