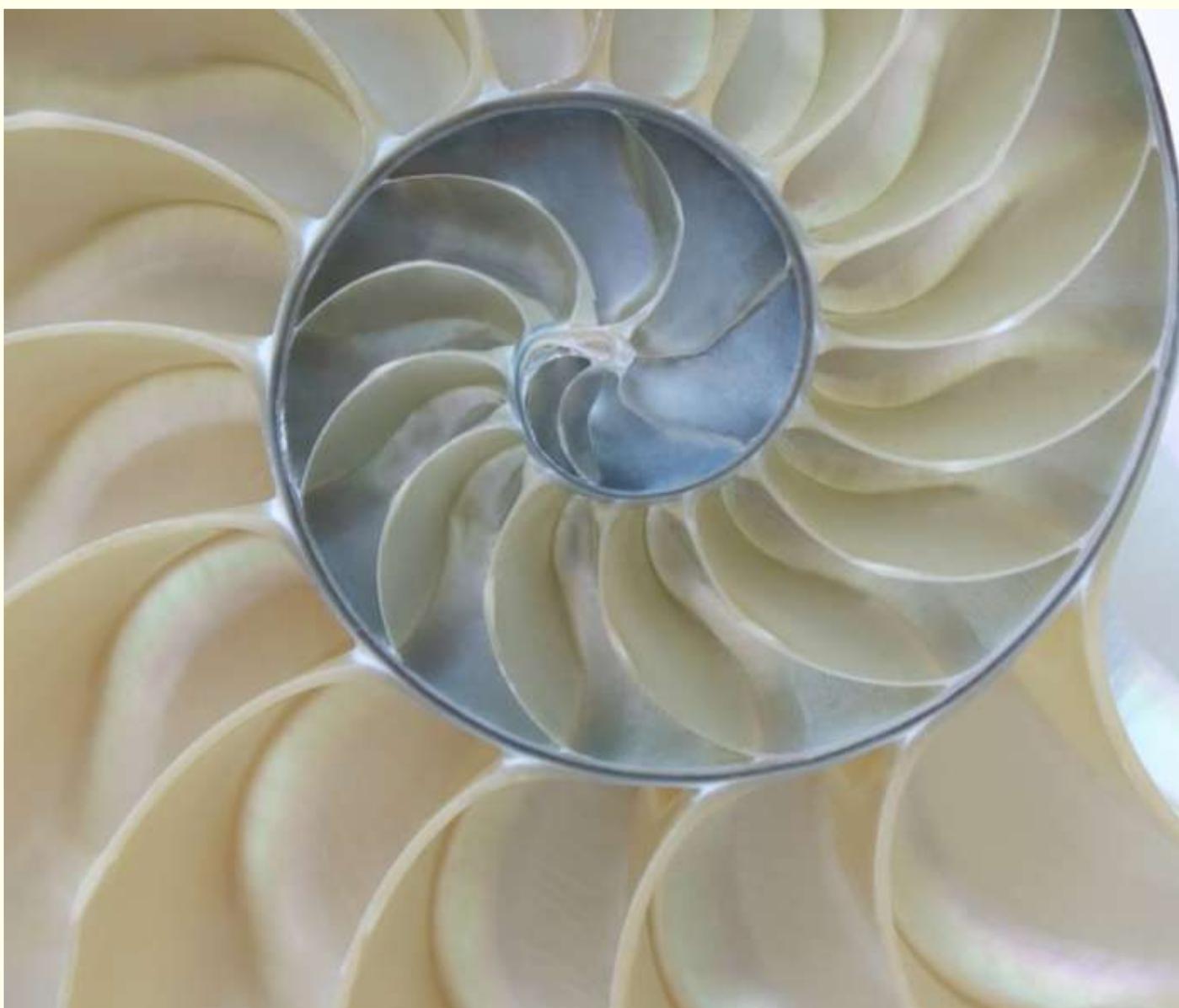


# **BAILLIE GIFFORD**

London Borough of Tower Hamlets Pension Fund

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Report for the quarter ended  
31 December 2014



## Contents

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01	Summary
02	Commentary
04	Statistics Summary
05	Market Background
06	Performance
08	Portfolio Overview
09	Transactions
11	Portfolio Characteristics
12	List of Holdings
14	Governance
21	Trading
25	Valuation
26	Fund Reconciliation

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## Online Reporting

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You can access all your reports and other up-to-date portfolio information via our secure client extranet site  
<https://clients.bailliegifford.com>

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© iStockphoto.com/marygrekos  
Cross Section detail of a Nautilus Shell.

Performance to 31 December (%)

	Fund Gross	Fund Net	Benchmark
Since Inception* (Cumulative)		84.6	59.9
Since Inception* (p.a.)	9.0	8.5	6.5
Five Years (p.a.)	13.4	12.9	10.5
One Year	11.7	11.2	11.2
Quarter	6.6	6.5	4.5

\*05 July 2007  
 Net performance now calculated using the client's own fee schedule  
 Source: StatPro

The plummeting oil price caught the headlines with Russia being the highest profile casualty. For many companies lower energy costs should be beneficial

A planned research focus during the year was on Japan, visits by our investors have led to initial purchases of two interesting companies

We will continue to concentrate on company fundamentals which remain good for most of the companies in your portfolio



Valuation (after net flow of GBP 107,173)



A violent plunge in the oil price was caused by OPEC’s late-November meeting when the cartel of oil producing nations failed to cut production targets. This, and the flood of US shale, led to an imbalance of supply and demand and the oil price lurched sharply downward. Brent finished the year at \$56, a drop of \$39 on the level at the start of October. The negative ramifications are being felt most acutely in Russia, the economy of which remains precariously reliant upon its oil and gas exports. A leap in interest rates to 17% failed to shore up the crumbling ruble; these rates of interest were last seen in 1998, when the Russian government defaulted on its debt. On the positive side, the precipitous fall in the oil price is estimated to represent at least 0.5% boost to global GDP in 2015.



By comparison to the gyrations in the energy market, the stumbling recovery in Europe, another Japanese recession and robust job growth in the US seem mundane. The global index fell sharply early in the quarter, recovered and then stepped back before recovering once more as volatility, as measured by the VIX index, rose to levels last seen in late 2012.

**Portfolio positioning**

Whilst Russia was capturing the world’s attention, we stuck to the path laid out in our 2014 Research Agenda. Part of our research effort was focused on Japan and, with this front of mind, both Malcolm (in August) and Charles (in November) headed east.

Japan is highly indebted, bureaucratic, nepotistic, unwilling to embrace new ideas and heavily reliant on an ageing customer base. In addition, it has had six different leaders in seven years. It is ripe for change. Prime Minister Abe’s three arrows are starting to change behaviour, and his decision to call a snap general election, which subsequently saw him returned to power with a landslide victory, will give him a whole term to complete his reforms.



His first arrow, currency devaluation, has seen Japanese exports become more than 20% cheaper in euros and nearly 30% cheaper in US dollars and Chinese yuan. His second, a more flexible fiscal policy, has had mixed results thus far though we see a US\$80 billion (or 2% of GDP) infrastructure stimulus as very promising.

