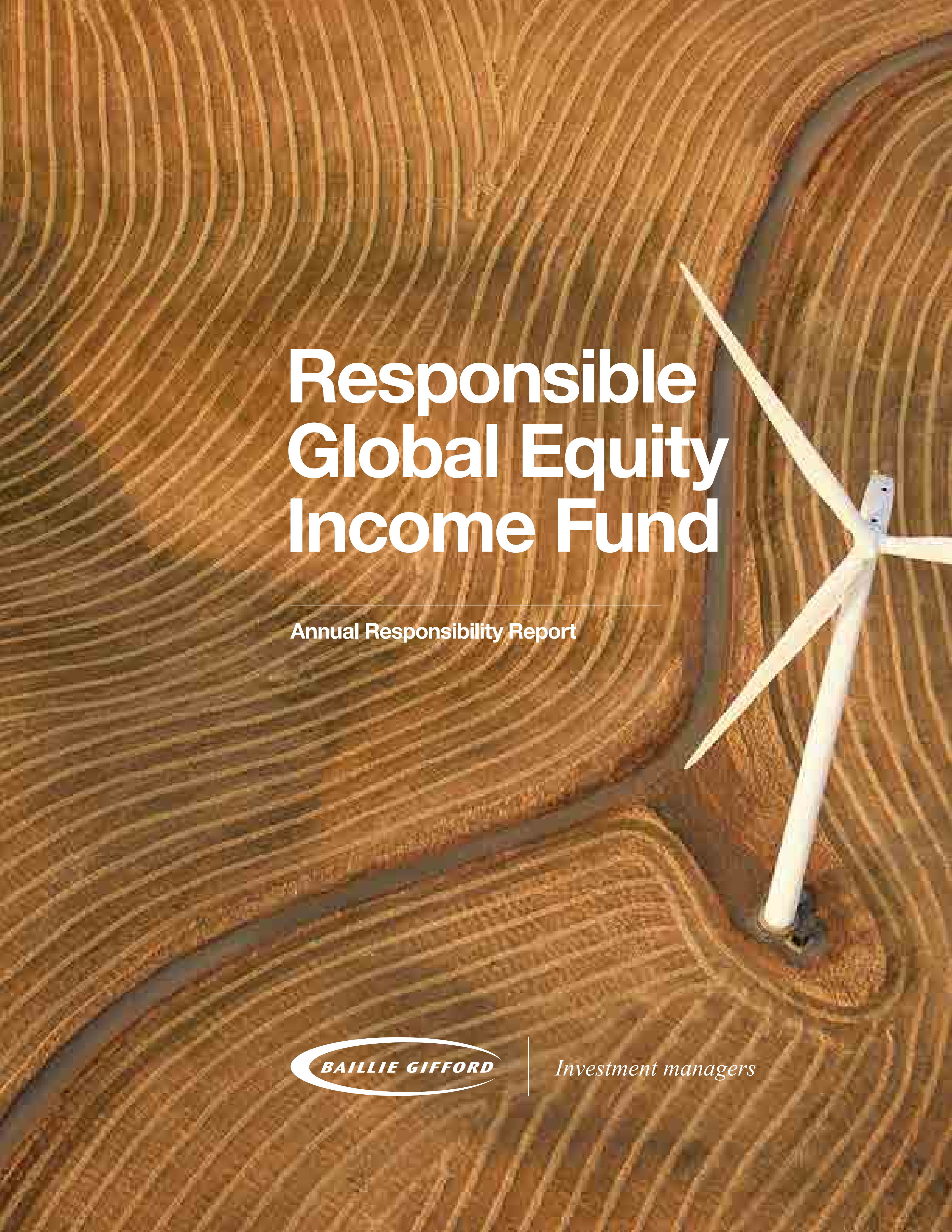

Responsible Global Equity Income Fund

Annual Responsibility Report

BAILLIE GIFFORD | *Investment managers*

Risk Factors and Important Information

The views expressed in this document are those of the Responsible Global Equity team and should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect personal opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

Stock Examples

Any stock examples and images used in this document are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style.

This document contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned.

Investment markets can go down as well as up and market conditions can change rapidly. The value of an investment in the fund, and any income from it, can fall as well as rise and investors may not get back the amount invested. The fund has exposure to foreign currencies and changes in the rates of exchange will cause the value of any investment, and income from it, to fall as well as rise and you may not get back the amount invested.

The Responsible Global Equity Income Fund (the Fund) invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment.

The Fund invests according to responsible investment criteria and with reference to the ten principles of the United Nations Global Compact for business. This means the Fund will not invest in certain sectors and companies and may experience a higher level of volatility than a fund which has no such restrictions.

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All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

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

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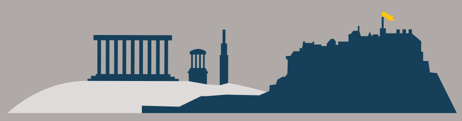
Contents

Baillie Gifford

Founded in
1908

Still our home today
Edinburgh



43
partners

40 new clients per year over 5 years

£219bn
assets under management and advice

20 Governance and Sustainability experts

As at 31 December 2019.

Introduction

Baillie Gifford's commitment to responsible stewardship is as old as our firm. Our clients trust us to oversee and manage their investments for the long term, and stewardship of their holdings is a core part of this commitment.

All of our equity teams share certain beliefs. We are patient investors who seek to invest in companies which can deliver sustainable growth. Our genuinely long-term perspective is evidenced by our low portfolio turnover.

This commitment to the long term stems from the fact that, as a multi-generational partnership, we are entirely focused on ensuring our clients' interests are best served over many decades. There are no outside shareholders encouraging us to prioritise short-term interests.

We can only invest effectively if we invest responsibly. In analysing companies and deciding where our clients' capital should be invested, it is essential to consider all the factors which might affect long-term outcomes, whether that is management's alignment with shareholders' interests, how ethical their behaviour is, or how the company cares for the environment. Investing responsibly is an intrinsic element of our investment approach.

