Pan Europe Stewardship Report

Year ended 31 December 2021

BAILLIE GIFFORD | Actual Investors

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Contents

Our ESG philosophy

We strongly believe that companies should be able to meet the needs of the present without compromising future generations' abilities to meet their own. Economic value is not created in a vacuum, yet a company's interdependencies with the environment, employees and other key stakeholders have been left largely unaccounted for in traditional financial analysis. Each member of the European Equities Team integrates ESG (Environmental, Social, and Governance) into their analysis via the 10-question framework, shared later in this piece, combined with the specialist input of the team's dedicated ESG analyst. The analysis will not be responsible for generating returns on its own; we see it as an essential part of our toolkit which will help us identify those special companies that have outlier potential.

In writing this report, our purpose is to provide clients with insights across the following areas:

— An explanation of how we think about ESG and how it is embedded in our investment process.

— Examples that illustrate this in action through our engagement and dialogue with companies.

— A record of our voting activities on our clients' behalf.

— An overview of our approach to climate.

— A review of portfolio-level ESG data.

— Future research and engagement priorities.

It is our hope that through shared transparency and dialogue we can get better at what we do. Therefore, we would encourage you to challenge and engage with us on our views and approach.

Philosophy in practice

Materiality matters when it comes to ESG issues. Our analysis focuses on the core issues, according to a company's business model and its context. We come to our own conclusions, and we refer to credible external standards and frameworks in doing so. Baillie Gifford is a CDP (previously Carbon Disclosure Project) signatory, and an Alliance member of the Sustainable Accounting Standards Board (SASB). There are parallels between the tools that these initiatives provide and the mental models we use as part of our investment research.

The CDP and SASB initiatives have a central role to play in the development of standardised ESG disclosures. However, there will always be limitations in what a standardised view on ESG can offer bottom-up investors seeking outperformance. We want to be ambitious on ESG; to the ultimate benefit of our clients, the companies we invest in and society at large. This requires a process that goes beyond a view of ESG as purely a form of risk management, to also identify links between other factors fundamental to an investment thesis (eg growth, edge, return). This is consistent with Baillie Gifford's philosophy that genuine alignment between investors, companies and society is critical to producing good long-term investment outcomes.

Our approach to stewardship

The European Equities Team's approach rests on a willingness to invest in companies where the chances of success may be low but the returns may be very high; it means being willing to back management teams who take risks knowing the future is uncertain; it means encouraging companies to ignore the short-term demands of the stock market; and it means investing in companies that prioritise the interests of their employees, their customers, their suppliers, and the society in which they operate. In our view, good stewardship is an essential component of sustainable long-term investing.

As long-term stewards, our role is to support companies away from short-term decision-making and encourage them instead to be ambitious for their future. We do this through integrated ESG research, investment-led proxy voting, and through ongoing engagement with company management teams.

Our process

Exclusions

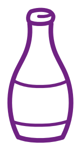
Our Pan European Fund firstly mitigates ESG risks by formally excluding 'sin' sector companies from its investable universe by applying two different types of ethical screen: sector-based and performance-based. These assessments will be made on a variety of third-party data sources (such as Sustainalytics and MSCI), supplemented by additional research from our ESG team and integrated analyst, as required.

Sector-based screen: The Fund will not invest in any companies that derive more than 10 per cent of their annual revenues from (a) the production or sale of alcohol, weapons and armaments or adult entertainment; (b) fossil fuel; and (c) the provision of gambling services. There is a lower threshold for investments in companies that derive more than 5 per cent of their annual revenues from the production of tobacco.

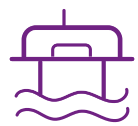
Performance-based screen (norms-based evaluation): The Fund will assess equities using a norms-based evaluation which is grounded in the 10 principles of the United Nations Global Compact, which cover areas including human rights, labour rights, environmental safeguards and combating bribery and corruption. Companies that are, in our view, inconsistent with the Global Compact will be excluded.