The consensus remains sceptical of Abe’s policies, notably the third arrow – Reform. Following our visits we are inclined to take a different view and we have an increasing belief in the reform agenda which we think will help both traditional Japanese companies, and those who are prospering by rejecting the norms of Japanese orthodox corporate culture.

We are excited to have unearthed one of Japan’s leading disruptors, CyberAgent. In 1998, a year after graduating from Aoyama Gakuin University, Susumu Fujita founded what was to become CyberAgent in which we have just taken a holding for your portfolio. Mr. Fujita rejected the norms of Japanese business, noting he didn’t “want to become a salaryman<sup>1</sup>”. Two years later, aged 26, he became the youngest President of a company listed on the Mothers TSE index. CyberAgent proves what the world often forgets, that Japan still has a kernel of highly entrepreneurial businesses. Its largest business unit is now the leading digital advertising agency in Japan, having successfully fought off traditional advertising incumbents such as Dentsu.

CyberAgent combines a strong core franchise and a culture that supports the development of new businesses. In addition to the digital advertising business, its companies encompass a blogging platform and social gaming. On top of this, it has a venture capital unit with a portfolio of dynamic early stage technology companies in Japan, other parts of Asia and the US. We have invested previously in companies with an entrepreneurial culture that are willing to direct resources into new start ups – our successful investment in Naspers being the prime example with its online investments, and Schibsted which we hope may follow suit with its own e-commerce businesses.

<sup>1</sup> <http://info.japantimes.co.jp/info/100-next-era-ceos/2010/contents/093.html>

If CyberAgent represents the new Japan, then MS&AD represents the old. Having previously owned this insurance company (formerly known as Mitsui Sumitomo Insurance), we decided to re-initiate a position towards the end of the quarter. MS&AD should benefit from Japanese reform in two ways. It has its own self help plans – improving underwriting profits through a re-pricing of policies, and increasing overseas earnings through organic growth. It can also benefit from reform by proxy, through its ownership of Japanese equities within its insurance portfolio as traditional companies sharpen their focus on shareholder value. Some of its larger holdings include Toyota, Honda, Panasonic, and Sharp.

Maintaining this theme of ‘change’, we have purchased another reforming company in Fiat Chrysler Automobiles which has ambitious plans to grow through leading automotive brands such as Maserati, Jeep, Chrysler and Alfa Romeo. Evidence of the appetite for change occurred shortly after our initial investment when the group announced it would spin off its premier marque, Ferrari, to shareholders. We also bought Monsanto, the global leader in seeds, plant biotechnology and crop protection, the future of which is less dependent on US corn than its past. We think that Monsanto can enjoy profitable growth from Intacta (a soybean product which meets Latin American climatic and insect conditions), and Precision Agriculture (supplying micro climate data to farmers) which we think could be the next leg in agricultural productivity.

As well as the new purchases highlighted above, we added to your position in TripAdvisor which continues to grow quickly in its chosen market of online travel and experience recommendations.

We sold three long-term holdings from your portfolio to fund these purchases. The shares of China Mobile have enjoyed a re-rating this year but we think the longer-term prospects are increasingly dull. We have owned Investor since the fund’s inception in 2005. Whilst the guiding hand of the Wallenberg family is still firmly on the tiller of this Swedish holding company, the discount to net asset value has narrowed and we have become increasingly underwhelmed by some of its largest holdings (such as SEB, AstraZeneca, Ericsson and Electrolux). We also sold New York Community Bank, whose performance has been lacklustre in the past few years. We hoped it would regain market share in its core business of rent-regulated, multi-family housing units in metropolitan New York and that net interest margins would recover. However, neither scenario has played out as we would have hoped and the company’s earnings power has not recovered substantially.



In 2014, Global Alpha’s portfolio turnover has remained low and for the sixth year in a row it has been below the long-term average of 20%.

### Outlook

In the early days of the quarter, when markets were once again under stress, we were continuing to find that the majority of the companies we own on your behalf were still reporting strong growth and many were seeing earnings upgrades just as share prices were falling sharply.

Equities are a high volatility asset class, and markets are not always logical so it is reasonable to conclude that, looking forward to 2015, there will be further periods when fundamentals and share prices become disconnected. Short-term or even inconsequential news flow will inevitably be extrapolated and exaggerated by Mr. Market. Guarding against this myopic short-termism, our job is to closely monitor the fundamentals of the businesses we own on your behalf, and keep a check on the progress they are making towards the goals we think they can achieve.

In a few weeks time we will share with you our 2015 Research Agenda. We have used the preceding agendas successfully over the past three years to drive forward our efforts to unearth some exciting new growth ideas. Our optimism can usually be measured by how many new stocks are emerging for consideration, and there has been an uptick in this metric in recent months. The headlines will once again be filled with seemingly important macro-economic news, but we think that long-term corporate value lies in fundamentals. It is our adherence to this philosophy that gives us confidence that we can continue to deliver very worthwhile active equity returns.

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## Product Overview

Baillie Gifford is primarily a bottom-up, active investor, seeking to invest in companies that it believes enjoy sustainable competitive advantages in their industries and which will grow earnings faster than the market average. This is based on our belief that share prices ultimately follow earnings. The aim of the Global Alpha investment process is to produce above average long term performance by picking the best growth stocks available around the world by combining the specialised knowledge of Baillie Gifford's investment teams with the experience of some of our most senior investors.

## Risk Analysis

Key Statistics	
Number of Holdings	99
Number of Countries	25
Number of Sectors	8
Number of Industries	40
Active Share	92%
Rolling One Year Turnover	15%

## Top Ten Holdings

Asset Name	% of Portfolio
Royal Caribbean Cruises	4.1
Prudential	3.4
Naspers	3.4
TSMC ADR	2.3
Ryanair	2.2
TD Ameritrade Holding Corp	2.1
Roche	2.1
Anthem Inc	1.9
Moody's	1.8
Amazon.com	1.8

## New Purchases During Quarter

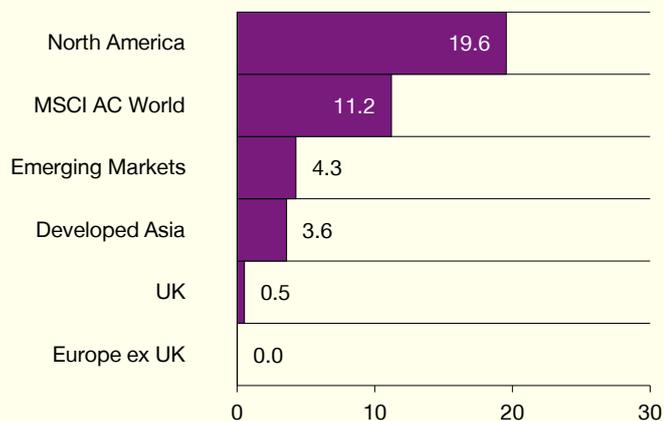
Asset Name
CyberAgent Inc
Fiat Chrysler Automobiles
Leucadia National
Monsanto Company