As long-term investors we have an opportunity to engage constructively with the companies we invest in and be active stewards of our clients' capital. All our investment staff are involved, not just in deciding which stocks to own, but also in the stewardship of our holdings. We do this because we believe that engaging with companies effectively, as well as voting thoughtfully, supports investment performance.

To assist our investment teams and help improve outcomes for our clients, Baillie Gifford has a dedicated, 20-strong team of governance and sustainability specialists who work closely with colleagues across the firm.

Baillie Gifford's over-arching ethos is that we are 'actual' investors. We have a responsibility to behave as supportive and constructively engaged long-term investors. Our approach favours a small number of simple principles which help shape our interactions with companies.

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.

At Baillie Gifford we take our responsibilities seriously. We will encourage focus on the building of lasting competitive advantage, and we will enthusiastically support those with a thoughtful approach, using voting to support our five core principles. At a time when the word 'activism' is synonymous with those targeting short-term gains, we would like to reclaim the term for the long-term growth investor.

Investing Responsibly For Income

Many clients seek a dependable income stream as well as real growth in income and capital. Some clients have an additional requirement: that these investment objectives are met responsibly, with a process that takes account of the needs of a broader range of stakeholders than just the shareholders. Baillie Gifford's Responsible Global Equity Income Fund aims to meet the exacting standards of such clients who have a particular concern for the sustainability of their investments.

We are confident that we can meet the needs of these clients for three reasons:

— We have a robust process for identifying companies that can deliver both sustainable growth and dependable dividends, reflected in the long and successful track record of our Global Income Growth strategy. Sustainability considerations are fully integrated into the stock-picking process, with the dedicated input of our Governance and Sustainability team. This portfolio of growth businesses is the key building block of our Responsible Global Equity Income Fund.

— To give our clients additional comfort, we apply two types of exclusions: we exclude companies which sell certain harmful products altogether; and we apply a thoughtful process to ensure that all holdings reflect the principles of good business conduct embedded in the UN Global Compact.

— We engage in a constructive, targeted way, to help address major challenges and ensure our holdings thrive over the long term.

Sustainable Growth

— Only invest where both growth and dividends are sustainable over the long term

— ESG integrated within our 9 question stock research framework

— Pre-decision analysis by Governance and Sustainability specialist, with right of veto

Exclusions

— Exclude certain harmful products

— Apply the UN Global Compact Principles

Engagement

— Constructive engagement with companies to deliver better outcomes

— Annual engagement plan, focused on the most material areas for improvement

This annual Responsibility Report sets out our approach in more detail and shows what it means in practice.

Firm Foundations

The Search For Sustainable Growth

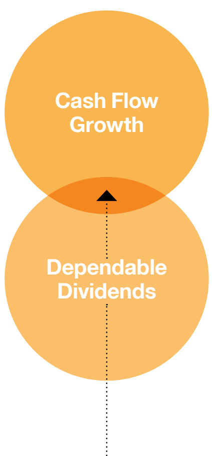
By investing responsibly, we aim to deliver two outcomes to our clients over the long term:

— A dependable income stream

— Real growth in income and capital

To help meet our objectives, the typical company we are looking for is cash-generative, its cash flow is resilient through cycles, and its growth is capital-light. This is how a company can both grow and pay a dependable dividend. We strongly believe that such businesses are the best investments for a long-term income investor, who seeks growth in the future as well as income today.

Philosophy



We look for exceptional companies that can persistently deliver both of the above

Research

We focus on the long-term opportunities

ESG is integrated into our team's 9 Question Stock Research Framework

— Q2. Does it have durable competitive advantages? Is the business model sustainable?

— Q6. What most encourages and concerns us about management?

Specialist Input

Pre-decision analysis from Governance & Sustainability specialist

Addresses 3 key questions:

— **Structures**
Are governance structures aligned with long-term investors?

— **Stakeholders**
Are stakeholders aligned with the company's long-term success?

— **Sustainability**
What are the key sustainability challenges and opportunities for the investment case?

Right of veto for Governance and Sustainability specialist

This long-term focus forces us to be rigorous in making sure the management teams we back behave in a responsible way that is consistent with our long-term ambitions for the business. It also requires us to think hard about the sustainability of the business models we choose to invest in – and this focus on sustainability is embedded in our stock selection framework and so is at the very heart of our research process. Many of the businesses we invest in are growing because they are leaders in industries we believe will change society for the better.

We complement the investment team's research with the input of our dedicated Governance and Sustainability team, who provide input throughout the investment process. This input is at both the stock level, and across the portfolio as a whole.

At the stock level, before any new investment decision is made, the Governance and Sustainability team undertakes a detailed analysis to address three key questions:

— **Structures** – are governance structures aligned with the interests of long-term investors?

— **Stakeholders** – are stakeholders aligned with the company's long-term success?

— **Sustainability** – what are the key sustainability challenges and opportunities for the investment case?

Their pre-decision analysis also considers whether a business's operations are consistent with the principles embedded in the UN Global Compact (discussed in more detail below).

The Governance and Sustainability research is discussed with the investment team ahead of a purchase of any new stock for the portfolio. This ensures that any potential challenges are thoroughly understood and engagement priorities agreed upon. That different perspective frequently helps identify areas for further research.

Schneider Electric: Governance And Sustainability Pre-Decision Research

The Governance and Sustainability team's pre-buy analysis of Schneider Electric identified corporate governance structures that are supportive of shareholders' long-term interests. Equal treatment of all shareholders is enshrined in the company's Articles of Association and there are no anti-takeover provisions or artificial measures in place to shield the board of directors or management from accountability by shareholders.

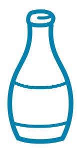
Stakeholder alignment is demonstrated by Schneider Electric's full and public commitment to the United Nations Global Compact Principles, led by the board and its chairman and CEO, Jean-Pascal Tricoire. Comprehensive corporate reporting sets out how Schneider Electric works with its key stakeholder groups – employees, suppliers, customers and the communities in which it operates – to deliver long-term sustainable growth opportunities.

Our review of the key sustainability challenges and opportunities concluded that Schneider Electric is making a positive impact, as its business lines offer solutions to customers seeking a transition path to a lower carbon world.

