Baillie Gifford™

Stewardship Report
Year ended 30 September 2023

Japan Strategy

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Introduction

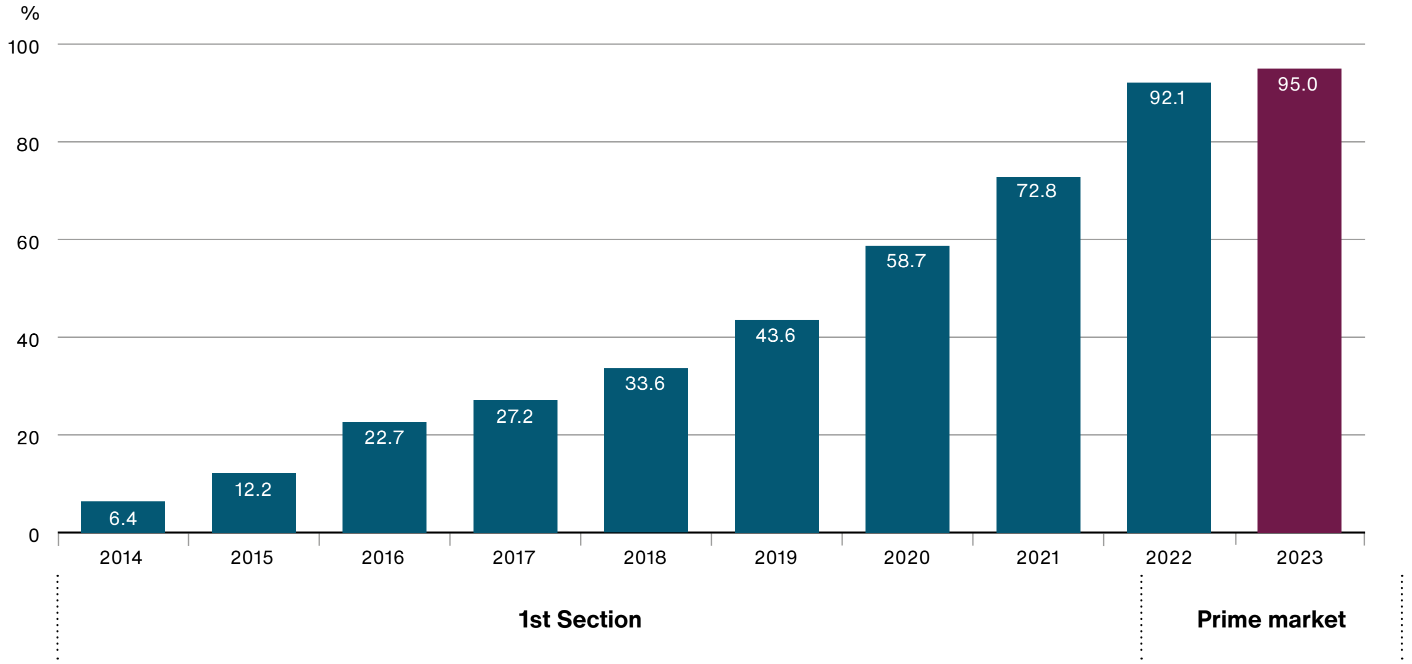
Corporate governance reform, as introduced through the third pillar of 'Abenomics', has created notable change in Japan. A joint effort by Japan's government, Financial Services Agency and the Tokyo Stock Exchange has underpinned a pursuit to unlock corporate value, generate sustainable growth, and showcase the leading companies Japan has to offer.

The bottom-up, company-level, reform introduced through the 2015 Corporate Governance Code and the top-down influence of the Stewardship Code in 2014 have combined to move companies in Japan away from traditional hierarchies and historically defined governance structures.

Specifically, the codes have sought to:

- Establish effective board oversight.
- Improve shareholder engagement.
- Address social and environmental sustainability issues that may hinder long-term value creation.

Ratio of prime market-listed companies with 1/3 or more independent directors



Source: **Tokyo Stock Exchange**

The outputs of the first and third objectives are discussed below.

When looking at the number of independent directors in the blue-chip Prime Market, the change has been significant. Less than 10 years ago, only 6.4 per cent of companies had a board of directors with more than a third classified as being independent; in July 2023 this had risen drastically to encompass most of the market at 95 per cent. Across all three stock market segments (Prime, Standard, and Growth), 72 per cent of the listed companies now have a third or more board directors classified as independent. Subsequent revisions to the Corporate Governance Code have expanded its scope, creating meaningful changes in disclosure. Japan now boasts the highest number of companies supporting the Task Force on Climate-related Disclosures (TCFD) in the world and the highest number of companies (201) setting emissions reduction targets with the Science Based Targets initiative (SBTi) in 2022.

