RESPONSIBLE GLOBAL EQUITY INCOME

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Why did you launch the Responsible Global Equity Income Strategy?

Toby Ross (TR): The main idea behind launching it was that most income investors are actually very long-term investors. What they've really focused on is long-term income rather than short-term yields. Now, if you take that mindset and bring it to stock picking, that has a few implications about the sorts of businesses that you want to own.

Firstly, it means that you should really be focused on growth businesses that can pay dividends as they grow, not the challenged businesses of yesterday. Secondly, you need to think hard about the sustainability of the business models over the long term. Are they going to be able to pay resilient dividends even in five- or ten-years' time?

Finally, we think you really tilt the odds in your favour if you have a global opportunity set. If you're not tied down to any one particular part of the market or geography. If you want to own the best companies in the world, then you want to have the largest tapestry to choose from.

I remember people sometimes used to say that the best dividends came from the worst companies. That's never seemed right to us at all and with this approach, we set out to prove that idea wrong.

So we spend all our time looking for growth companies of tomorrow that can pay dividends as they grow in any environment. We won't invest in companies with harmful products or in companies where we think there are poor business practises.

It was actually the first ESG-focused fund in the sector when we launched it three years ago, and since then it's been a fantastically interesting journey for the whole team.

What does responsible investing mean to you?

Diane Esson: There's no universal definition for what is responsible or sustainable. It can't be defined by a number and most third-party benchmarks, although they have some utility, they tend to be backwards looking and focus on disclosure and transparency rather than substance. And so for each of the companies that we consider holding or hold in our portfolio, we have to do our own research to take a view on what sustainable looks like for them. To do this, we've developed our own framework, which we call the Impact, Ambition, Trust. And this revolves around three questions:

1. What is the impact of this company? That applies to both its products and its operations. And we try to take as forward a looking view on this as possible.
2. Is this company ambitious? Does it have the ambitions to reduce its impact or improve its impact? And does it really want to improve outcomes for the environment and society?
3. Do we trust them? Do we trust this management team and the governance structures in place to achieve these ambitions?

How do you use this framework?

No company scores perfectly across all three areas. However, we think it's consistent with our philosophy to invest in a company that may have a material impact today, so long as the ambitions are there to address it and we trust management to achieve those ambitions.

Take a company like Nestlé, for example. Today, Nestlé's products have a material impact on ecosystems, primarily from the packaging waste that they create. However, this company has invested significant resource into innovating new plastics and packaging solutions, and they're investing to collect more recycled material and replace virgin materials in their manufacturing. We think both of these practises are demonstrative of their leadership and important for longer-term and industry-wide solutions to a problem that affects pretty much all consumer goods companies.

The other purpose of our Impact, Ambition and Trust analysis is to identify what our engagement priorities should be. For any company we're going to have a slew of questions around their various impacts and governance structures, but we believe it's important to really focus on what is most material and what is a company's greatest opportunity to improve outcomes for the environment or society.

Take Novo Nordisk, for example. Novo Nordisk is a leader in defeating diabetes and the NGOs and the academics that we reached out to praise Novo Nordisk for their leadership in improving access to insulin as well. Yet access to insulin remains a global concern that affects many people around the world and, we believe, remains Novo Nordisk's greatest opportunity to improve outcomes for society. And so that's what our engagement focuses on. We're engaging with management, brainstorming ideas around distribution and pricing, and encouraging them to push the boundaries here even further and to improve access to insulin for years to come.

What has the experience been so far?

TR: Well, the last three years has certainly been an exciting time to be investing. Diane's talked about some of the ways in which we've been engaging with our holdings over that period. In investment terms, there are two things that have been very encouraging to us.

Firstly, one of our aims is to deliver a sustainable income stream that holds up when the going gets more challenging. In 2020 during the pandemic, many companies cut their dividends and global dividends fell sharply. But our focus on resilience in our holdings paid off, and in fact, we were able to increase our distribution thanks to the strong growth that many of our underlying holdings delivered.

Secondly, our focus on growth has been a great help to us. Owning growth companies of tomorrow, like TSMC or Novo Nordisk, which Diane talked about, those companies, which have delivered strong growth, has helped us deliver much stronger total returns than many traditional income approaches, which have maybe focused on more challenged parts of the market.

So in investment terms, it's been a really encouraging start. And I have to say in both regards - both the resilience of the dividends and being able to capture the growth opportunities of tomorrow - it's been a great help having a global opportunity set to pick from.

What does the next five years hold for you?

The first point I'd make is just about the opportunity set. If you don't restrict yourself to the highest-yielding parts of the market, then the universe of dividend-paying companies globally is something like 4,000 companies. And that's a fantastically rich and exciting pool to be fishing in. We believe we've got many of the most interesting in our portfolio today, and we're going to spend the next few years looking for more of them.

Secondly, on engagement we're going to keep pushing our holdings to be ambitious. And that matters because many of our companies are in a position of outsized influence, either because they're leaders in their industry or because there's scope to change and that change could have a real impact on wider society. And we ourselves, as long-term investors who are engaging patiently over a period of years are also in a position where we can have an outsized influence in helping push our companies to change.

A good example of this is in the way we've approached climate change. Rather than just writing letters to companies, we've been sitting down with the CEOs and chairs of our holdings and encouraging them to set really ambitious targets and think about climate in their strategies in a thoughtful, long-term way and then stick to the commitments that they've made. And we know that those conversations are starting to have a real impact.

Now, one thing about engagement is it takes time to pay off. You don't get the results quickly. You really only see the benefits if you're investing for long-term income rather than short-term yield. And that's exactly what we plan to keep doing over the years ahead.

Annual Discrete Performance to 31 December Each Year (net %)

	2019	2020	2021
Responsible Global Equity Income Composite	23.8	14.4	21.8
MSCI ACWI Index	22.4	13.2	20.1

Annualised returns to 31 December 2021 (net %)

	1 Year	3 Years	Since Inception
Responsible Global Equity Income Composite	21.8	19.9	19.9
MSCI ACWI Index	20.1	18.5	18.5

Source: Baillie Gifford & Co and relevant underlying index provider(s) in sterling. The Responsible Global Equity Income Strategy was launched on 6 December 2018. Performance data is available from that date.
Net of fees returns have been calculated by reducing the gross return by the highest annual management fee for the composite.

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