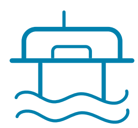
Rule-Based Exclusions

Exclusions based on product harm

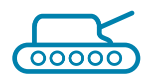
Whilst we strongly believe that a focus on sustainability is intrinsically linked to consideration of the good that companies can do, it is clear the avoidance of harm is a legitimate concern for those who wish to invest responsibly. Therefore, in managing the Responsible Global Equity Income Fund, we exclude companies that derive more than 10 per cent of their annual revenues from:



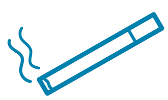
Production or sale of alcohol



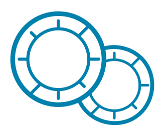
Fossil fuel extraction



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

The exclusion of companies which derive more than 10 per cent of their revenues from fossil fuel extraction builds on the Fund's previous exclusion of tar sands and thermal coal. 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 in selecting investments for the Responsible Global Equity Income Fund. 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.

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.

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.

Anti-Corruption

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

Process in Action

The Ten Principles of the UN Global Compact serve as a framework to assess the responsibility of a company's business practices. However, whilst we use third-party research, including an external screening service (Sustainalytics), we recognise that such third-party research is a blunt instrument for understanding the real features of a business. The number of issues flagged at any given company is strongly correlated with how big the company is, meaning that smaller companies may well be given a generous treatment while large ones get disproportionately penalised. We also note that the output of different providers' screens at the stock level can vary enormously. We therefore believe that a thoughtful approach is needed, requiring the exercise of our own judgement and close collaboration between the investment and Governance and Sustainability teams.

As outlined earlier, all companies which are considered for the portfolio are the subject of an independent analysis by the Governance and Sustainability team who also discusses them with the investment team. Any potential investment that is deemed to breach or not meet the spirit of the ten principles is excluded from the portfolio. The Global Income Growth team works with a dedicated Governance and Sustainability specialist who has the right of veto with respect to which companies are excluded. The decision to exclude a company based on assessment against the ten principles does not mean the company's area of operations is intrinsically harmful, but rather that it is operating in a manner which may not meet the legitimate expectations and aspirations of responsible investors.

Crossing The Line

The UN Global Compact in Practice
Man Wah Holdings Limited

Man Wah Holdings Limited, is a Hong Kong listed company which designs and manufactures household furniture, mattresses and bedding accessories, which are then sold primarily to third party retailers. It relies on a network of third-party raw material and component suppliers for its manufactured products.

Robust oversight and management of supply chains are critical to ensure that manufacturers such as Man Wah are in full compliance with the United Nations Global Compact Principles relating to labour rights and working practices. Whilst the company has suitable policies in place, our ongoing engagement with the company revealed an inconsistency in sustainability reporting which undermined our confidence in Man Wah's approach to on-site inspection of suppliers and the governance of its sustainability risks. We engaged with the company on a number of occasions over the course of 2019 and 2020, but they were unable to adequately address our concerns on this point.

In the light of this, we excluded Man Wah from the Responsible Equity Income Fund in order to safeguard the portfolio from exposure to potential labour rights failings.

Monitoring and Engagement

We continue to review and monitor the stocks in the portfolio to ensure they remain consistent with the objectives of the Fund. We undertake three main types of engagement.

Firstly, we engage with those companies where there is a potential question around whether their operations are consistent with the principles of the UN Global Compact. We will encourage them to provide better disclosure and seek to form a rounded view of their operations. During 2019 we spent time seeking to understand supplier codes of conduct at several of our holdings with Chinese manufacturing operations, for example, and suggested areas of improvement.

Secondly, we continually engage with companies we invest in to ensure their corporate governance is robust and that remuneration is appropriate and aligned with long-term investor's interests. We engage with boards to ensure remuneration structures do not incentivise short-term thinking by management teams. By providing constructive input early in the process, we are often able to help effect improvements over time.

Finally, and most importantly, at the start of each year we set an engagement plan. This seeks to highlight the most significant environmental, social or governance challenges across the portfolio, where we believe constructive engagement and research can make the greatest difference. These engagements can be led by either the Governance and Sustainability team or the Global Income Growth investment team. The engagement plan is best viewed as a framework to be built on over several years and is jointly agreed by both teams.

The following sections aim to illustrate what our 2019 Engagement Plan meant in practice; and we have also set out our focus for 2020.

In our engagement we:

— Prioritise a business's long-term needs over short-term considerations

— Focus our efforts on where we can have impact

— Encourage each company to consider their broader impact on society

— Support their strengths and achievements

Our 2019 Engagement Priorities

Climate Change

e.g. UPS, CH Robinson, Kuehne + Nagel

Tax

e.g. AJ Gallagher

Responsible Consumption

e.g. Coke, Pepsi, Nestle, Novo Nordisk

Climate Change

The question: Where are the portfolio's biggest risks and opportunities from climate change, and how are these being managed?

Freight and Logistics Emissions

Climate change was the first topic on our 2018/2019 engagement plan. As we set out to identify the portfolio's biggest risks and opportunities from climate change and how these are being managed, we concluded that we should prioritise engagement with a number of our freight and logistics holdings.

Freight and logistics contribute around 8 per cent of global greenhouse gas emissions and 35 per cent of those from the transport sector. With increasing global trade and ecommerce, this fossil fuel-dependent sector is slated to become 14 per cent of global emissions by 2050. For businesses and their many customers that operate in the space, this trajectory presents a formidable challenge as they try to balance the growth of their businesses with their responsibility to the environment.

In the absence of government and regulatory standardisation, companies are taking their own initiatives to measure and monitor performance. Some companies are initially focusing on disclosure while others are going further and setting targets. We as investors, together with other influential stakeholders, have a particularly important role to play precisely because governments have not yet set out a clear path outlining how logistics companies should think about their impact on the climate.

Over the past year we have engaged with our three holdings in the freight and logistics sector – UPS, CH Robinson and Kuehne + Nagel. Our over-arching aim has been to better understand how the companies are addressing this challenge, and to offer our perspectives and support.