## Complete Sales During Quarter

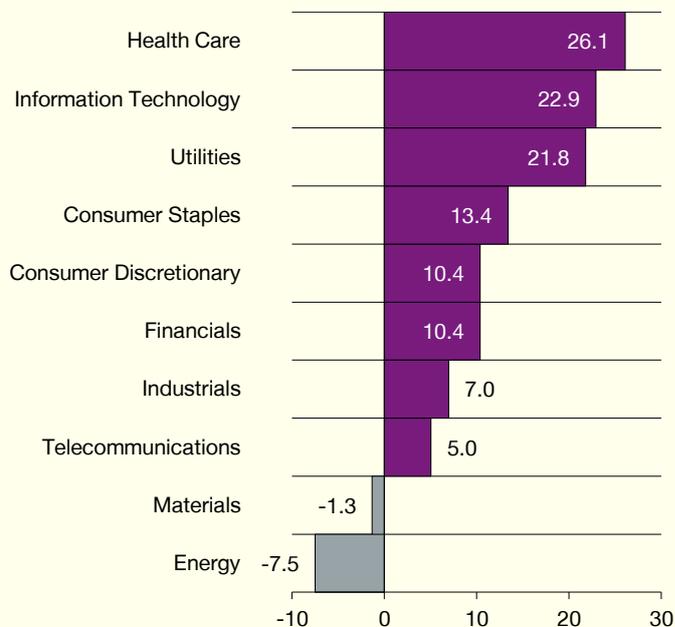
Asset Name
China Mobile (Hong Kong)
Investor B
Namco Bandai Holding
New York Community Bancorp

Index Information

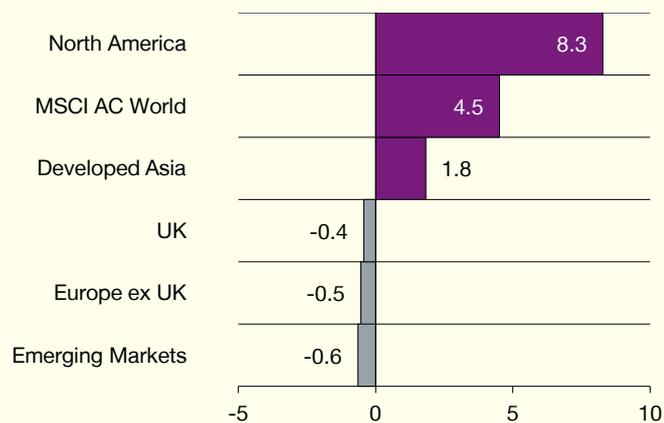
Regional Returns Over One Year (%)



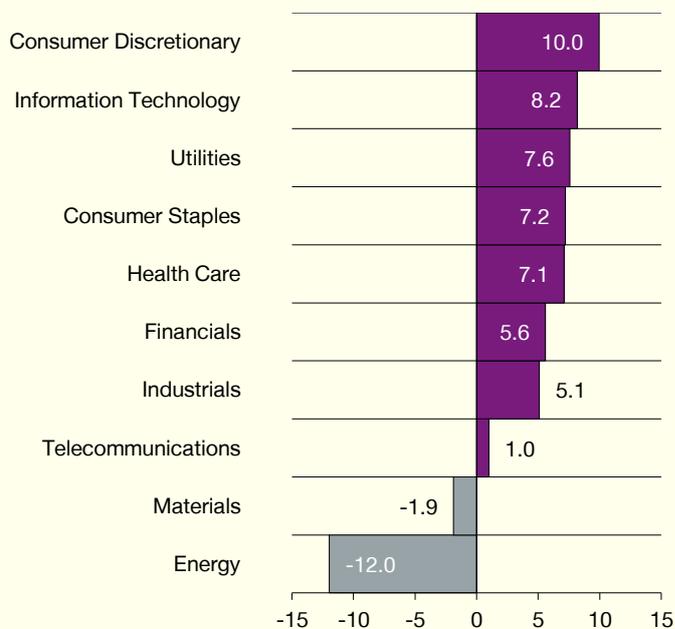
Sector Returns Over One Year (%)



Regional Returns During Quarter (%)



Sector Returns During Quarter (%)



% Change in GBP  
Source: Baillie Gifford

Performance Objective

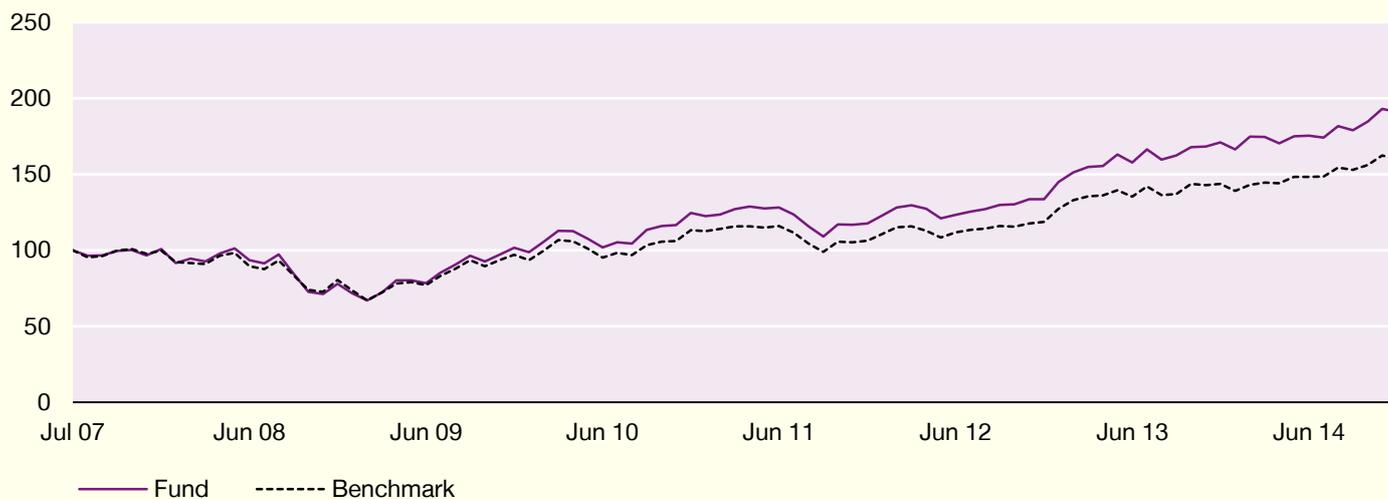
To outperform the MSCI AC World Index by 2.0 - 3.0% per annum (gross) over rolling five year periods.

Relative Performance

This table indicates the performance of the portfolio relative to the benchmark before fees.