Rule-based exclusions

Exclusions based on product harm

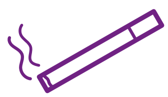


Production or sale of alcohol

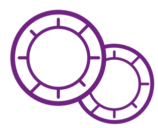


Fossil fuel extraction

Production or sale of weapons and armaments



Production or sale of tobacco



Gambling

Adult entertainment

These sector exclusions are both widely recognised and used across the investment industry. They provide clarity and reassurance to clients who require additional certainty on responsible investment.

Fossil fuel extraction and production

The overarching consideration which underpins all the Fund’s exclusions is that investors in the Fund do not wish to profit from activities which are intrinsically harmful. We believe that there is growing evidence that many responsible investors now consider that fossil fuels are intrinsically harmful to the environment, given the imperative of addressing climate change. We therefore believe that the broadening of this exclusion leaves the Fund better able to meet the aspirations of our clients.

Principle-based exclusions

Applying the principles of the United Nations Global Compact in a thoughtful way

A key feature of our approach is the application of the United Nations (UN) Global Compact's Ten Principles. These principles set out to ensure that companies operate in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption.

Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. Make sure that they are not complicit in human rights abuses.

Labour

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. The elimination of all forms of forced and compulsory labour;
5. The effective abolition of child labour; and
6. The elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges;
8. Undertake initiatives to promote greater environmental responsibility; and
9. Encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

Embedded

The European Equities Team's approach is largely qualitative, and ESG principles are explicitly embedded in our 10 Question Stock Research Framework, which is used to assess all holdings. For example, questions 3, 6 and 7 of our Research Framework ask: **"Does the company have a special culture?"**, **"Are management and stakeholders well aligned?"**, and **"How does it contribute to society?"**. We believe that if a company fails to answer these questions satisfactorily, then our conviction in its ability to grow sustainably over time will be greatly reduced. These questions are deliberately broad and can cover governance, environmental and/or social issues, as appropriate.

The areas of focus in our ESG analysis will vary depending on the industry sector, geographic region and core business activities of each company. We calibrate credible ESG frameworks with our own judgements and insights when conducting analysis. The following list is neither exhaustive nor exclusive, but is representative of some of the specific ESG topics taken into consideration:

— Board make-up, skills, experience and diversity
— Remuneration and incentive structures
— Capital allocation decisions and share issuances
— Environmental performance
— Climate change
— Labour relations
— Health and safety performance
— Supply chain management and control
— Bribery and corruption
— Stakeholder relationships

Primary responsibility for researching and integrating ESG principles in decision making and portfolio management lies with the European Equities Team, which includes an integrated ESG analyst. The analyst is responsible for working collaboratively with the investment managers, providing ESG research that challenges and contributes to the investment decision making process. In addition, there is a well-resourced ESG function that provides valuable input and support when it comes to ESG data, regulation, and proxy voting.

Active engagement

Our low portfolio turnover and patient ownership help influence and support companies by enabling us to engage in broad discussions with management over longer timeframes. As long-term supportive shareholders we seek to engage in a collaborative and constructive manner. This involves working with management teams, gauging their receptiveness to our concerns, and establishing whether improvements are on the horizon. However, we also need to trust the owners and managers as the experts in their industries. We aim to build relationships and use our engagement, if required, to support in good times and bad.

10 Question research framework

Growth

Q1	What is the five-year growth potential?
Q2	What about the next ten years and beyond?

Edge

Q3	Does the company have a special culture?
Q4	How sustainable is the competitive position?
Q5	Are returns attractive and improving?

Alignment

Q6	Are management and stakeholders well aligned?
Q7	How does it contribute to society?

Return

Q8	How likely is a 2x return over 5 years?
Q9	How might we make more than this?
Q10	What doesn't the market appreciate this?

Baillie Gifford's stewardship principles

Prioritisation of long-term value creation

We encourage company management and their boards to be ambitious and focus their investments on long-term value creation. We understand that it is easy for businesses to be influenced by short-sighted demands for profit maximisation but believe these often lead to sub-optimal long-term outcomes. We regard it as our responsibility to steer businesses away from destructive financial engineering towards activities that create genuine economic value over the long run. We are happy that our value will often be in supporting management when others don't.