Japan also hosted the Principles for Responsible Investing (PRI) conference in 2023. Prime Minister Kishida opened the conference by reaffirming the government's commitment to a green transformation strategy, and to enhancing human capital management. Underlying this was a mission to drive change, improve governance, and unleash the full growth potential of the economy.

All of this is to say that Japan has continued to build on the momentum highlighted in last year's stewardship report. But while the direction of travel is clear, there are still areas where further progress is warranted.

What's next?

As many of the initial numerical targets are being met the focus has shifted to ensuring the spirit of the Corporate Governance Code is followed, rather than solely the letter. Moving corporate governance in Japan 'from form to substance', from disclosures of risks to solutions to alleviate them, from a low base to a leading standard.

While there have been significant improvements in board composition and climate risk management reporting, there is still opportunity for further development and ambition.

In terms of board composition, only 16 per cent of Prime-listed companies have majority independent boards. This falls to 11 per cent across all segments. While the move to one third of directors being independent has been impressive, this lags the standards of the majority of OECD (Organisation for Economic Cooperation and Development) peers, which expect at least 50 per cent independence. Simultaneously, with the addition of new board members, more attention is being paid to board effectiveness and expertise.

While we don't take a prescriptive approach to assessing board capabilities and recognise each market's unique contexts, we expect boards to have the resources, information, cognitive and experiential diversity they need to fulfil their responsibilities to shareholders.

In this regard, there has also been a more concrete effort to improve female representation at the board and executive level. Prime Market-listed companies are expected to achieve a target of **30 per cent representation in these positions by 2030**. While 30 per cent is still notably below proportional representation, this is an important step for Japan, which has a strong tradition of male hierarchies.

Lastly, there has been a specific effort to enhance the capital efficiency in Prime-listed companies. This strategy focuses on companies with a Return on Equity below 8 per cent, and a Price to Book Ratio that falls below 1. While we agree with the principle that directors and managers should be mindful and consider their cost of capital and profitability, we also recognise that some companies may be penalised for investing in their growth, where returns lie further in the future.

Attending the Asian Corporate Governance Associations' delegation in October provided valuable insight into future plans for corporate governance as laid out by the Ministry of Economics Trade and Industry, the Japan Financial Services Agency, and the Tokyo Stock Exchange.

Looking ahead, Japan's focus is shifting towards embracing the spirit of corporate governance rather than solely adhering to numerical targets. Ensuring there is adequate financial literacy, sufficient diversity of thought and input, and relevant data for strategic decision-making are all part of this effort.

By upholding these principles and striving for continuous improvement, Japan's corporate governance landscape has the potential to evolve into a paragon of corporate governance, fostering sustainable growth and delivering long-term value for shareholders and stakeholders alike.

Baillie Gifford's stewardship principles

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society. All of the Japanese Equities Team are involved in stewardship work. As long-term investors, we believe our approach to monitoring holdings, engaging with management and voting thoughtfully supports investment performance. Over the following pages, we explore how we consider and integrate environmental, social, and governance (ESG) matters into our investment process through engagement, proxy voting and research framework. Our approach is framed around Baillie Gifford's four core stewardship principles.

Long-term value creation

We believe that companies that are run for the long term are more likely to be better investments over our clients' time horizons. We encourage our holdings to be ambitious, focusing on long-term value creation and capital deployment for growth. We know events will not always run according to plan. In these instances we expect management to act deliberately and to provide appropriate transparency. We think helping management to resist short-term demands from shareholders often protects returns. We regard it as our responsibility to encourage holdings away from destructive financial engineering towards activities that create genuine value over the long run. Our value will often be in supporting management when others don't.

Alignment in vision and practice

Alignment is at the heart of our stewardship approach. We seek the fair and equitable treatment of all shareholders alongside the interests of management. While assessing alignment with management often comes down to intangible factors and an understanding built over time, we look for clear evidence of alignment in everything from capital allocation decisions in moments of stress to the details of executive remuneration plans and committed share ownership. We expect companies to deepen alignment with us, rather than weaken it, where the opportunity presents itself.