Furthermore, we have been seeking improvements in two areas. The first is disclosure of companies' emissions and, in particular, encouraging them to disclose their Scope 3 emissions, which include the impact of their own business as well as their supply chains, as this more clearly illustrates their broader impact. Secondly, we wanted to understand how and why targets are set, and to what extent emissions-reducing strategies are integrated into the day-to-day running of the business.

The Greenhouse Gas (GHG) Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'.

Scope 1 emissions are direct emissions from owned or controlled sources.

Scope 2 emissions are indirect emissions from the generation of purchased energy.

Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

We have been very pleased by the progress at some of the companies with which we have engaged. For example, when we first spoke to the Swiss freight forwarder Kuehne + Nagel, one of our objectives was to encourage the company to improve its relatively narrow disclosure. From our engagements with senior operational executives, Kuehne + Nagel has stood out in two respects. Firstly, it has recently set bold targets for the business, including reaching net zero carbon by 2030, and intends to report their Scope 3 emissions in the near future. Secondly, it is clear that the company is using its scale, as the largest purchaser of capacity on container ships, to effect positive change across the industry. Kuehne + Nagel has signed pacts with major shipping lines requesting accurate emissions data for particular vessels and routes. As such, it is pioneering a new approach which the wider industry can copy. Better quality emissions data enables more accurate carbon mapping, which ultimately feeds into the company's logistics planning, and helps its customers make better choices. Kuehne + Nagel is setting a new standard for itself and for its peers. The company's progress demonstrates the benefits of an engaged, long-term management team – and perhaps the influence of honorary chairman Klaus-Michael Kuehne.

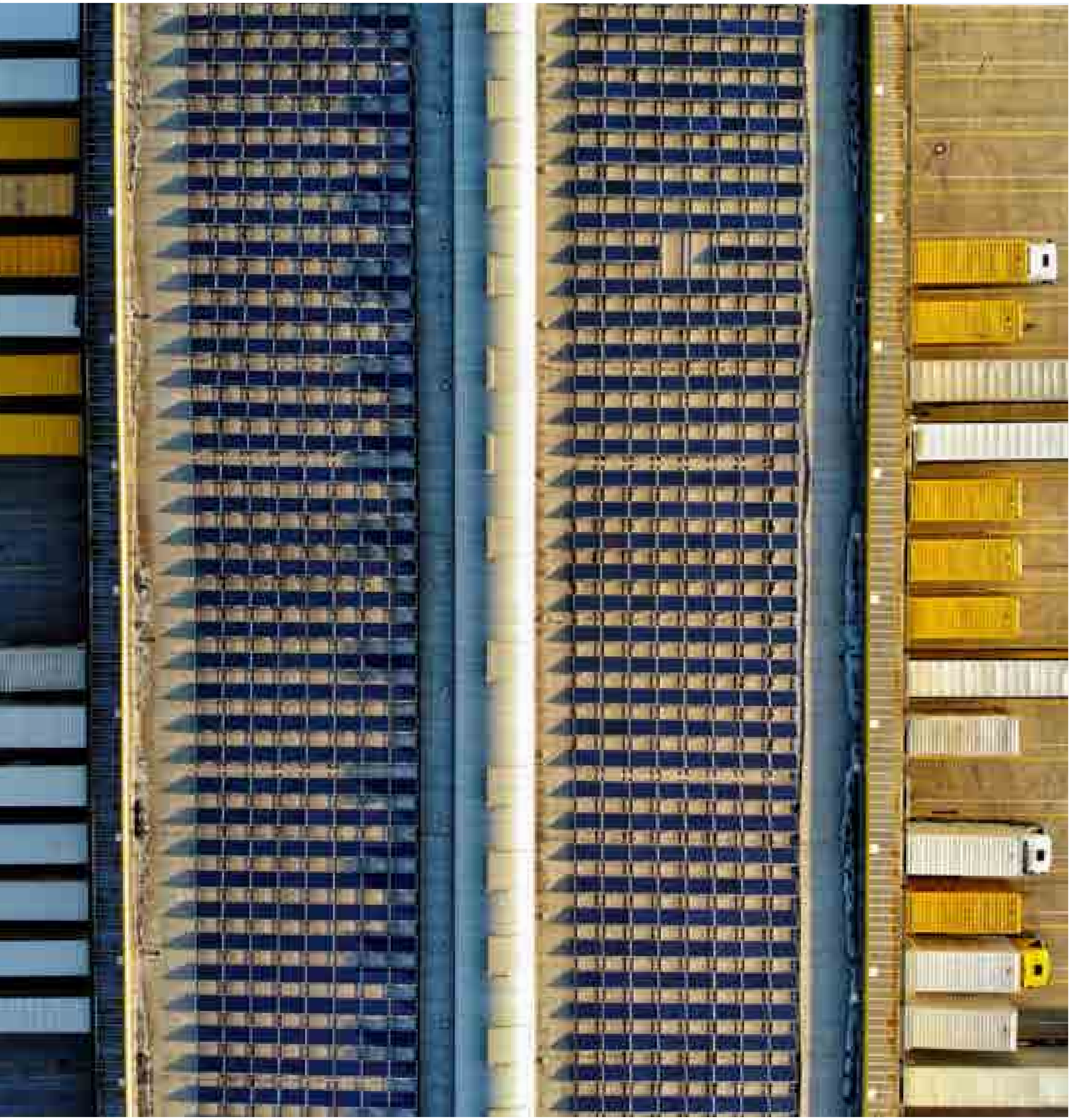
The US freight forwarder CH Robinson is equally mindful of its role in helping to control emissions. Having adopted the Global Logistics Emissions Council (GLEC) framework, the company is encouraging not only their own operations but also their customers to simplify and standardise disclosure processes. Some of their large customers now request detailed carbon reporting and want their help in reducing the emissions of their freight. Management listen intently to what customers need, be it better shipment segment carbon reporting or integrating technology that could help customers choose the most appropriate type of freight transport. Encouragingly, in our engagement the company sought our views on both what emissions data would be most meaningful and how they might frame their own targets. We plan to speak with CH Robinson again in mid-2020 to further develop the conversation.