A constructive and purposeful board

We believe that boards play a key role in supporting corporate success and representing the interests of minority shareholders. There is no fixed formula, but it is our expectation that boards have the resources, cognitive diversity and information they need to fulfil these responsibilities. We believe that a board works best when there is strong independent representation able to assist, advise and constructively test the thinking of management.

Long-term focused remuneration with stretching targets

We look for remuneration policies that are simple, transparent and reward superior strategic and operational endeavour. We believe incentive schemes can be important in driving behaviour, and we encourage policies which create alignment with genuine long-term shareholders. We are accepting of significant pay-outs to executives if these are commensurate with outstanding long-run value creation, but plans should not reward mediocre outcomes. We think that performance hurdles should be skewed towards long-term results and that remuneration plans should be subject to shareholder approval.

Fair treatment of stakeholders

We believe it is in the long-term interests of companies to maintain strong relationships with all stakeholders, treating employees, customers, suppliers, governments and regulators in a fair and transparent manner. We do not believe in one-size-fits-all governance and we recognise that different shareholder structures are appropriate for different businesses. However, regardless of structure, companies must always respect the rights of all equity owners.

Sustainable business practices

We look for companies to act as responsible corporate citizens, working within the spirit and not just the letter of the laws and regulations that govern them. We believe that corporate success will only be sustained if a business's long-run impact on society and the environment is taken into account. Management and boards should therefore understand and regularly review this aspect of their activities, disclosing such information publicly alongside plans for ongoing improvement.

Engagement case study

Kering

Overview and objectives

Kering is a French listed luxury goods company which develops, designs, manufactures, markets, and sells apparel and accessories. We benefit from a long-term and constructive relationship with the company, and in 2018 we began to take part in an annual roadshow dedicated to ESG matters. Our engagements have consistently focused on required improvements to the structure of executive director remuneration, including the integration of ESG metrics into the long-term incentive.

Action taken

At the 2016 AGM, we took the decision to abstain on the remuneration report due to concerns regarding excessive relocation allowances being granted in addition to standard remuneration, and weak targets as part of the long-term incentive plan. These targets meant that the plan fully vested if there was progress, averaged over the three-year performance period, against any one of the three performance metrics. We escalated our voting action by choosing to oppose the remuneration report at the 2017 AGM. We continued to engage with Kering on our concerns regarding remuneration and continued to take voting action. In 2019 and 2020 we engaged directly with the chair of the remuneration committee. We encouraged greater ambition, both in terms of target stretch and through the incorporation of robust ESG metrics within the long-term incentive plan.

Outcome

We observed progress and noted positive changes made to the forward-looking remuneration policy that directly addressed our concerns. Updates to the Long-Term Incentive Plan included a more stretching tiered vesting schedule, which required progress across each of the three performance metrics for it to fully vest. The incorporation of an ESG metric linked to sustainable sourcing practices of Kering's key raw materials addressed the most environmentally impactful area of the value chain, as identified by Kering's Environmental Profit and Loss accounting practices. At the 2021 AGM, we were able to vote in favour of all remuneration related proposals for the first time.

Francois-Henri Pinault, Chairman and CEO of French luxury group Kering, attends the annual news conference of Kering at the company's headquarters in Paris.

© REUTERS/Benoit Tessier.

Engagement highlights

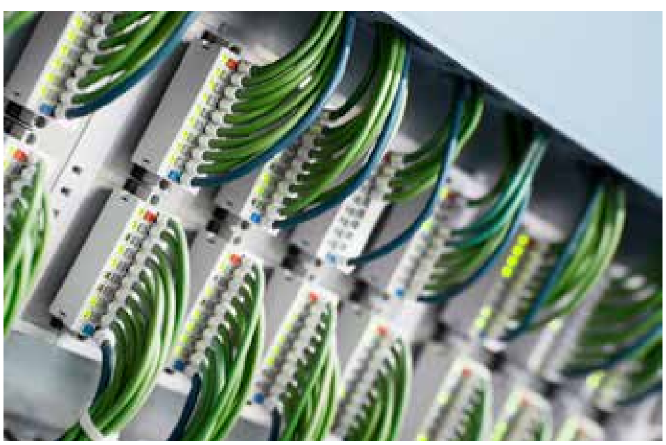
Key: stewardship principles

- Prioritisation of long-term value creation
- A constructive and purposeful board
- Long-term focused remuneration with stretching targets
- Fair treatment of stakeholders
- Sustainable business practices