Governance fit for purpose

Corporate governance is a combination of structures and behaviours; a careful balance between systems, processes and people. Good governance is the essential foundation for long-term company success. We firmly believe that there is no single governance model that delivers the best long-term outcomes. We therefore strive to push back against one-dimensional global governance principles in favour of a deep understanding of each company we invest in. We look, very simply, for structures, people and processes which we think can maximise the likelihood of long-term success. We expect to trust the boards and management teams of the companies we select, but demand accountability if that trust is broken.

Sustainable business practices

A company's ability to grow and generate value for our clients relies on a network of interdependencies between the company and the economy, society and environment in which it operates. We expect holdings to consider how their actions impact and rely on these relationships. We believe long-term success depends on maintaining a social licence to operate and look for holdings to work within the spirit and not just the letter of the laws and regulations that govern them. Material factors should be addressed at the board level as appropriate.

Our process

As long-term investors, we believe due consideration of a company's material environmental, social, and governance characteristics will enable us to understand its long-term resilience and growth potential better.

As such, ESG factors are not just complementary to achieving attractive long-term returns, but they enable it when done sensibly and thoughtfully.

At the most fundamental and integrated level, the Japan team's four-factor investment research framework includes an explicitly ESG-themed question:

Taking in turn environmental, social, and governance factors, which do you believe are important and relevant to the investment case?

This enables the investment analyst to assess relevant ESG factors alongside growth opportunity, competitive advantage and financial characteristics for every company we analyse. Importantly, our focus on materiality means the precise ESG considerations will vary depending on several variables, including core business model, size, and sector.

The Japan team also has a designated ESG analyst who provides additional expertise and support on ESG matters, contributes to stock discussions, and assists the investors in further integrating ESG considerations into their investment research and analysis process.

Where a particular ESG issue warrants additional work, the team may also avail of the support of our central ESG function on voting, ESG data, and emerging ESG-related regulations. We also have independent researchers based in Tokyo who can conduct ESG research where an on-the-ground perspective is helpful.

This process ensures that despite ESG's vast complexity, for any individual company, we have the scope and flexibility to go into the appropriate degree of detail to support the delivery of long-term returns for our clients.

Process update

Japan's corporate governance reform has enhanced board composition. This has prompted us to revise our voting guidelines in our ongoing pursuit of excellent corporate governance. The changes include:

- Increasing our expectations of board independence from 30 per cent to 50 per cent.
- Establishing a baseline expectation of at least one gender-diverse board member by 2025 and will continue to monitor progress towards the government's expectation of 30 per cent gender diversity in management and the board by 2030 (for Prime Market-listed companies).
- Where we previously did not have expectations around international business experience, we are now asking companies to disclose a plan to integrate/demonstrate awareness of international sales experience where >50 per cent of their sales come from outside Japan.
- Lastly, as an initial exercise in information gathering, where a company has an auditor tenure of >20 years, we are querying how they ensure auditor independence and objectivity. This may feed into future voting guidelines.

We are currently communicating these changes to companies and are giving a grace period of two years (to 2025) for them to disclose how they plan to meet the revised guidelines.

It is important to note that these expectations are not applied prescriptively; we evaluate each company in-house, on a case-by-case basis considering the investment case, the company's growth stage, the industry, and other contextually specific factors.

Engagement highlights

Mitsubishi Corp

Principle(s)
- Long-term value creation
- Sustainable business practices
- Alignment in vision and practice

Overview and objectives

Mitsubishi Corp (MC) is one of Japan's leading trading companies, with operations spanning oil and gas, machinery, electric power, food and retail. We met with the company on three occasions this year. The objective of the meetings was to gain insight into their approach to the energy transition. Our aim was to foster engagement, evaluate risk management practices, and discuss shareholder proposals.

Discussion

The first meeting focused on MC's broader approach and philosophy towards the climate transition, including trade-offs and return profiles for renewable and fossil fuel projects. The discussion also touched on opportunities in copper and wind energy contracts, as well as the challenges faced by MC in maximising returns in this new business area. The development of a new remuneration structure aligned with the company's new strategy was also discussed. This served as a useful baseline assessment to inform further discussions.

The second meeting delved into practical areas of opportunity. We discussed the role of Eneco, a recent acquisition, in achieving MC's vision and the exploration of next-generation fuels. It was useful to hear that, due to their capacity-building efforts in this area, they had won a key renewable energy contract in Japan. The discussion also covered downstream demand, energy stability, and the management mechanism for reviewing portfolios.