	Fund (%)	Benchmark (%)	Difference (%)
Since Inception* (Cumulative)	90.9	59.9	31.0
Since Inception* (p.a.)	9.0	6.5	2.5
Five Years (p.a.)	13.4	10.5	2.9
One Year	11.7	11.2	0.4
Quarter	6.6	4.5	2.1

Returns Since Inception\*



\*05 July 2007  
Source: StatPro

## Stock Level Attribution

## Top and Bottom Ten Contributors to Relative Performance

## Since Inception\* to 31 December 2014

Asset Name	Contribution (%)
Naspers	3.6
Royal Caribbean Cruises	2.1
Schindler	1.8
Prudential	1.5
Amazon.com	1.4
Richemont	1.4
Tesla Motors	1.3
Genentech	1.3
Svenska Handelsbanken	1.3
Baidu.com ADR	1.2
Apple	-1.5
OGX Petroleo E Gas Participa	-1.0
Q-Cells	-1.0
Celesio AG	-0.9
Ultra Petroleum Corp	-0.8
Coca Cola HBC (CDI)	-0.7
Northern Rock	-0.7
Man Group	-0.7
Johnson & Johnson	-0.7
Yamaha Motor	-0.6

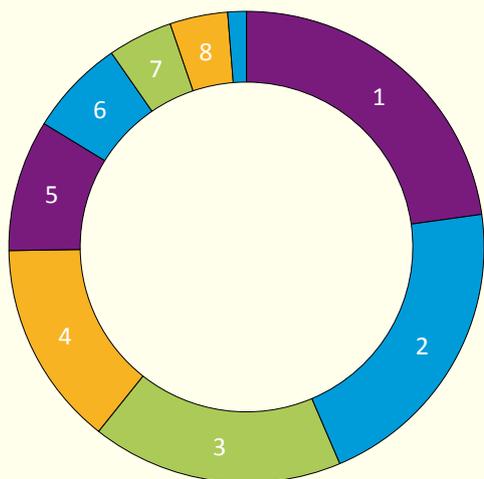
## One Year to 31 December 2014

Asset Name	Contribution (%)
Royal Caribbean Cruises	1.7
Naspers	0.5
Ryanair	0.5
ICICI Bank	0.4
Wellpoint	0.4
CarMax Inc	0.4
Tesla Motors	0.3
Moody's	0.3
TSMC	0.3
Baidu.com ADR	0.3
Rolls-Royce	-0.6
Ultra Petroleum Corp	-0.5
Coca Cola HBC (CDI)	-0.5
Apple	-0.5
Amazon.com	-0.4
Sberbank	-0.4
Carlsberg	-0.3
China Resources Enterprise	-0.3
Mindray Medical International	-0.3
Dia	-0.2

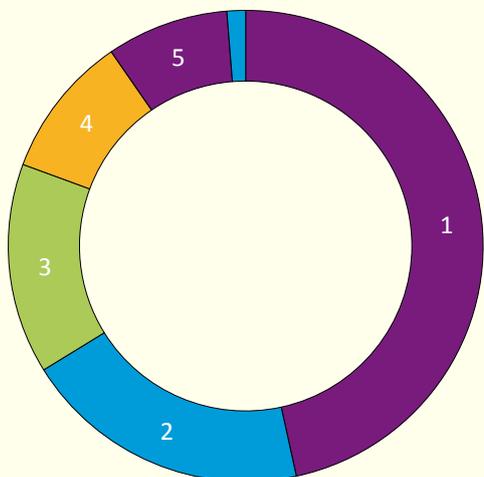
\*05 July 2007  
Source: StatPro

Top Ten Holdings

Asset Name	Description of Business	% of Portfolio
Royal Caribbean Cruises	Global cruise company	4.1
Prudential	Life insurer	3.4
Naspers	Media and e-commerce company	3.4
TSMC ADR	Semiconductor manufacturer	2.3
Ryanair	Irish based low cost airline	2.2
TD Ameritrade Holding Corp	Online brokerage firm	2.1
Roche	Pharmaceuticals	2.1
Anthem Inc	Healthcare insurer	1.9
Moody's	Credit rating agency	1.8
Amazon.com	Online retailer	1.8
<b>Total</b>		<b>25.1</b>



Sector Weights	(%)
1 Financials	22.8
2 Information Technology	20.8
3 Consumer Discretionary	17.1
4 Industrials	14.1
5 Health Care	9.0
6 Consumer Staples	6.6
7 Energy	4.4
8 Materials	3.9
9 Cash	1.3
<b>Total</b>	<b>100.0</b>



Regional Weights	(%)
1 North America	46.6
2 Europe (ex UK)	19.6
3 Emerging Markets	14.4
4 Developed Asia Pacific	9.8
5 UK	8.3
6 Cash and Deposits	1.3
<b>Total</b>	<b>100.0</b>

## New Purchases

Stock Name	Transaction Rationale
CyberAgent Inc	CyberAgent is an internet holding company with exposure to internet advertising, online gaming and social media. The company is benefitting from a shift in advertising budgets online, and has built a particularly strong position in mobile. We like the company's dynamic, entrepreneurial culture and believe that it has the potential to emerge as a major force in the Japanese internet landscape.
Fiat Chrysler Automobiles	Fiat Chrysler owns a portfolio of brands, including some undervalued gems. There is a significant opportunity to increase volumes at the likes of Jeep and Maserati, and a strategy to revive the Alfa Romeo brand. We are also intrigued by the industrial improvements underway at Chrysler, and while we are under no illusions about the challenges facing the US auto industry, the advances taking place here could also lead to a material improvement in the company's performance. Supporting both these trends is our confidence in the abilities of CEO Sergio Marchionne and Chairman John Elkann, who together are driving a deep organisational and cultural change through the entire company.
Leucadia National	Leucadia is an investment holding company which owns the investment bank Jefferies. This company offers the potential combination of an undervalued investment capability (at a big discount to the underlying Net Asset Value) with an under-earning investment bank that has been investing counter-cyclically as others retreat. We have purchased a new holding for your portfolio.
Monsanto Company	Monsanto is the leading producer of genetically modified (GM) seeds with the largest research and development budget in the industry. Its products allow higher crop production at lower unit cost and we expect Monsanto's business to continue to grow rapidly as more farmers plant GM seeds and as the company introduces higher priced seeds with additional modifications. It should be a long-run beneficiary of the need to provide more food globally whilst controlling agricultural inflation.

## Complete Sales

Stock Name	Transaction Rationale
China Mobile (Hong Kong)	China Mobile is the largest mobile phone company in China. The factors behind the investment case included subscriber growth via a more level playing field for China Mobile as the industry shifted to 4G technology (after the company was disadvantaged in 3G) and the growth opportunity in data. However, voice revenues have been hit hard by the rapid progress of OTT (over-the-top) services which bypass mobile operators; this is a threat that we had underestimated. In addition, the latest acquisition, of a stake in the third player in the Thai mobile market, brings into question the true value of the sizeable cash pile.
Investor B	We have sold your holding in Investor following a period of good performance that saw the discount to Net Asset Value diminish. The underlying holdings still promise to compound net asset growth, but with the discount narrowed the upside is reduced.
Namco Bandai Holding	Namco Bandai makes toys and computer games. The company has taken advantage of its strong library of content to grow its earnings and cash flows over the last few years and the share price has responded positively. While we still admire the underlying strengths of this company we no longer believe that we have a significantly differentiated view from the market on the future potential for value creation at Namco Bandai and we have therefore sold the holding.
New York Community Bancorp	New York Community Bancorp is a bank which specialises in lending to the owners of rent-stabilised apartment buildings in metropolitan New York. Despite impressive through-cycle asset quality, the opportunity to grow its high-quality loan book has not materialised to the degree we expected, as competitors have not exited the market. The company has consequently paid out a greater proportion of its earnings, lowering growth expectations. We have sold your holding.