Kingspan

We spoke with the senior independent director and chairman as part of our ongoing engagement with Kingspan, the manufacturer of insulation and building envelope solutions. The main objective was to focus on the learnings from the Grenfell Inquiry, which uncovered the cultural shortcomings in the insulation boards division. Kingspan has now appointed its first independent chairman and the ability of the board to challenge executive management will be particularly important for the company during its next phase. Recommendations from the independent review it commissioned have now been implemented, including an updated code of conduct and associated training. Board oversight of compliance has been strengthened, and the audit committee now have explicit responsibility as well as expert input. All board meetings now include an update from the audit chair. Kingspan still faces intense public scrutiny, but we believe that there is a lot to indicate that the business has demonstrated a commitment to enact meaningful change.

© Kingspan.



NIBE

NIBE has a key role to play in the energy transition as a provider of heat pump technology. In our call with the CFO, however, it was noted that companies offering climate solutions are not always the best at aligning with new reporting regulation. This was reflected in our own assessment of NIBE's disclosed climate ambition in the climate audit exercise, covered later in this report. The company's subsidiaries receive reporting guidance in the form of environmental and financial handbooks, but still retain a lot of autonomy and this may put it at a disadvantage when it comes to disclosures. We are familiar with the reporting complexities that exist for decentralised businesses, but took reassurance from its efforts to more comprehensively capture both operational and avoided emissions going forward. The improved awareness of the benefits of its technology that such reporting would provide can also act as a catalyst for wider adoption.

Zalando

We had a meeting with Zalando's Chairperson, Cristina Stenbeck, where we were updated on some changes relating to the organisation of the board and management team, and remuneration. These changes were made following feedback we gave last year, particularly on remuneration where we encouraged more incentives for overachievement. This has been reflected in the GMV performance and target achievement being raised from 115 per cent to 125 per cent. It was also a chance to discuss the composition of the board and succession planning. The open conversations we have with the board members of Zalando, and Cristina in particular, are helped enormously through our significant holding size and reputation as long-term shareholders. There are lessons we can learn that we can also pass on to the other boards we speak to. For instance, the board has monthly calls with employee representatives to improve communication, which is unusual among German companies. We also offered to help them think about high quality candidates with very different mindsets from regions where we have stronger networks, such as in Asia. By sharing best practice like this we not only strengthen the relationship but also help improve our understanding of how the best boards operate.

© Zalando.

VNV Global

VNV Global is a venture capital business investing in network effects in the areas of marketplaces, mobility and digital health. We engaged with the CEO, Per Brilioth, to better understand its due diligence and sustainability analysis processes for its portfolio businesses. VNV takes a relatively informal approach, with 'sound principles' favoured over ESG 'box-ticking' exercises, and as a fellow investor we have some sympathy with this. VNV's broader ESG philosophy, which is centred around backing companies that create efficiency gains in each of its three key sectors, also seems sensible. It is still in the relatively early stages of leveraging portfolio company studies that demonstrate these efficiency gains for use in its own reporting, however. We intend to encourage and monitor the company's ongoing momentum in this area.