The third meeting revolved around scenario analysis and specific shareholder proposals. We discussed the uses of scenario analysis and highlighted the role that it can play in informing decisions. The need for ongoing evaluation and understanding of the company's risk management practices was also discussed. The company expressed receptiveness to our suggestions and is open to further discussions on this topic. Ultimately, we opposed the shareholder proposals. While we supported the spirit of the proposals, shareholder resolutions in Japan are implemented by amending a company's articles of association, a measure we believed to be inappropriate in this instance.

Outcome

The meetings furthered our thinking about the role of trading companies in an energy transition and we're encouraged by the thoughtful approach that MC would like to take in the future and look forward to monitoring their progress towards this goal.

Outsourcing

Principle(s)

- Long-term value creation
- Governance fit for purpose

Overview and objectives

Outsourcing provides staffing services to a variety of businesses across a number of industries in Japan and internationally. We met with Masashi Umehara, Director and Head of Corporate Management to continue our engagement from March 2022, where we were informed of the company's plan to address accounting irregularities. The aim of the meeting was to assess whether the changes had been made to strengthen and oversee the relevant processes.

Discussion

Our discussion covered Outsourcing's remediation process, what they had achieved and what their plans were for the future. The company established the Recurrence Prevention Committee, which has now been renamed the Compliance Committee, to oversee compliance efforts. Measures include strengthening the human resources function, providing online training, conducting due diligence and monitoring within their subsidiaries, and holding town hall meetings to emphasise compliance.

We inquired about the management of change across the extensive number of subsidiary companies (250+), and the company shared its plan to consolidate smaller businesses. The plan involves segment-based analysis and prioritising the most significant subsidiaries for effective consolidation. Initially, the focus will be on domestic consolidation due to the challenges posed by various overseas rules. This principle would also be applied to target setting. It was explained that there was previously one key performance indicator (KPI) across the group, but KPIs have now been localised in recognition that they have a diverse business. The company is keeping these under review to ensure that they are appropriate.

Outcome

The meeting with Umehara San provided a reassuring update on how Outsourcing was working to resolve its accounting irregularities. The company has changed its governance structure, reduced complexity across the business, and increased training and monitoring to ensure there is oversight and tighter processes. We expect the board to implement changes for the next few years and were encouraged that they have sought outside assurance from third-party board evaluation and the Tokyo Stock Exchange. We will continue to monitor the progress made.

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Olympus

Principle(s)

- Long-term value creation
- Sustainable business practices

Overview and objectives

Olympus is the world leader in the manufacture of endoscopes for gastrointestinal and other surgical procedures. We met with the new CEO of Olympus, Stefan Kaufmann, to understand Olympus's status in the diagnosis and remediation of issues raised in recent warning letters from the US Food and Drugs Administration (FDA). This meeting sought to cover the underlying drivers for the FDA complaints and establish a starting point for future monitoring and potential engagement.

Discussion

When Kaufmann assumed leadership, Olympus had three main priorities: innovation for growth, patient safety and sustainability, and productivity. However, following the FDA warnings, Kaufmann elevated patient safety to the top priority. While partially symbolic, this reorganisation was showcased as an important beacon for re-focusing the manufacturing and quality assurance functions at Olympus. We questioned the underlying drivers of the FDA complaints, and Kaufmann shared that part of the cause for the FDA letters was a clash between Japanese manufacturing practices and American regulation, as well as disjointed internal systems that led to longer feedback loops. Olympus is currently working on improving the capacity of the quality assurance and product safety team, which Kaufmann now believes to be industry leading. He also acknowledged that strengthening internal information flows between teams could have facilitated more effective issue escalation. To fix this, Olympus are implementing new IT tools to support faster feedback loops while building a culture where the escalation of issues is more acceptable. Part of the incentive to enable this change includes the introduction of product quality-related targets in employee bonuses. There are a lot of moving parts, but we were glad to hear that Kaufmann recognised the importance of change management, rooting out the drivers of these issues and monitoring the changes he has implemented.

Outcome

We came away from the meeting positive about the directionality of remediation and with a greater understanding of Mr Kaufmann's efforts to improve patient outcomes. The meeting also provided insight into Olympus's ongoing efforts to address the FDA's concerns and provided us with some data points for future monitoring.

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Denso

Principle(s)

- Sustainable business practices
- Alignment in vision and practice

Overview and objectives

Denso is the largest car parts maker in Japan, with close ties to the Toyota group. We met with Denso's CFO, Yasushi Matsui, and other members of their corporate strategy team at their head office to discuss their climate ambitions, customer preferences and strategy around business segments linked to internal combustion engine demand.