Portfolio Characteristics

Key Statistics

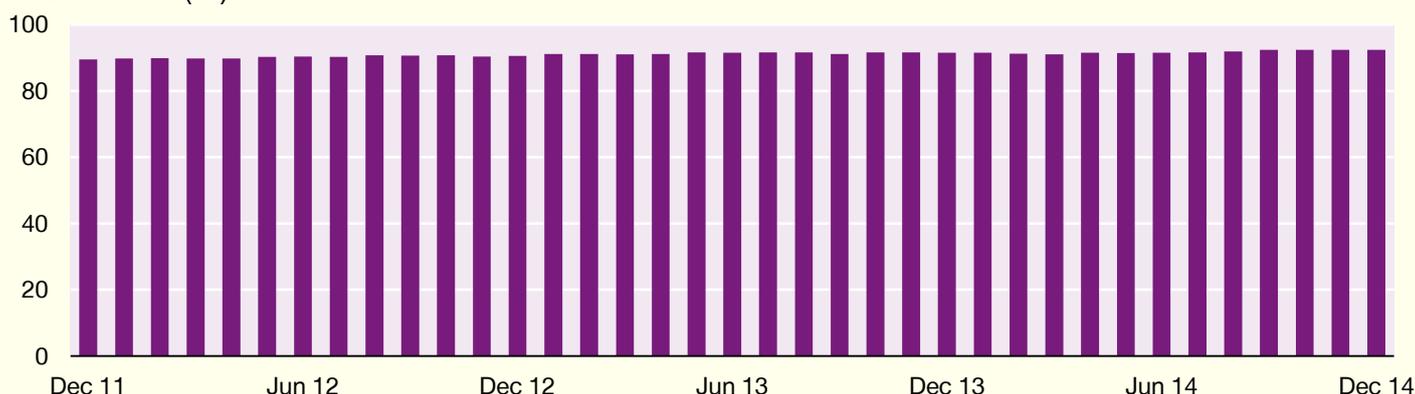
Number of Holdings	99
Number of Countries	25
Number of Sectors	8
Number of Industries	40
Active Share	92%
Rolling One Year Turnover	15%

Your portfolio is diversified in terms of number of holdings, sectors and industries. Bottom-up stock specific risk is the main source of total active risk in your portfolio

Overweight positioning in semiconductor companies comprises one of the largest active positions at the industry level. Your portfolio continues to exhibit a bias away from traditionally defensive sectors such as telecommunications and utilities

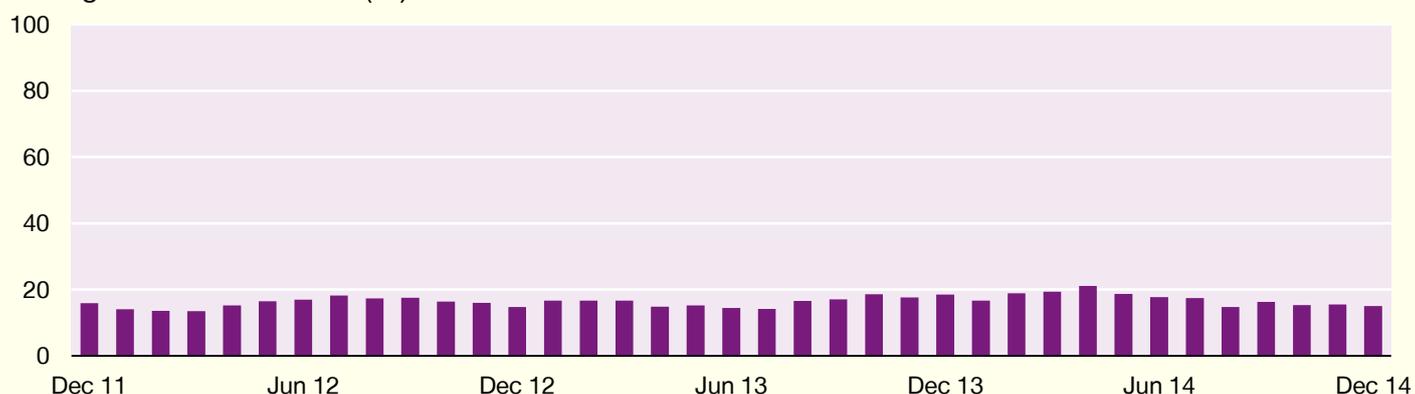
High active share and low turnover are consistent features in your portfolio and underpin our active stock-picking approach and long-term investment horizons

Active Share (%)



Active Share – This is a measure of how actively managed a portfolio is. “Active Share” ranges from 0% to 100%. If the fund is exactly in line with the benchmark then “Active Share” will be 0%. If the fund has no commonality with the benchmark then “Active Share” will be 100%. Active Share is calculated by taking 100 minus “Common Money” (the % of the portfolio that overlaps with the index). For the calculation of “Common Money”, for each stock the smaller of either the portfolio or benchmark weight is taken, and these numbers are then summed.

Rolling One Year Turnover (%)



Rolling One Year Turnover is calculated as the lesser of the sum of all purchases and the sum of all sales in each month divided by the month end market value, summed over 12 months. Turnover is a measure of average investment horizon, the lower the turnover the longer the average investment horizon.

## List of Holdings

Report for the quarter ended 31 December 2014 12

Asset Name	Fund %
<b>Equities</b>	
Royal Caribbean Cruises	4.13
Prudential	3.39
Naspers	3.37
TSMC ADR	2.32
Ryanair	2.18
TD Ameritrade Holding Corp	2.09
Roche	2.08
Anthem Inc	1.88
Moody's	1.83
Amazon.com	1.82
Google Inc Class C	1.79
Nestle	1.76
AIA Group	1.62
Markel	1.58
M&T Bank	1.57
Samsung Elec. Common GDR Reg S	1.57
Baidu.com ADR	1.57
Harley-Davidson	1.53
First Republic Bank	1.53
CarMax	1.51
EOG Resources	1.40
Wolseley	1.34
Svenska Handelsbanken	1.32
eBay	1.30
Visa Inc-Class A Shares	1.24
Schibsted	1.23
Mastercard	1.23
FLIR Systems	1.17
ICICI Bank Ltd	1.14
Tokyo Electron	1.14
Atlas Copco B	1.11
Dolby Laboratories	1.09
Schindler	1.08
Colgate-Palmolive	1.07
Waters	1.04
Fairfax Financial NYC	1.04
Monsanto	1.04
INPEX	1.02
Myriad Genetics Inc	1.00
Rolls-Royce	0.99
Lincoln Electric Hdq.	0.98
Bank of Ireland	0.96

Asset Name	Fund %
American Express	0.96
SMC	0.93
Teradyne	0.92
Qualcomm	0.92
Brambles	0.89
SAP	0.87
Bunzl	0.87
Martin Marietta Materials	0.85
Xilinx	0.85
THK	0.84
Tesla Motors	0.83
Praxair	0.80
DistributionNOW	0.79
CRH	0.79
Jardine Matheson	0.79
Coca Cola HBC (CDI)	0.79
Richemont	0.76
Carlsberg	0.73
Mindray Medical International ADR	0.73
Olympus	0.72
TripAdvisor	0.69
Dia	0.68
Ultra Petroleum	0.66
Rohm	0.64
Deutsche Boerse	0.64
British American Tobacco	0.63
Fiat Chrysler Automobiles	0.60
Hays	0.59
Ritchie Bros Auctioneers (USA)	0.59
Volvo	0.57
Alibaba Group Holding Ltd	0.57
Facebook	0.54
Jyske Bank	0.52
China Resources Enterprise	0.51
Leucadia National	0.50
SK Hynix Inc	0.49
Qiagen	0.48
CyberAgent Inc	0.47
Norsk Hydro	0.46
Seattle Genetics	0.46
Tsingtao Brewery 'H'	0.45
Japan Exchange Group	0.44
BM&F Bovespa	0.43