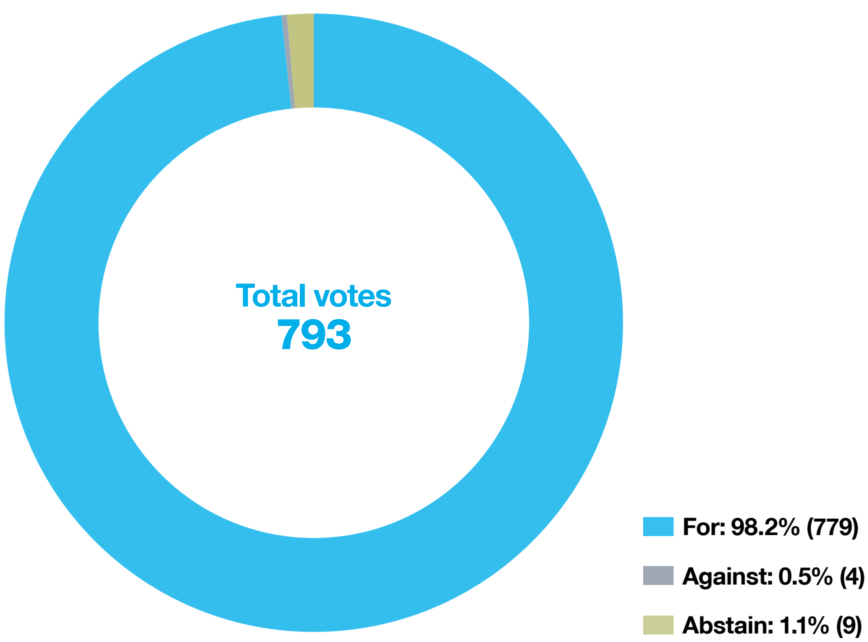
Proxy voting

Proxy voting at AGMs 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.

We are open-minded about the different ways to govern and manage a company, and sceptical about the usefulness of overly prescriptive policies or checklists when voting. With respect to voting, we will always evaluate proposals on a case-by-case basis, based on what we believe to be in the best long-term interests of our clients. All our voting decisions are taken internally; we do not outsource our voting or engagement to third parties. Our dedicated ESG team, in conjunction with the relevant investment teams, is responsible for making voting decisions and conducting the appropriate engagement with companies.

The following chart, which provides a summary of our proxy voting activities for the Pan European Fund in 2021, shows that we support many management resolutions. We see this as a function of investing in a concentrated portfolio of companies where we know and respect the management team, and where we believe there is a strong alignment of interests. Any vote against a management resolution represents the combined view of the team and typically follows engagement with company management. A decision to oppose a management resolution is always communicated to the management team and often initiates further conversations. Our approach is intended to not only provide the company with a clear understanding of our position and expectations, but also to encourage improvements.

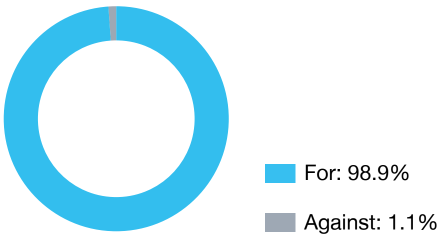
Pan Europe voting record



Source: Baillie Gifford. Data from 1 January 2021 to 31 December 2021.
Figures may not sum due to rounding.

Management resolutions: breakdown of voting activity

Remuneration

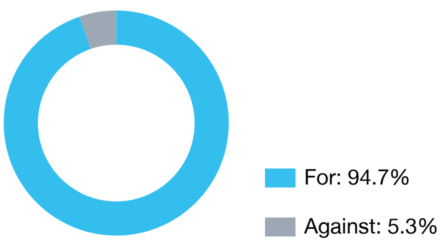


Example – Beijer Ref

We abstained on the election of a director who we deemed as non-independent due to their existing tenure, on account of low board independence overall. It is important that minority shareholders are well represented on the Beijer Ref board and we continue to engage with the company on this issue.

Voting result: Abstain 100%

Articles of association

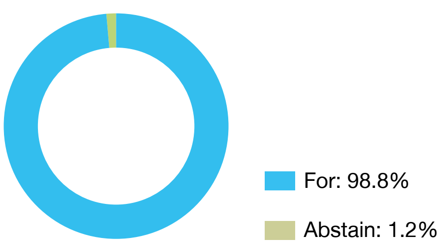


Example – DSV

We voted in favour of a shareholder proposal to increase disclosure on how the company manages financially material climate risks and opportunities. The board were supportive of this proposal and highlighted that the company has been working to improve their reporting in this area and plan to do more.

Voting result: For 100%

Director elections

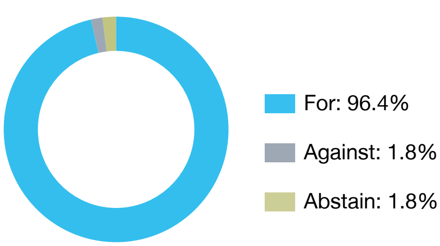


Example – Farfetch

We opposed two resolutions to double the authorised share capital due to there being no expiration date on the authority, which we believe is not in the best interests of shareholders. Ahead of the vote we sought clarification on the terms from the company and followed up with the company to explain our reason for opposing.