Context

We believe Denso has not been ambitious enough when setting their climate targets and we think this is critical to their customer base. We engaged to encourage more stretching targets as we felt the pace of change in this area could be faster. However, due to our concerns we decided to abstain on the election of the chair (Koji Arima) as a sign of the importance of ambitious climate targets for expanding the company's customer base. We decided on this action for the following reasons:

- Demonstrating high ambition is linked to part of the investment case that Denso will continue to expand its customer base outside of the Toyota group. Large (ex-Toyota) customers have now set science-based targets and will be seeking the same from their suppliers. We view that having verified targets is a source of competitive edge and a benefit to customer acquisition.
- We suggested improvements to Denso's climate targets two years ago, and with their current plan in flight, we would have to wait two more years for action.

Discussion

The company started by thanking us for our contributions regarding the importance of sustainability issues and shared how management was interested in continued efforts to improve. Denso acknowledged the importance of aligning its emissions reduction targets with its customers, saying that they were already seeing some pressures in this area. We also discussed their approach to analysing business areas supporting internal combustion engine demand. This was useful to understand, given the need to maximise value from these business areas while ensuring a shift to electric vehicles does not leave segments stranded. Matsui San shared that the auto industry was going through a once-in-a-century innovation shift which reinforced the importance of continually evaluating the outlook of different business areas.

Outcome

As a result of our engagement and voting actions, we're pleased to have progressed the discussion with Denso on these key issues. We're also encouraged that Denso has received verification of its short-term emission reduction targets from the Science Based Targets initiative. We will continue to monitor progress in this area and look forward to further productive conversations in the future.

Sumitomo Metal Mining

Principle(s)

- Long-term value creation
- Sustainable business practices

Overview and objectives

Sumitomo Metal Mining (SMM) is a non-ferrous metal company, with operations in mining. We met with the president, Akira Nozaki, to discuss their future growth prospects, approaches to new projects, and their views on employment and labour conditions in Japan.

Discussion

We began by exploring the opportunities for SMM's mining extraction business, focusing on electrification, mobility, and the development of electricity grid networks as key drivers for copper demand. Gaining insight into the company's ambition in this area was valuable, as it showcases the opportunities they are exploring within the energy transition.

Mining is an industry often associated with environmental damage. We wanted to explore the ways in which SMM considered this risk. Nozaki San shared that they are seeking extraction projects with higher purity ore, and lower waste-to-ore ratios. These projects can result in cost advantages but also have the potential to produce more value with lower environmental costs. Nozaki San also acknowledged the importance of recycling materials (such as nickel and cobalt) to ensure long-term access to finite resources. This is a new area for SMM, so it will be useful to monitor how it scales.

Given high labour-management risks in mining, we felt it would be important to explore SMM's approach. This topic considered the health and safety impact the company has as well as SMM's social licence to operate. We were interested to hear how SMM was upgrading the efficiency of sites and its use of automation to improve safety and reduce workplace injuries. It was encouraging to hear that they were addressing health and safety as a long-term challenge, building solutions into new projects that sought to improve health and safety performance. Nozaki San also shared that the company was building goodwill with local governments and communities in Japan by ensuring continued employment in nearly all building manufacturing sites after closing mines.

Outcome

We shared our perspective that operating in a way that considers value and the environment is a key component of reducing reputational risk. Nozaki San acknowledged the significance of this point and assured that he would take it into consideration.

Case study

Human rights in ready made garment supply chains

The ready-made garment industry, in which Fast Retailing and its brand Uniqlo operate, is known for its notable human rights risks. This case study explores how Uniqlo may be acting as a leading player in the industry through its approach to supply chain management. However, the elimination of risk remains a challenge as some root causes remain untreated.

It is a pivotal moment to deepen our understanding of these issues. Recent trends of 'China +1' or 'Friend-shoring' denote shifts to sourcing products from more than one country. The regulatory environment is also evolving to create further accountability for human rights. As companies move to diversify their supply chains, they will encounter new risks which will test the robustness of their human rights management approaches.

To build a deeper understanding of some of these country and sector-specific risks, the Japan Team's ESG analyst, Eric Hertz, travelled to Bangladesh and Vietnam, where both countries are benefiting from a growing trend in supply-chain diversification.

In order to build an understanding of the new uncertainty that brands may be facing as their supply chains grow more complex, Eric visited five factories and met representatives of garment brands, trade bodies, non-government organisations, and labour rights activists.

