Appendix 3 - Examples of Company Engagements carried out by our Fund Managers

Baillie Gifford

Tesla

We had a call with the Chair of the Board of Directors, Robyn Denholm. We discussed items for the Annual General Meeting (AGM), as well as the company's management of labour and safety workplace issues during the Covid-19 pandemic. While there is still stakeholder scrutiny of Tesla's approach to some Environmental, Social & Governance (ESG) issues, including employee arbitration rights and supply chain risks, we were encouraged by the excellent progress that the company has made over recent years with respect to external disclosure and impact reporting. This has been accompanied by increased stakeholder engagement, and the recruitment of the highly-respected new independent director, Hiromichi Mizuno, who will bring additional board-level oversight to Tesla's approach to governance and sustainability issues.

Rio Tinto Group

We had a call with the Chief Executive Officer (CEO) to discuss the destruction of the Juukan Gorge in Western Australia which was caused by Rio’s mining operations. Before our call, the company’s management team and Board of Directors issued an apology for disrupting the site which was deemed to be of archaeological significance to indigenous Australians. A board-led review, conducted by an independent director, is underway focusing on the company's standards, procedures and governance structures. It will also examine Rio's relationship with the Aboriginal community. Its findings will be made public and are expected by October. There is also a government inquiry into the same incident. We are writing to the Chair of the Board of Directors to encourage a broad review with independent external input.

Amazon

We had a call with Amazon ahead of its 2020 Annual General Meeting (AGM) to discuss some of the proposals on the ballot. It was also an opportunity to discuss the company's response to the Covid-19 pandemic, and the additional measures being taken to protect staff. With the significant increase in online delivery volumes during national lockdowns, stakeholders raised concerns regarding the challenges of protecting facilitation centre employees in an environment where social distancing is not always straightforward. We were reassured to hear about additional measures that had been implemented, from temperature screening to deep cleaning. We raised concerns over recent staff dismissals for failing to adhere to company policies while campaigning to challenge Amazon's response to the pandemic, which led to a senior technical manager resigning from Amazon in protest. We urged the company to be as tolerant as possible during this sensitive period, while accepting that important minimum operating standards must be respected by all employees. With respect to the AGM, we discussed shareholder proposals relating to high-profile issues including artificial intelligence and privacy concerns, and gender and racial pay gap reporting. We agreed to meet again later in the year to discuss progress on these priorities.

Sarasin

Associated British Foods

In May we spoke to the Financial Director of Associated British Foods. Our concerns centred around 1) Primark's cancellation of all new garment orders and lack of commitment to pay for outstanding orders; 2) the possible withholding of rent payments from landlords; and 3) the health and safety of workers and customers during furlough and business reopening.

Our engagement with the company has reassured us in some areas but some issues remain outstanding:

Suppliers – Whilst the company reversed their stance on paying their suppliers, and announced a new wage fund for garment workers, this followed a widespread outcry. Furthermore, the FD was not able to provide us with sufficient information on the operation of the wage fund for garment workers in the poorest countries. We are seeking more information.

Treatment of employees – We are broadly happy with the terms on which workers have been furloughed, although we would like more information on variations across jurisdictions. We also gained some reassurance that, as stores began to reopen, the company had strong health and safety controls. We continue to monitor the situation closely.

Landlords – We expressed our concern that their approach (unilaterally withholding rent) exposed the company to negative scrutiny. Following our engagement, it has been announced that negotiations with landlords on rents have "progressed", with most now paid or about to be paid. The company has also indicated the level of new orders to suppliers. We are continuing our engagement with the company and are in the process of determining whether a formal letter to the Board would be necessary.

Schroders

Barclays

Barclays came under pressure on its approach to climate change earlier this year when the bank received its first ever climate-related shareholder resolution, filed by charity campaign group ShareAction. The resolution sought to put pressure on banks and their financing of fossil fuel companies. We engaged directly with Barclays ahead of the AGM on our climate-related concerns as this was our preferred option. We embarked on a series of discussions with senior leadership bilaterally and through supporting collaborative efforts. Barclays maintained a constructive conversation, acknowledged weakness on its side and was open to challenge. Out of this, Barclays committed to the following by filing their own resolution: That to promote the long-term success of the Company, given the risks and opportunities associated with climate change, the Company and the Directors be authorised and directed by the shareholders to:

1. Set an ambition to be a net zero bank in Scopes 1, 2 and 3 by 2050, in line with the objectives of the Paris Agreement.

2. Set, disclose and implement a strategy, with targets, to transition its provision of financial services across all sectors (starting with, but not limited to, the energy and power sectors) to align with the goals and timelines of the Paris Agreement.

3. Report annually on progress under that strategy, starting from 2021, including a summary of the framework, methodology, timescales and core assumptions used, omitting commercially confidential or competitively sensitive information, and at reasonable cost.

Our conversations have involved portfolio managers, financial and sustainable investment analysts from our side. This enabled the bank to receive a joined-up message on the need for action but for us to have realistic conversations about the business implications and roadblocks. From the discussions that we have had with Barclays, the company is confident it will be able to manage the profit impacts of decarbonising along the lines of its proposed resolution.

Barclays' resolution sets a new precedent In establishing an ambition to be net zero by 2050 Barclays is setting a new precedent for a major bank. Furthermore, the net zero ambition will cover all of its portfolio, not just lending. While the timeline is a long one, our conversations have indicated that Barclays understand the necessity of providing clear detail and timelines, hence the commitment to report annually on this.

The second ambition is to align all of their lending with the goals and timelines of the Paris Agreement. We are particularly supportive of this, and believe that it goes further than the request of the ShareAction resolution, which is just focused on energy and utilities. Our analysis has demonstrated that some of the most significant challenges for decarbonisation occur in sectors such as transport and building materials. Encouraging all of their borrowers to transition has the potential to have a real positive benefit.

Importantly, Barclays will be tightening its policy on coal considerably and outlining the progress that it intends to make on oil sands. Through the engagement it is clear that Barclays is already acting on this, opening up a number of very difficult conversations with senior stakeholders on issues like oil sands. ShareAction resolution played important role. While our preference is for dialogue, we did give consideration to the ShareAction resolution. Overall we feel that Barclays' resolution, which uses terminology around "transitioning", is more pertinent than ShareAction's around "phasing out". It is a more accurate reflection of the challenges that many businesses will face in delivering on the goals set out in the Paris Agreement. The challenge is for existing business models to reinvent themselves for a low carbon future, and banks can play a vital role in enabling this to happen.

The ShareAction resolution had a couple of unintended consequences. By taking a sector approach Barclays would have been limited in advising companies who wanted to transition on issues like divestment or making acquisitions in renewable eras. In addition their sector categorisation was a blunt one, and could mean some carbon intensive companies slip through the net.

Recognising the pivotal role that ShareAction played, but keen to support a management team that had come a long way in a short space of time, we opted to abstain from ShareActions's resolution and support Barclays'. At the annual general meeting in May 2020, Barclays' resolution received over 99% support against 24% for ShareAction's. We continue to engage with a number of businesses on their long term plans around climate change, amongst other ESG issues, and welcome companies to start a conversation with us.