Voting result: Against 100%

Share repurchase



Example – Kingspan

We opposed the resolution to approve the Remuneration Report due to concerns regarding the treatment of awards granted to a retiring director, Mr Wilson, as a ‘good leaver’. This meant that the company prorated Mr Wilson’s unvested Performance Share Plan (PSP) awards for time served. The evidence that came to light in the Grenfell enquiry highlighted serious cultural shortcomings in the insulation boards business division, which Mr Wilson was head of, and we would have expected this to be recognised in his leaving package.

Voting result: Against 100%

Source: Baillie Gifford. Data from 1 January 2020 to 31 December 2021.
Figures may not sum due to rounding.
Data based on the a representative portfolio.

Climate audit

In November 2021, the world's attention turned to Glasgow for the 26th United Nations Conference of the Parties (COP26), where global leaders met to discuss and accelerate efforts to deliver a more sustainable world. Within the European Equities Team, our work to understand the portfolio's climate preparedness has continued apace, with the recent completion of a climate audit. In addition to more granularity on the portfolio's carbon footprint, the audit has provided company-level insight. We have outlined a summary of our findings below. Our next step will be to leverage this analysis to set net zero[1] portfolio guidelines.

The objectives underpinning the audit were threefold:

Provide a snapshot of the portfolio's footprint, including the location of greenhouse gas emissions and proportion which are covered by reduction targets.	**Gain a more comprehensive understanding of the underlying holdings' pace of change as we transition to a net-zero world.**	**Pull together a list of companies who are a priority for climate-related engagement.**

The climate audit confirms that the carbon intensity and relative carbon footprint for the Pan European Fund is significantly below that of the MSCI Europe Index. While it is important not to conflate emissions intensity with climate risk, the audit clearly shows that the portfolio has significantly less exposure to carbon-intensive businesses than the broader market.

Portfolio footprint

At a company level, the climate audit surfaced some promising signals. All holdings disclose scope one and two emissions, which equips us with a more accurate reflection of where emissions are concentrated than if we had to rely on estimated data. Also, as expected, most of the portfolio's emissions are located either upstream or downstream of the company's operations. Scope three portfolio emissions are over 50-times larger than scope one and two emissions combined. While scope three emissions are predominantly based on estimated data, their relative contribution to value chain emissions gives some indication of where the material climate risks are. This portion of a company's emission profile is more difficult for them to influence. However, we are engaging with our holdings to encourage them to incorporate scope three emissions into their climate strategy and work towards reducing emissions across the value chain.

Pace of change

Beyond emissions exposure, we assessed the level of ambition in relation to the low carbon transition. We used a traffic light system to rate the climate commitments of portfolio companies and set the bar high. An average rating was awarded for companies that target net zero operational emissions (ie scopes one and two) by 2050 and are therefore aligned with a 1.5-degree scenario – the most ambitious objective under the Paris Agreement. Companies that target hitting net zero sooner and commit to addressing a broader range of value chain emissions (scope 3) were ranked better than average. For the purposes of this analysis, a level playing field was used to ensure broad comparability, in the full knowledge that our follow-on engagement will be more nuanced.

Fifteen companies, representing nearly 40 per cent of the portfolio by weight, were rated above average for their emissions targets. Notably, all our fashion retail and manufacturing holdings were categorised as being above average. This will be important to their long-term resilience, given that they operate in an industry whose environmental impacts are increasingly coming under stakeholder scrutiny.

[1]Net Zero – is all emissions at zero, apart from a few from very difficult to abate areas which consensus agrees can only be covered by carbon capture or nature-based offsets. Net Zero by 2050 is what's required to give the world an even chance of limiting the global temperature rise to 1.5 C, which is what's needed to avert the worst effects of climate change.