These discussions provided important context from which three lessons can be derived:

1. Supply chain audits are necessary but not sufficient

Audits provide useful point-in-time assessments. They can catch incidents of significant non-compliance, such as child labour, but struggle to assess systematic abuses of power or risk. For brands that use audits as their only point of contact with their supply chain they may not be fully understanding or mitigating risks.

The factories themselves often pay for the audits and, with a plethora of audits to complete for different brands, they can quickly become a box-ticking exercise.

Uniqlo seems to operate slightly differently. While still using audits, by pursuing a goal to build a higher quality 'slow' fast fashion brand, Uniqlo is incentivised to have people on the ground. This is especially true for countries such as Bangladesh where the company has a shorter history. This presence is important to understand each step of the manufacturing process and where those steps are conducted. Uniqlo's dedication to quality is evident through practices such as multiple washings and more thorough garment checks, and their disclosure of this activity is detailed.

While these steps are not entirely intentional in mitigating human rights risks, they can have positive incidental impacts on building trust with factories and transparency around suppliers.

2. Wages remain a key contention

Garment workers continue to face tension and frustration due to the persistence of low wages and the power dynamics associated with them.

In Vietnam, piece-rate wages can increase the take-home sum, but create more power for managers to have discretion over the actual rate and potentially worsen hierarchy dynamics. In Bangladesh, a set minimum wage rate provides some protection from this; however, determining this wage is reliant on interested parties who may be more concerned with Bangladesh's national competitive position.

This causes debates around the thresholds and calculations for a living wage, which has stunted its implementation. The outcomes of this delay are playing out in front of us. Recent wage negotiations in Bangladesh resulted in widespread protests, violence against workers, and the destruction of factories.

Fast Retailing notes the importance of a living wage, and they appear to be in the early stages of a project to roll it out in their supply chain. As factories produce for multiple brands over different periods of the year, there is additional complexity to operationalising this. But as can be seen with building standards in Bangladesh, when there is buy-in from multiple stakeholders feasible solutions are possible.

Uniqlo's reputation potentially allows them to choose from the best factories with higher standards of safety and worker conditions but, at present, this influence has not extended to wages.

3. Human rights risk may be pervasive

There are no quick fixes to resolving all human rights risks in the ready-made garment sector. In the short term, the focus should be on effective management while keeping sight of the goal of resolving these issues.

Uniqlo's underlying approach to quality maximisation lays important foundations for managing human rights risks into the future. Positive sum behaviours such as factory visits, discomfort around outsourcing and a reputation of strong communication create useful foundations to improve the bargaining power of Uniqlo in the future. The benefits will hopefully be twofold, the reduction of risk and the improvement of cost position.

Reflection

Exploring Fast Retailing's supply chain practices from the bottom-up reveals the complexity and challenges around addressing human and labour rights risks. Visiting factories and meeting with stakeholders proved valuable in developing the team's understanding of the nuances around auditing practices, wage dynamics and the prevalence of human rights risk.

It also demonstrates some benefits of deep knowledge and involvement in supply chains.

While it was insightful to witness how a company can demonstrate responsible practices in this area, it is crucial to acknowledge that, although Uniqlo may be comparatively better positioned than other brands, it is not immune from human rights risks within its supply chain.

The company is open about the challenges it faces. It seeks to be transparent and engaged in improving its practices to ensure the well-being of workers throughout its supply chain.

Proxy voting

Voting at annual general meetings is one of the key active engagement tools available to us to support and, where necessary, influence or challenge the management teams of the companies we invest in on behalf of our clients.

All of our voting analysis is conducted on a case-by-case basis by our in-house Voting Team.

Our investment style allows us to invest in only those companies we actively support and admire. It is, therefore, the case that many of our final voting decisions are in support of management.

There are additional factors that also influence our voting decision. As noted above, the changes in regulation have led us to revise our guidelines for Japan as a growing number of companies have started to meet the contextually specific guidelines that we set out previously.

However, we will engage with companies where more information is required or if a resolution conflicts with our stewardship principles. If, after dialogue, we conclude that it is in the long-term interest of both the company and our portfolio investors to withhold or oppose a resolution, we will do so. We will always inform a company of our concerns and rationale when we have reason to vote against management.

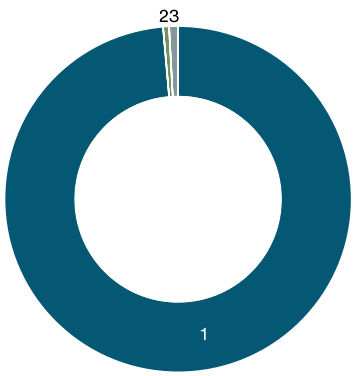
On those occasions when a company has improved or performed well, we also communicate constructive encouragement about this progress. The value of this pays forward into the future and helps to enhance the depth of relationships with management teams.