Forming coherent strategy around these complex issues isn't, however, always straight-forward. In 2015 UPS set ambitious absolute carbon reduction targets, to be reached by 2025, in parallel with the company's plans for earnings growth. Several years down the line, the emissions targets look likely to be missed – and the faster the business grows, the more the gap worsens. Furthermore, the targets exclude air freight, which contributes 60% of the company's total emissions and is a source of faster emissions growth. These targets seem to be set to meet investors' expectations rather than through a thoughtful process of aligning competing strategic objectives.

As a result, it is hard for UPS to integrate climate fully into their strategy. We have encouraged UPS to consider targets that are more compatible with the business's underlying growth and which would be more within the company's control. This engagement has proven to be timely, as the company is in the process of setting its next set of targets. We plan to write to the board to express our views.

In all our conversations with these companies, we have emphasised that our input is by no means prescriptive. Our holdings have all been open to our feedback and are interested to continue this dialogue in the future.

The impact of business operations on the climate is becoming clearer and we are pleased that the companies we invest in are thinking hard about how to mitigate the impact of their operations. We are encouraging our holdings to be transparent about their emissions and, rather than just setting targets, to achieve a real integration of sustainability and operational goals. It's this integration that will deliver real progress and we look forward to continuing to help drive this in the wider transportation sector.



Responsible Taxation

The question: How sustainable are the tax policies of our holdings, and could these affect the future earnings of the businesses?

"So, what do you think tax is?"

This was how we started a recent conversation with the finance director of a FTSE 100 company we invest in. For some executives (and perhaps some fund managers), this might seem a strange question to ask. It is generally taken for granted that tax is a cost, similar to rent or the wage bill; and part of the job of any self-respecting finance director is to make the tax bill as low as possible, so as to maximise after-tax profits for shareholders.

We think there's a better way for businesses and shareholders to think about tax. Our view is that, rather than a cost, it should be seen as a mechanism for distributing the benefits of conducting a business. Just as workers and shareholders are eligible for a share of the gains, so is the society that created the conditions for that activity in the first place – tax gives a company a 'licence to operate'. Sustainably-managed companies recognise the need to ensure the benefits of their businesses are distributed fairly to all three groups.

It is more than just a philosophical question, though. As the FTSE 100 finance director we spoke to explained, politicians and voters are increasingly concerned by their perception that multi-national businesses are going to extraordinary lengths to avoid paying "their fair share" in the communities where they operate. Because of our long-term time horizon, we think we are well placed to encourage companies to move in the right direction – and that over the long run our clients will benefit from this.

That is why tax responsibility is one of the three priorities we set for our 2019 Engagement Plan. We began by looking at where tax risks might be highest. For example, we compared the actual amount the businesses we invest in had paid to the tax authorities (tax cash) with the statutory rates in the countries where they operated. This highlighted some anomalies, which we investigated and used as a starting point for engagement.

Playing Fair

As part of our investigations we found, for example, that insurance broker Arthur J. Gallagher has for some time invested in refined coal facilities that chemically treat coal to make it burn cleaner and release fewer pollutants and emissions. A noble cause, perhaps – but one which has nothing to do with broking insurance. The only reason the company was investing in these projects was to earn the US refined coal tax credits which Congress had temporarily made available for such investments. In other words, the company was doing it to reduce its tax bill, which in turn means that less money would be available to fund roads, teachers or tax inspectors for their community.

So far, we have had two useful conversations at a senior level with the company, challenging it over these structures. Management told us that this was the first time an investor had questioned them as to whether these arrangements were responsible – normally, investors just want to understand how they impact post-tax earnings. We recommended that when these arrangements expire in the next few years, they should not look to replace them, even if that means the company's tax bill goes up and its post-tax profits go down a little.

Taking Responsibility

Sometimes encouragement can be just as powerful as challenge. The FTSE 100 finance director we spoke to said he had asked his team to review some of the tax arrangements he had inherited with "a critical eye", to ensure that they were not just legal but also fair. He gave us detailed examples of what this meant in practice – real decisions that had short-term financial consequences, but which were the responsible thing for the company to do. We believe our role as long-term shareholders is to strongly encourage him and the board on this initiative, both verbally and in writing, so that the importance that some of the company's long-term shareholders place on these efforts is clear.

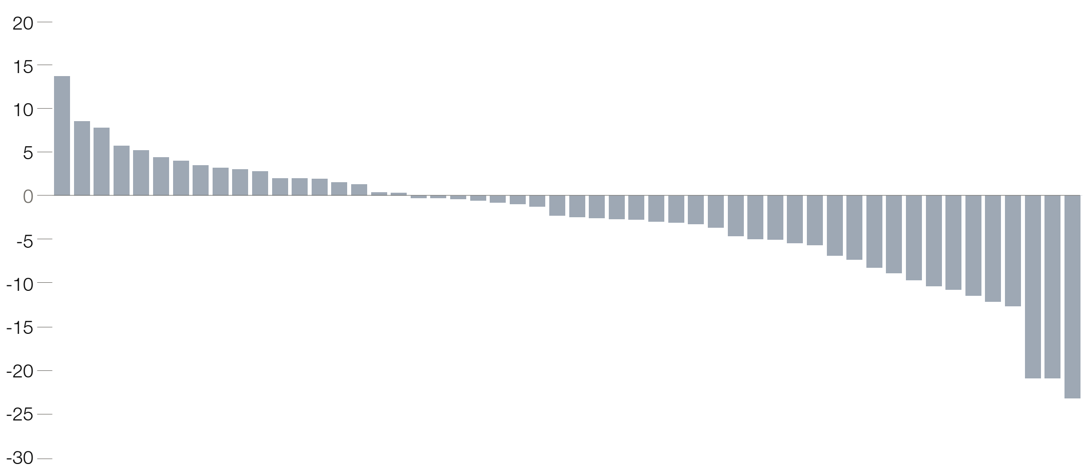
We also suggested that they could do a better job of explaining to the outside world what they are doing, and how they consider the fairness of their tax practices. Our holding Prudential produces an excellent report called *Managing our tax affairs responsibly and sustainably*, which we have used as an example of best practice: in our view many companies can learn from the way Prudential is approaching these issues.