Engagement

The climate audit findings have helped us to arrive at priorities for climate-related engagement. Considerations include the absence of emission reduction targets, targets that are not sufficiently stretching and the role of the business in the low carbon transition. Our discussions will be a shared initiative within the European Equities Team as well as a collaborative effort across the broader investment floor. Ongoing dialogue with these companies will serve two primary purposes: to encourage climate strategies which align with the goals of the Paris Agreement and to deepen our understanding of these businesses. This information will be incorporated into our ongoing views on each business as part of integrating governance and sustainability within the investment process.

Climate solutions

We have every reason to believe that Europe can lead in the development of climate solutions that act as enablers of the energy transition. The EU and many European national governments have adopted some of the most ambitious decarbonisation programmes. This ambition should lead to both innovation and the right incentives to pull forward climate change related decisions. As a result, Europe could become a rich hunting ground in this wave of innovation with opportunities for investors with the right mindset and ability to identify future flywheels. We intend to make the most of investment opportunities in this space, here are just two examples:

NIBE – NIBE is a Swedish company that develops and produces renewable energy systems, heating elements and stoves. Its products, particularly ground source heat pumps, are far more energy efficient and cleaner than heating a building with oil or gas, helping contribute towards a low-carbon economy. For context, The UNEP Sustainable Buildings and Climate Initiative state that buildings are responsible for emitting over 30 per cent of all greenhouse gas emissions. NIBE state that because of a heat pump's efficiency, many homes can hope to see a significant reduction in their energy bills, claiming that this could be as much as 65 per cent for some homes.

Aker Horizons – Aker Horizons is a green investments platform. Its portfolio covers a range of decarbonisation options including carbon capture, green hydrogen, offshore wind, and hydropower. Its purpose is to allocate capital across this portfolio of businesses, but it also serves to knit together these different companies and create cross-connections of expertise. The portfolio business is relatively small, but they are operating in markets that should in theory be extremely large. We have noted the strong convergence of societal, governmental, and corporate propulsion in the areas the Aker Horizons invests in.

Let’s talk data

Given the meteoric rise of ESG-influenced investing, you’d be forgiven for thinking there was enough relevant data to effectively guide decisions. This is far from the truth. Despite decades of research into corporate responsibility, growing interest in sustainable finance, and an entire industry devoted to churning out ESG data, there are still significant gaps. To start to overcome this, our investment approach draws on a broad range of sources of insight, from company visionaries to academic experts to data providers. They help us to meaningfully inform, support or challenge our contentions about the long-term prospects of companies, including their governance and sustainability. We are mindful of the adage ‘not everything that can be counted counts, and not everything that counts can be counted.’

Investors are increasingly faced with a barrage of ESG data and ratings which are often inconsistent, incomplete, and incomparable. We view data not as a checklist of boxes to be mechanically ticked off, but as the starting points for meaningful conversations with companies and stakeholders. Recognising the intangible nature of corporate character, our approach must be more nuanced and qualitative. The following selected datapoints illustrate the importance of such nuance and the questions that we explore through our broader analysis and company engagement.

Ownership

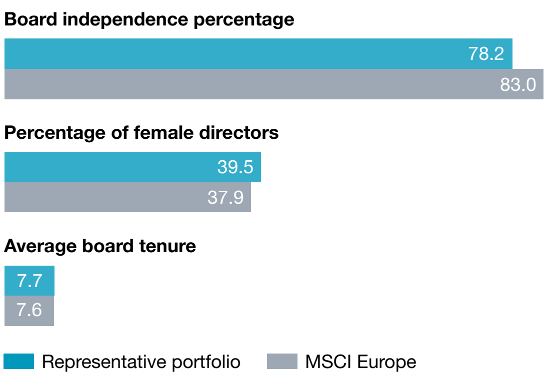
Our preference for investing in founder-led growth businesses means our engagement with management is based on a mutual appreciation of perspectives. Founder-CEOs are experts in their businesses: individuals with a depth of knowledge that we can only aspire to achieve. A core tenet of our stewardship activities with non-founder led holdings is to encourage their leaders to act as principals of each business, not merely agents that shareholders have employed.