## List of Holdings

Report for the quarter ended 31 December 2014 13

Asset Name	Fund %
Howard Hughes	0.41
Teradata	0.38
Dragon Oil	0.33
Shandong Weigao	0.33
Intuitive Surgical	0.30
MS&AD Insurance	0.30
Aggreko	0.29
Sberbank Spon ADR	0.25
Tullow Oil	0.20
Twitter Inc	0.19
Arcos Dorados	0.19
Bank Negara Indonesia	0.19
Financial Engines	0.09
Rolls Royce C Preference	0.01
<b>Total Equities</b>	<b>98.73</b>
<b>Total Cash and Deposits</b>	<b>1.27</b>
<b>Total Fund</b>	<b>100.00</b>

**Voting Activity**

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	9	Companies	1	Companies	None
Resolutions	68	Resolutions	1	Resolutions	None

Climate change is a topic we have thought about frequently over the past ten years. It has been difficult to analyse a company's exposure to climate change risk with any degree of conviction. We are a partner in the Mercer Climate Change and Strategic Asset Allocation Study

Supply chain management for the garment industry is complicated, with many competing priorities

Historically, there has been limited access for non-domestic investors to companies listed only on mainland Chinese stock exchanges. This is beginning to change with the opening up of the A-share market via the Hong Kong-Shanghai Stock Connect project

**Company Engagement**

Engagement Type	Company
Corporate Governance	CyberAgent Inc, DIA, Shandong Weigao Group Medical 'H'
AGM or EGM Proposals	CyberAgent Inc, Mindray Medical International Limited, Myriad Genetics Inc, Ryanair Holdings PLC, Tesla Motors, Wolseley PLC
Executive Remuneration	Prudential, Tesla Motors

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

As we have mentioned in previous letters, when incorporating Environmental, Social and Governance (ESG) factors into our investment process we have had considerable focus on the ‘G’ of the term ESG over the past few years. This is understandable, and logical even. Governance is about people, relationships, values, and incentives, and these factors guide corporate attitudes and activities, including social and environmental performance. All of these governance factors will influence the long-term returns of the companies we invest in for our clients.

The difficulty with environmental and social indicators is that they are less clear cut, and are often more relevant to sectors and countries than to individual companies. So, what is interesting and helpful for us, as bottom-up stock-pickers, is to understand how each company is responding to the broader risks and opportunities from a reputational and business operation



perspective.

Two significant ‘E’ and ‘S’ projects we are currently working on are climate change and garment supply chains. This is not an easy task because these are complex issues; the more time that is spent understanding the issues, the bigger the challenge seems to be.

**Environment – climate change**

Climate change is a topic we have thought about frequently over the past ten years, and it is an area where we are seeing an increasing amount of interest from our clients. It has been difficult to analyse a company’s exposure to climate change risk with any degree of conviction beyond saying ‘oil is more carbon intensive than gas; energy efficiency is a positive idea; and adaptation, remediation and mitigation technologies should be long-term winners’. We have carried out portfolio reviews and looked at renewable energy companies, but there remains a hurdle to answering the ‘so what?’ question. Many factors interlink to create this uncertainty; lack of regulation, the very low carbon price where one exists; timeframes (climate is a very long-term issue); the inconsistency of subsidies, and the many difficulties in accurately estimating an individual company’s carbon footprint. But a shoulder shrugging ‘it’s difficult’ is obviously not a satisfactory answer.

To introduce a different perspective, we are participating in the Mercer Climate Change project. This is a global project involving a number of asset owners together with some investment managers. The report, which examines the potential implications for investors under various climate change scenarios, is expected in the first half of 2015. We hope it will increase knowledge levels, challenge accepted assumptions, and raise the baseline for continued thinking on this topic and for debate with investors and our clients. One of the first insights is that it is an even longer-term issue than one might believe. Climate change happens over hundreds of years. Even though we think we are adopting a long-term view in looking for companies we can hold for ten or even 20 or 30 years, climate change models are looking at 300 years. So, long-term investing and climate aren’t easy companions. What is clear though is that the volatility in weather patterns is increasing, and so companies should be looking to be energy efficient and able to adapt to increases in weather volatility.



### **Social – supply chain management for the garment industry**

A number of our strategies have holdings in companies which are involved in the garment industry. Sitting behind a desk in Edinburgh is a very comfortable place to be when analysing garment companies and assessing their approaches to working conditions, pay scales, what the correct minimum age for employees is and whether subcontracting to an unaudited supplier factory is acceptable or not. Companies' sustainability reports tend to describe the issues in black and white terms with a list of actions that are unacceptable and others that require improvement and monitoring. In reality, it is not that simple. And the challenge does not lie simply with the retail companies' policies or the factory owners; order volumes are instantly reduced if there is a contraction of the European or US economies, for example. A member of the Corporate Governance team visited Bangladesh and Myanmar to learn about the realities of the challenges, what responsibilities lie with the brands themselves, the factories and with us. The 2014/15 Governance Review (published in the second quarter of this year) will include a more detailed review of the trip and summarise the insights that we will be applying to our research of existing and potential holdings in the garment industry.

### **Governance – China 'A' shares**

We realise that the evolving opportunities for investment in China are of interest to clients, regardless of whether their portfolio has direct exposure to the region. Historically, there has been limited access for non-

domestic investors to companies listed only on mainland Chinese stock exchanges. This is beginning to change with the opening up of the A-share market via the Hong Kong-Shanghai Stock Connect project, which will significantly increase the number of investible companies for foreign investors. In conjunction with greater research efforts from our equity teams, we are increasing our focus on what arguably is one of the more inefficient markets that we will be able to invest in for our clients. Indeed, given the inefficiencies, China could be very rewarding for investors, such as Baillie Gifford, who have rigorous bottom-up research processes, and lead to significant opportunities for clients. However, opportunity comes with its own challenges. Information is limited in inefficient markets, bribery and corruption is a visible risk in the country, and the prospect of inaccurate, exaggerated disclosures from companies exists. The regulators have good laws but enforcement is often half-hearted, albeit this is improving. Assessments of governance structures, management quality and motivations are therefore a key component of the investment research for this market. This is something the investment and Corporate Governance teams look forward to cooperating on as opportunities for investment become available.

These three topics are increasingly relevant to listed companies, regardless of where they are listed or the sector in which they operate. Climate change is a global issue, every company has a supply chain in some form and China is an increasingly important market for investors and investee companies.