Engaged

These examples show some of the ingredients that can make for a successful engagement. We approached the companies as a supportive, long-term shareholder that expects to be on the register in five years' time, and so will be a beneficiary of any changes the company makes. We encouraged management teams to keep doing the things they were doing well. Where we felt change was necessary, we tried to ensure our challenges were constructive, with a clear sense of what we were asking the companies to do differently. The engagements were jointly led by both investors and our governance and sustainability specialists. This ensured the companies know that we consider these questions holistically.

But perhaps most importantly, we have not viewed these engagements as a one-off. Meaningful change doesn't happen overnight. Indeed, it's far too early to know if our conversations with Arthur J. Gallagher have 'worked'. We will continue to explain our views to the company over the coming years, to persuade management of the importance of taking a more rounded view of what a 'responsible' tax policy is. But for us, it is worth the wait.

Effective Statutory Tax Rate of Companies in the Portfolio



Source: Bloomberg. Data as at 30 September 2019 based on a representative portfolio using individual company's previous annual report.

Responsible Consumption

The question: How can our holdings make a positive contribution to the health and wellbeing of society?

We posed this question in our inaugural Responsibility Report as it is a necessary foundation for long-term sustainable value creation. Responsible consumption was our starting point in 2019 as the portfolio features a number of leading companies in the food and beverage industry, whose products are part of the daily lives of billions of consumers.

For 2019, we set out to test the social and environmental impact of companies' product portfolios and the ambition of sustainability planning for the coming five to 10 years. During the year we engaged with Coca Cola, PepsiCo and Nestlé to address what we consider to be two of the most pressing and financially materially sustainable issues faced by consumer goods companies. The first is product nutrition, in particular the sugar content of soft drinks and its contribution to rising global obesity rates. The second is packaging waste, specifically single-use plastics and its growing impact on our environment. Together, Nestlé, PepsiCo and Coca Cola have annual sales in excess of $200 billion and a significant global impact. If consumption is to be truly sustainable, then each company must establish a business strategy that is actively and urgently addressing these key sustainability challenges. Our engagement with Coca Cola, PepsiCo and Nestlé will run for some time and we will report on our findings and any progress achieved.

Product nutrition

The link between sugar consumption and investment returns may not be immediately obvious. But for companies in the food and beverage sector, sugar-based products are facing increased regulation and, in some markets, targeted supplemental taxation as a means of tackling rising levels of adult and child obesity. But there are also emerging opportunities from changing consumer preferences towards healthy food and lifestyle options. Companies must adapt to these risks and opportunities. The outcomes, with their impact on company strategy and growth prospects, link directly to investment return prospects.

Our engagements with Nestlé, Coca Cola and PepsiCo have five key expectations linked to sugar content and product nutrition:

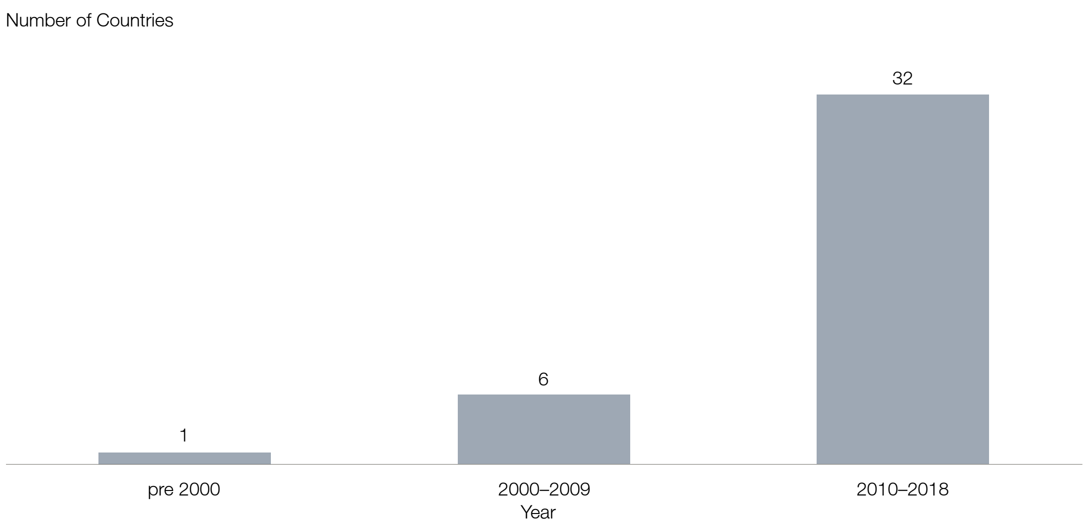
1. Companies should consider the long-term health and welfare of consumers in the formulation, labelling and marketing of food and beverage products.
2. Companies should set transparent, ambitious and measurable targets for sugar content reduction across all relevant product categories over the next five to 10 years.
3. Companies should work in cooperation with regulatory and labelling authorities to help consumers make healthier food and beverage choices.
4. Sugar reduction and reformulation strategies should be recognised by the board of directors as strategic priorities.
5. We have communicated to each company that consumer health and product nutrition considerations are key sustainability risk factors. Timely, comprehensive and, where practical, comparable reporting on these topics is critical to support long-term investment decision making.

Coca Cola is in the process of developing and selecting its sustainability priorities for the period post-2020. As part of that process, we have communicated our expectation that sugar reduction is addressed as one of the company's long-term sustainability priorities. We encouraged Coca Cola to set ambitious yet attainable sugar-reduction goals for the next five to 10 years and to report on progress as part of the annual reporting cycle. We sought – and obtained – assurance from the board of directors that sugar and product nutrition was a corporate strategic priority.

Nestlé established a group-wide policy on sugar content in its products in 2007 and is currently in the final year of its latest four-year plan to reduce added sugars in all products by an average of 5%. While we are encouraged that Nestlé recognises and is actively addressing the health-related implications of excessive sugar intake, we engaged with the company to better understand its longer-term sugar reduction ambitions. Nestlé's goal is to bring its full product portfolio in line with sugar intake guidelines set by the World Heath Association. We believe this is a credible and measurable policy objective.