Owner Type	MSCI Europe %	Rep portfolio %
Controlled (≥ 30%)	9.6	14.2
Principal (10-30%)	21.0	24.6
Founder Firm (CEO/Chair)	7.2	29.6
Family Firm (≥ 10% & Board)	15.5	11.7
Widely Held	46.5	10.0

Controlled refers to a company where the largest shareholder owns the majority of the voting rights. Principal is defined as persons who own 10% or more of the share register and is not a founder or controlling shareholder.

Board membership

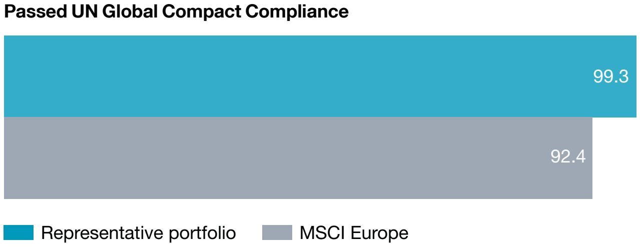
We look to company boards to provide effective oversight. We believe a constructive and purposeful board is one consisting of strong independent representation, possessing the appropriate skills, experience and cognitive diversity to support management and guide the business. Standard datapoints on board composition are shown below. However, at an aggregate level we think they create more questions than answers; highlighting the importance of engaging with each company to understand board characteristics and their suitability for the age, stage and operating environment.



UNGC compliance

Our research and inclusion process deliberately seeks those companies with a positive attitude to stakeholder balance and good business practices. This indicator uses company compliance with the 10 UN Global Compact principles as a proxy for social performance and exposure to corporate controversies. All our companies currently pass the bar in terms of compliance, where data coverage is available.

Passed UN Global Compact Compliance



Carbon footprint

We are pleased to see that our efforts to deliver long-term value creation for our clients have been done in a manner which has a significantly lower climate impact than the benchmark (as demonstrated by the charts below).

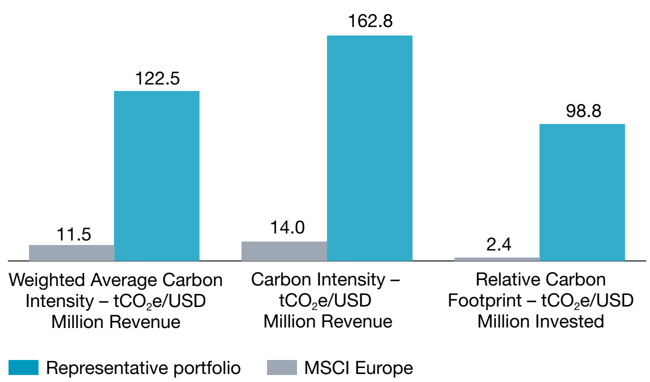
Carbon footprint analysis identifies the largest direct emitters and helps to prioritise research and engagement activities.

— The relative carbon footprint compares the total carbon emissions of the portfolio with the index per $1 million invested.

— Carbon intensity measures the total carbon emissions per $1m of revenue generated and shows the efficiency of the portfolio in terms of emissions per unit of financial output.

— The Weighted Average Carbon Intensity is the sum product of the portfolio constituent weights and intensities.

These intensity measures allow comparison of emissions across companies of different sizes and in different industries. We recognise that carbon footprinting and emissions intensity analysis is imperfect. Beyond simple concerns about data accuracy and availability, this analysis can only tell us where a company is – not where it is going. This is why we see it as a starting point and not the end.



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

Future research and engagement priorities

We have two thematic areas of focus for our stewardship activities going forward, as outlined below. We want to further our thinking in these areas, and we will be developing frameworks to help inform our engagements with companies accordingly.

Climate

The climate audit exercise will act as the foundation for future stewardship work on this cross-cutting theme. The next step is to develop a question framework to use with the companies identified as engagement priorities. In turn, we will use the learnings from these engagements to inform a future net zero portfolio guideline.

Labour rights in the platform economy

Digital platforms represent a new wave of technological innovation with wider societal ripple effects.

The gig economy has disrupted traditional employment statuses, but the concept of maximum flexibility without minimum worker protections jars with the European social model. We intend to test the long-term resilience of platforms that use the gig economy and assess their ability to demonstrate a social licence to operate.

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