By taking this careful, research-led approach to voting and meeting and engaging with management or board members throughout the year, we can apply our voting rights most effectively on our clients' behalf.

The chart to the right, provides a summary of proxy voting in the 12 months to September 2023.

Proxy voting statistics

12 months to September 2023



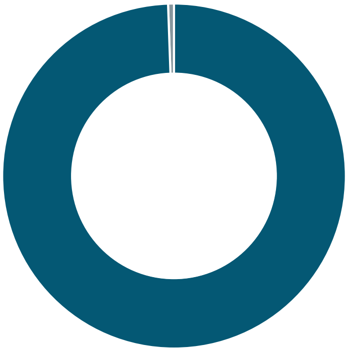
1	For	98.7% (588)
2	Against	0.5% (3)
3	Abstain	0.8% (5)

Total votes 596

Source: Baillie Gifford. Based on a representative portfolio. Figures may not sum due to rounding.

Examples of voting activity

Director elections



●	For	99.6% (471)
●	Abstain	0.4% (2)

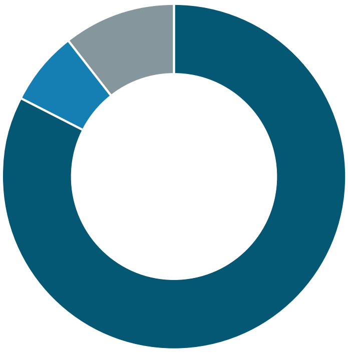
We abstained on the chair of the board at **Yaskawa Electric** due to a lack of shareholder vote on the dividend. We believe giving shareholders an opportunity to vote on the proposed dividend is an important part of facilitating dialogue between the company and its stakeholders.

Shareholder resolutions

●	For	0% (0)
●	Against	100% (3)

We opposed two shareholder resolutions at **Mitsubishi Corporation** to amend its articles of association to disclose greenhouse gas emission reduction targets. We support the spirit of the proposal but do not believe that adding this information to the articles of association is an appropriate mechanism. We have engaged with the company on climate and will continue to engage to suggest areas of improvement and support the company to make progress.

Allocation of income



●	For	82.8% (24)
●	Against	6.9% (2)
●	Abstain	10.0% (3)

We opposed the low dividend payment at **Misumi** as we believed the company's capital strategy was not in the interests of minority shareholders and their pay-out ratio fell below our expectations.

Source: Baillie Gifford. Based on a representative portfolio.
Figures may not sum due to rounding.

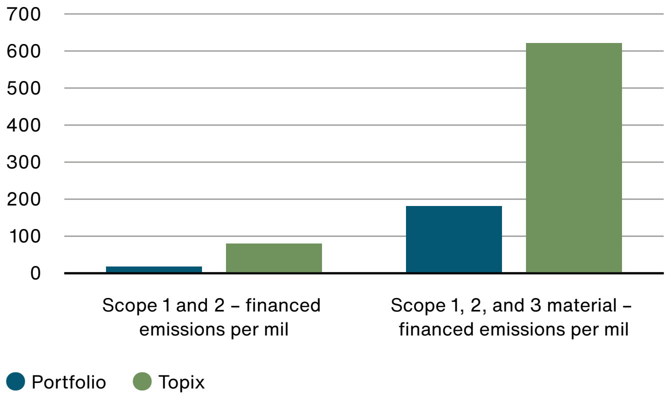
Let's talk climate

One part of our toolkit is the external data we receive and how we use it to arrive at metrics that we believe are useful and representative of our investment process. In isolation, these metrics give one perspective, however, taken together with our understanding of the business models within the portfolio, we are developing a picture of how climate might be material for our holdings.

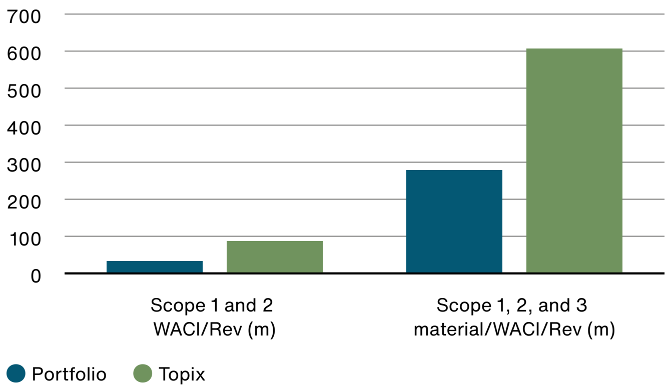
The Japan Team comprises several strategies. We have included the carbon footprints for Japan Growth for illustrative purposes.