Finally, PepsiCo has set a series of measurable targets for 2025 that address added sugar, sodium, saturated fat and positive nutrition improvements across its food and beverage portfolio. We have engaged with the company on the progress trajectory towards the 2025 milestones and sought assurance that the targets are factored into product development and any acquisition strategies. As with Nestlé, PepsiCo has incorporated WHO recommended daily consumption limits into its product ingredient targets. We are supportive of PepsiCo's transparent, measurable and comparable goals.

Countries Introducing a Sugar Tax



Source: Obesity evidence hub.org

Packaging waste

'Plastic waste is one of the biggest sustainability issues the world is facing today'. Mark Schneider, CEO, Nestlé.

We agree.

Plastic is an extremely useful material. It is mouldable, durable and lightweight. For food and beverage use it offers hygienic and sterile packaging that can extend product life and reduce food waste. However, plastic packaging for the consumer goods sector is often used only once. In 2018, 359 million tonnes of plastic were produced. This is approximately 47 kilogrammes per person - in the world. Furthermore, 40% of global plastics production was for packaging and 95% was single-use. It is this uncomfortable, unsustainable fact that the CEO of Nestlé is wrestling with, regulators are intervening to combat, and the wider consumer goods industry must actively address.

Our engagement with Nestlé, PepsiCo and Coca Cola on packaging waste focused on three outcomes:

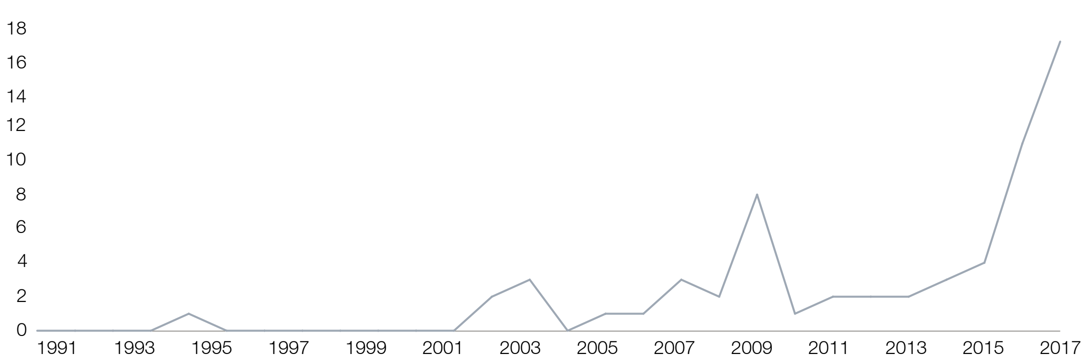
1. Is the industry committed to finding a solution to reduce, reuse and recycle 100% of its packaging? If so, by when?
2. Does each company have ambitious, measurable goals linked to single-use plastics?
3. Is each company's board of directors committed to finding sustainable solutions for packaging waste?

Our company dialogues have made a shared commitment to address the issue of packaging waste. All three companies have published medium-term goals for the re-use and recycling of plastic packaging. But a recurring issue is the need for the coordinated efforts of many stakeholder groups: producing companies, regulators, national and local governments, retailers and consumers. For example, The European Union, via the Single-use Plastics Directive adopted in May 2018, aims to make all plastic packaging recyclable by 2030. Yet, the lack of municipal infrastructure to recover used plastic is recognised to be a challenge in Europe and globally. It is our communicated expectation that Nestlé, PepsiCo and Coca Cola must actively contribute to raising national and international plastic collection rates if recycling and re-use is to be a sustainable solution to plastic waste.

A collective industry approach does appear to be emerging. One example is the Ellen MacArthur Foundation 'New Plastics Economy' initiative, which many of the leading consumer goods companies have joined, including Nestlé, PepsiCo and Coca Cola. The initiative's goals include the elimination of problematic or unnecessary plastic packaging through redesign, innovation and new delivery models, as well as for 100% of packaging to be reusable, and that all plastic packaging is reused, recycled, or composted.

We are actively encouraging our holdings to adapt to the change in stakeholder and regulatory expectations on single-use plastics. We will continue to engage with the consumer goods companies we invest in on the sustainability challenges and opportunities concerning packaging waste in 2020.

Estimated number of new regulations on single-use plastics entering at the national level worldwide



Source: UNEP (2018). Single-Use Plastics: A Roadmap for Sustainability.

Our 2020 Engagement Priorities

Climate Change

Encouraging our holdings to properly consider climate change will continue to be key focus in 2020. We will continue our engagement with some of the transportation companies in the portfolio and also broaden our engagement to include the Task Force on Climate-Related Financial Disclosures project, which seeks to understand how climate risk may be baked into certain financial sector businesses.

Data Security and Privacy

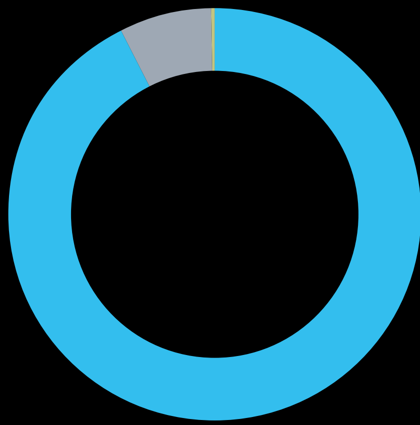
How companies protect consumers' data and protect themselves from security breaches, is important for a number of holdings across different sectors. We have seen examples of where poor governance over data security has lead to real risks. We will seek to understand where the governance around data security and privacy is strongest, and engage to encourage improvements at companies where it is less good.

Responsible Consumption

We have had useful engagements with our consumer goods holdings in 2019 around both the recycling of packaging and addressing the nutritional content of some products. We will continue to work to drive improvements here in 2020, and broaden the scope of our engagements to include a wider set of holdings.