Company	Engagement Report
CyberAgent Inc	<p>CyberAgent is a Japanese corporation that invests in companies with internet-related business in the advertising and gaming sector. We had a call with investor relations to discuss the company's approach to governance. In line with changes in the governance landscape in Japan, CyberAgent is keen to improve its practices as part of supporting its long-term performance. Accordingly, the company recently removed its poison pill and is recruiting an independent outside director. We also discussed changes to the compensation policy and how the company structures incentives for its employees. This was an informative call which we will look to build upon in the future.</p>
DIA	<p>Dia is a Spanish-listed hard discount retailer. We had a video conference call with the chairwoman and chief operating officer to discuss governance issues, find out more about the company's long-term strategy and build on the relationship we have established with Dia. We discussed a wide range of issues which included: board composition, remuneration, the company's franchise model and the board's long-term focus. Through engaging with the chairwoman we were able to find out more about the board's views on these issues which we found insightful and helpful. We are following up our engagement by meeting the head of the remuneration committee and we will be meeting the CEO in the first half of next year as part of the company's investor roadshow.</p>
Tesla Motors	<p>Tesla Motors designs, manufactures, and sells high-performance electric vehicles and electric vehicle powertrain components. We abstained on the executives' compensation at the 2014 AGM due to the stock option plan allowing the company to reprice previous awards which had suffered because of a falling share price. Although this is not the case with outstanding awards, and the company has never used this provision, we do not believe it is aligned with shareholders' best interests and therefore we communicated our concerns to the company. We were pleased that the company contacted us to explain its decision to remove the repricing provision from the stock option plan, as well as outlining other improvements to its governance and compensation policies. Tesla's willingness to engage with its shareholders on these issues is encouraging.</p>

**Votes Cast in Favour**

Companies	Voting Rationale
Anthem Inc, Brambles, Hays, ICICI Bank Ltd, Mindray Medical International ADR, Myriad Genetics Inc, Ryanair, Shandong Weigao, Wolseley	We voted in favour of routine proposals at the aforementioned meeting(s).

**Votes Cast Against**

Companies	Voting Rationale
Wolseley	We opposed the proposal that gave the company the right to issue up to two-thirds of its issued share capital via a rights issue under Section 551 of the Companies Act 2006. We do not believe that it is in our clients' best interests to forego the right to vote on a large rights issue at an EGM.

**Votes Abstained**

We did not abstain on any resolutions during the period.

**Votes Withheld**

We did not withhold on any resolutions during the period.

**Correction**

Companies	Rationale
Bank Negara	At Bank Negara's AGM on 1 April 2014 we intended to oppose two management resolutions which proposed amending the Articles of Association and to change the bank's management structure. Our intention to vote against both of these proposals was due to a lack of disclosure regarding the specific changes. However, owing to an administrative error we supported the amendments to the Articles, whilst opposing the change in the management structure. We have advised the company of the error. We have subsequently introduced a new proxy voting system which has increased functionality and should minimise the potential for future mistakes.

	Proceeds (GBP)	Book Cost (GBP)	Profit/Loss (GBP)
Total Purchases		107,173	
Accrued Interest		0	
		107,173	
Total Sales	0	0	0
Accrued Interest	0		
	0	0	0
Total Net Investment/Disinvestment			107,173
Net Accrued Interest			0
Total			107,173

## Transaction Listing

Report for the quarter ended 31 December 2014 20

Trade Date Settlement Date	Asset Name Sedol Code	Quantity Price	Proceeds (GBP)	Book Cost (GBP)	Profit/Loss (GBP)	Quantity Balance	Book Cost Balance (GBP)
Pension Funds							
Other							
International							
Purchases							
24/10/14	Baillie Gifford Global	54,652.035		107,173		94,276,649.152	109,736,996
24/10/14	Alpha Pension Fund B1C4T87	GBP 1.96					
Total Purchases				107,173			
Total Net Investment/Disinvestment International							107,173
Total Net Investment/Disinvestment Other							107,173
Total Net Investment/Disinvestment Pension Funds							107,173
Total							107,173

	Annual Expenses (%)			Trading Expenses (%)		
	Investment Management Fee	Other Expenses	Total Expense Ratio	Stamp Duty and Other Taxes	Broker Commissions	Total Expenses inc Direct Trading Costs
Baillie Gifford Global Alpha Pension Fund	0.65	0.01	0.66	0.03	0.02	0.71

You are invested in the Baillie Gifford Pooled Funds listed above. The Investment Management of the Funds has been delegated to Baillie Gifford & Co.

Costs are disclosed as a % of the Fund on a historical rolling 12 month basis.

Investment Management Fees represent the standard annual investment management fee for each of the Pooled Funds listed and may not represent the fee actually paid by you. Please refer to your Policy Terms or Management Agreement.

Other expenses will include custody charges unless separate provision is made for custody fee payment in your Policy Terms or Management Agreement. Where the Fund is a sub-fund of an OEIC (Open Ended Investment Company) or invests in underlying OEIC sub-funds, it will also include expenses such as depositary fees, registration fees and audit fees.

Trading Expenses (stamp duty, other taxes and broker commission) arise when buying or selling stocks in the market. Buying or selling of stocks may result from: individual stock considerations, portfolio changes due to broader implementation of Baillie Gifford's investment policy and from both investment inflows and outflows from the Fund. When the Fund buys or sells investments in response to investment inflows and outflows the trading expenses are passed onto the incoming/outgoing investor through the pricing mechanism by means of a dilution adjustment.

Therefore, it is important to note that the above costs represent the costs of all trading undertaken by the Pooled Funds listed and do not reflect costs associated with investments or disinvestments that you may have undertaken during the period.

**Counterparty Trading Analysis**

Baillie Gifford Global Alpha Pension Fund	Transactions (%)				Commissions Paid (GBP)			Estimated Split of Commission			
	Value (GBP)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Execution (GBP)		Research (GBP)	
								Retained by Broker	Paid to 3 <sup>rd</sup> Parties	Retained by Broker	Paid to 3 <sup>rd</sup> Parties
UBS AG	74,623,125	0.0	1.8	98.2	18,362	413	17,949	18,362	0	0	0
Morgan Stanley	63,547,856	0.0	20.3	79.7	25,876	6,450	19,426	25,876	0	0	0
Credit Lyonnais	28,382,772	0.0	0.0	100.0	18,746	0	18,746	18,746	0	0	0
Allen & Co LLC	18,433,301	0.0	13.9	86.1	9,217	1,282	7,935	9,217	0	0	0
Merrill Lynch International	14,742,106	0.0	94.6	5.4	9,168	8,817	351	8,535	0	633	0
Deutsche Bank AG	7,687,176	0.0	0.0	100.0	5,381	0	5,381	5,381	0	0	0
William Blair & Co LLC	6,269,643	0.0	100.0	0.0	2,607	2,607	0	2,300	0	308	0
Weeden & Co	4,869,622	0.0	40.5	59.5	2,435	987	1,448	2,435	0	0	0
Instinet Europe Ltd (Crossing Network)	2,801,968	0.0	0.0	100.0	1,402	0	1,402	1,402	0	0	0
Robert W Baird Ltd	2,673,282	0.0	100.0	0.0	1,337	1,337	0	1,337	0	0	0
Other Brokers *	6,616,596	0.0	47.3	52.7	4,873	3,130	1,743	4,198	0	675	0
<b>Total</b>	<b>230,647,447</b>	<b>0.0</b>	<b>19.4</b>	<b>80.6</b>	<b>99,403</b>	<b>25,023</b>	<b>74,380</b>	<b>97,788</b>	<b>0</b>	<b>1,615</b>	<b>0</b>

\* The details of all other counterparties used during the period are available to clients upon request.