However, carbon footprints for all our Japanese strategies are available on request. The chart below shows on a backwards-looking carbon footprint[1] and weighted average carbon intensity (WACI)[2] basis, this portfolio significantly outperforms the index.

Carbon Footprint (Emissions/million invested (USD))



Weighted Average Carbon Intensity (WACI) by revenue



Source: Baillie Gifford, MSCI, FactSet. As at 30 September 2023. Based on a representative portfolio.

Material Scope 3 emissions: Measurement of scope 3 emissions from certain material sectors, in accordance with guidance from the Portfolio Carbon Accounting Framework (PCAF). As of the end of Q2 2023, material scope 3 emissions include those from the oil and gas and mining sectors as well as other industrial sectors as listed in the PCAF standards. From 2025 onwards, all sectors will be considered 'material' and included in Scope 3 emissions. We believe it is particularly illustrative to consider the 'transition role' assessment alongside these emissions metrics.

1 Carbon footprint: Represents the aggregated GHG emissions per £/$ million invested and allows for comparisons of the carbon intensity of different portfolios.

2 WACI: The weighted average carbon intensity of the portfolio represents the aggregated carbon intensities of the companies in a portfolio, scaled by size of holding. The WACI metric therefore helps measure a portfolio's exposure to high carbon intensity companies.

Climate audit

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

Our assessment currently has seven categories ranging from no disclosure to targets that demonstrate ambition that is well above average. The categories are organised into three groups to indicate how prepared a company is: Leading, Preparing and Lagging. Our assessment, summarised below, shows that 62 per cent of those in the portfolio have either announced or are preparing targets for decarbonisation aligned with limiting temperature increase to 1.5C by 2050. This includes companies such as Recruit and Sony, who have demonstrated leadership in setting comprehensive targets across their direct and value-chain emissions.

Our assessment of holdings' net zero targets	**Portfolio**
% of total AUM with targets assessed as '**leading**'	38
% of total AUM with targets assessed as '**preparing**'	24
% of total AUM with targets assessed as '**lagging**'	38
% of total AUM with targets not assessed	0

Source: **Internal Analysis, Climate Audit**, assessment date 29/09/23.
Based on a representative portfolio.

Climate alignment

The climate audit is useful for comparing company carbon emission targets and strategy alignment with a 1.5°c future. These are useful inputs but only half of the story. In addition to those companies leading the way in their operational carbon neutrality, we recognise that the low-carbon transition presents a real opportunity for other companies to provide climate change solutions. The climate audit helps us assess and visualise this element, demonstrated in the cross plot, below.

	Lagging	Preparing	Leading
Solutions innovator Key enabler of decarbonisation			
Potential influencer Carbon light with an opportunity to be part of the solution	BASE, Bengo4.com, Nintendo, CyberAgent, freee, M3, GMO Internet, Kakaku.com, Japan Exchange Group, SHIFT, Misumi, Keyence, Sumitomo Mitsui Trust Holdings, SBI Holdings, Sysmex, Nihon Kohden, Nihon M&A	SoftBank Group, Rakuten, Mercari, Toto	DMG Mori, Disco, Shiseido, mixi, MS&AD Insurance, Olympus, Omron, Rohm, Recruit Holdings
Potential evolver Environmentally challenged with opportunity to be part of the solution	Kubota, PeptiDream, Nidec, Unicharm, Pigeon	Bridgestone, Toyota Tsusho, Mitsubishi Corp, Denso, MonotaRO, Sumitomo Metal Mining, Yaskawa Electric	Fanuc, Fast Retailling, Kao, Kose Corporation, LY Corporation, SMC, Mitsubishi Estate, Sony, Murata
Materially challenged Environmentally challenged with limited scope for adapting			

Source: **Internal Analysis, Climate Audit**

Last word

This report presents a snapshot of our current processes and outcomes. However, we see this as an ongoing effort to evolve and improve in order to best deliver value for our clients in the long term. The benefit of a document like this is that it gives our clients a touchstone for what to expect from us, but this shouldn't be a one-way conversation. We benefit from discussing our thinking and learnings as they arise.

If a conversation on this would be helpful to you, please get in touch. We can get better at this together.

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