Voting

Part of being a responsible steward of our clients' capital is exercising voting rights responsibly. We endeavour to vote all holdings globally and in 2019 voted on 841 resolutions at 60 annual and extraordinary general meetings for 56 companies held in the Fund. We did not vote at one company meeting due to market restrictions that prevent us from trading if we execute our voting rights. The chart adjacent is a summary of the proxy voting activities in respect of the Fund's holdings in 2019. The data shows that we support the majority of management resolutions. We are, after all, investing in a concentrated portfolio of companies where we know and respect the management teams, and our support for their leadership is connected with our support for their vision for these companies. Any vote against a management resolution (or for a shareholder resolution which is being opposed by management) represents the combined view of the governance and sustainability specialists and the investment managers 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.



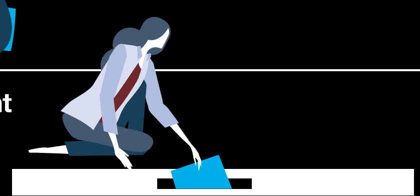
For: 94.3%

Against: 4.3%

Abstain: 1.4%

32

separate engagements with company management



841 **votes at Annual General Meetings**

793 cast in favour	12 abstentions	36 cast against

3 **engagement priorities**

Notable Votes Cast Against

ANTA Sports Products – AGM (April 2019)

We opposed two share issuance resolutions as we have concerns regarding lack of disclosure on discount levels and the potential for dilution. We do not believe these requests are in the best interests of shareholders.

Apple – Annual (March 2019)

We opposed the executive compensation policy as we do not believe the performance conditions are sufficiently stretching.

B3 S.A. – AGM (April 2019)

We opposed a proposal to confer our votes on unknown directors should the slate of directors' change. The outcome, to our satisfaction, was no change to the announced candidate list.

CH Robinson – Annual (May 2019)

We opposed the executive's remuneration as several aspects are not in line with best practice. We will engage with the company ahead of its next remuneration policy change.

Edenred – MIX (May 2019)

We have opposed the remuneration policy due to continued concerns about the stringency of the remuneration policy and its alignment with shareholders.

Johnson & Johnson – Annual (April 2019)

We opposed the executive compensation policy as we do not believe the performance conditions are sufficiently stretching.

Kering – MIX (April 2019)

We opposed three resolutions regarding remuneration due to concerns regarding pay and performance. We have been engaging with the company and have seen some progress which led us to support a separate resolution on pay.

Nestlé – AGM (April 2019)

We opposed two resolutions which relate to executive remuneration as we do not feel the targets attached to the Long-Term Incentive Plan are sufficiently stringent or aligned with shareholders best interests. We will engage with the company as it formulates its next remuneration policy.

Pepsico – Annual (May 2019)

We opposed the executive compensation policy as we do not believe the performance conditions are sufficiently stretching.

Total – OGM (May 2019)

We opposed two resolutions relating to remuneration as we have concerns regarding the current structure of the Long-Term Incentive Plan. We will incorporate these objections into our engagement with the company.

Want Want China – AGM (August 2019)

We opposed the election of two members of the compensation committee due to concerns with a discretionary bonus paid to the Chief Executive Officer.

Low Carbon Footprint

The Responsible Global Equity Income Fund has a carbon footprint and level of carbon intensity which is materially lower than that of the global equity index.

In Paris in 2015,
195
countries
committed to make efforts to limit the increase in global average temperature to 2ºC, but ideally 1.5ºC

For every £1m invested in the Responsible Global Equity Income Fund,
30.8 tCO_2e
is emitted by the portfolio holdings

This is in comparison to
170.2 tCO_2e
if the same amount was invested in a benchmark tracker

Therefore, a £1m investment in the Responsible Global Equity Income Fund has a carbon footprint akin to —

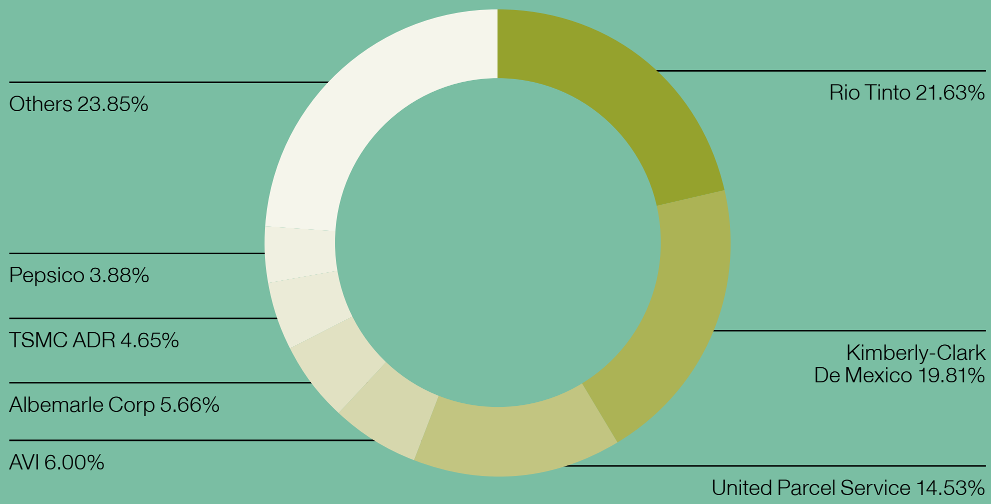
5.9 passenger vehicles driven for one year

3.2 average UK homes energy use in a year

64.7 barrels of oil consumed

Investing £1m in the Responsible Global Equity Income Fund rather than an index tracker is equivalent of taking almost 28 average passenger vehicles off the road

As at 31 December 2019.



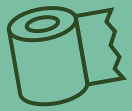
Largest Contributors to Carbon in the Portfolio

Portfolio carbon intensity
79.7 tCO_2e

Benchmark carbon intensity
257.7 tCO_2e

1. Rio Tinto
980.3 tCO_2e

2. Kimberly-Clark De Mexico
484.3 tCO_2e



3. United Parcel Service
245.9 tCO_2e

The largest contributors to carbon intensity of the Responsible Global Equity Income Fund during 2019

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