**Firm-Wide Comparators**

	Transactions (%)				Commissions Paid (%)			Estimated Split of Commission			
	Value (%)	Net	Negotiated Rate	Other Rates	Total Paid	Negotiated Rate	Other Rates	Execution (%)		Research (%)	
								Retained by Broker	Paid to 3 <sup>rd</sup> Parties	Retained by Broker	Paid to 3 <sup>rd</sup> Parties
Baillie Gifford Global Alpha Pension Fund	100.0	0.0	19.4	80.6	100.0	25.2	74.8	98.4	0.0	1.6	0.0
BG Average *	100.0	4.8	27.6	67.6	100.0	44.6	55.4	88.7	0.0	11.3	0.0

Baillie Gifford Global Alpha Pension Fund Average Commission Rate	0.0431 %
BG Average *	0.0449 %
Total commission paid as a percentage of the value of the fund	0.0029 %

\* Based on all Global equity trading conducted with counterparties by Baillie Gifford.

Direct Currency Transactions

Counterparty	Spot Transaction Value* (GBP)	Forward Transaction Value (GBP)	Total (GBP)
Bank of New York Mellon (Custodian)	82,990,404	0	82,990,404
Northern Trust Company	34,425,300	0	34,425,300
Brown Brothers Harriman	8,305,634	0	8,305,634
<b>Total</b>	<b>125,721,338</b>	<b>0</b>	<b>125,721,338</b>

\*Foreign exchange trading is on net basis; no commission paid.

<p>IMA Pension Fund Disclosure Code (Third Edition)</p>	<p>The Pension Fund Disclosure Code was first adopted in May 2002 and was drawn up by a Joint Working Party of Members of the Investment Management Association (IMA) and the National Association of Pension Funds (NAPF). The purpose of the Code is to promote accountability of fund managers to their clients through increased transparency and to assist clients in their understanding of the charges and costs levied on the fund assets for which they have responsibility.</p> <p>Under the Code, fund managers are required to provide clients with information on how they make choices between trading counterparties and trading venues, more detailed information on how the resulting commission spend is built up, and what services are met out of commission spend, in particular such execution and research services as are permitted by the Financial Conduct Authority (FCA). It also provides a comparison of client specific information on costs and trading with similar firm-wide information.</p> <p>Although the Code was initially drawn up with pension funds in mind, we provide the disclosures for all our clients in compliance with relevant regulatory requirements.</p> <p>There are two distinct types of disclosure required by the Code:-</p> <p><b>Level 1</b> requires disclosure of Baillie Gifford's policies, processes and procedures in relation to the management of trading costs incurred on behalf of clients. This disclosure is provided annually to clients and is called the "Trading Procedures and Control Processes" document. This document is also available on request.</p> <p><b>Level 2</b> requires client specific information to be provided and is contained within this quarterly report. Level 2 aims to provide comprehensive, clear and standardised disclosure of information from which clients and their advisers can compare and monitor trading costs incurred during the fund management process and the services received in exchange for these commissions.</p> <p>We have included disclosure of transactions and commissions for Equities, Bonds, Currencies and Derivatives, where relevant..</p>
<p>Broker Commission</p>	<p>This page gives information by geographic region on the commission paid by the fund on all commission bearing transactions in directly held equities.</p>
<p>Equity Trading Analysis and Commissions</p>	<p>The trading and commissions analysis on the previous pages represents trading and commissions incurred by the fund over the quarter. Portfolio transactions are analysed by counterparty and type of trade. Transactions listed under "Other Rates" include programme trades, direct market access or algorithmic trades where commission rates may be lower. Commissions have been shown by counterparty where the fund holds stocks directly. Commissions paid have been analysed by the service purchased (execution or research) in compliance with the enhanced code. Where the fund gains exposure to equities via Open Ended Investment Companies (OEICs), transactions and commission analysis have been provided at the total fund level. A full disaggregation by counterparty for each of these funds is available on request. Where relevant, the proportion of commissions paid under directed or recapture arrangements is also shown.</p> <p>The fund's analysis of transactions, commissions paid and the commission split is compared with Baillie Gifford's total transactions, commissions paid and the commission split across all trading in the same asset classes. The fund's average commission rate is compared with Baillie Gifford's average commission rate across all trading in the same asset classes. A similar analysis for OEIC holdings is shown, at the total fund level.</p>
<p>Non-Equity Trading Analysis</p>	<p>The trading report for bonds shows trading volume by the fund over the quarter, analysed by counterparty. As all trades are executed on a net basis, no commission figures are available. Where derivative transactions are permitted, and executed, these are analysed by counterparty (executing broker) and show market value, underlying exposure and (execution) commission. Where the fund gains exposure to bonds via OEICs, transaction volume by counterparty, is available for each of these funds on request.</p> <p>All foreign exchange activity, for the entire portfolio is analysed by counterparty, distinguishing between spot and forward transactions. As all trades are executed on a net basis, no commission figures are available. Where the fund gains exposure to markets via OEICs, currency transaction volume by counterparty, is available for each of these funds on request.</p>
<p>Income and Costs Summary</p>	<p>This shows costs deducted from the fund on an actual basis. Fund management fees and VAT are included during the period when the invoice is raised. Custody costs are included when the sum is debited from the funds managed by Baillie Gifford.</p> <p>Any holdings of in-house pooled funds are shown together with their total expenses on a rolling yearly basis, expressed as a percentage of fund value. Expenses include broker commission on transactions dealt within the fund, bank charges, audit, registrar, depository and Regulatory fees. Any tax paid by the fund is not included. For A and B class OEIC shares investment management fees are also included.</p> <p>A dilution levy may also be charged on OEIC purchases and sales in the case of large transactions.</p> <p>If the portfolio has a holding in a stock that is not covered by the code, such as third party funds or investment trusts, this is also shown.</p>

Asset Name	Nominal Holding	Market Price	Book Cost (GBP)	Market Value (GBP)	Fund (%)
<b>Pension Funds</b>					
Baillie Gifford Global Alpha Pension Fund	94,276,649.152	GBP 2.12	109,736,996	199,442,251	100.0
<b>Total Pension Funds</b>			<b>109,736,996</b>	<b>199,442,251</b>	<b>100.0</b>
<b>Total</b>			<b>109,736,996</b>	<b>199,442,251</b>	<b>100.0</b>

Valuation of securities      Holdings in Baillie Gifford Pooled Funds are valued at month end using a single price which reflects closing prices of the underlying assets in the funds. This month end price may differ from the price used for buying and selling units in the funds which is calculated daily at 10am and uses intra-day prices. This provides a consistent basis for reporting.

	Market Value 30 September 2014 (GBP)	Net Investment/ Disinvestment (GBP)	Capital Gain/Loss (GBP)	Market Value 31 December 2014 (GBP)
<b>Pension Funds</b>				
Baillie Gifford Global Alpha Pension Fund	187,275,641	107,173	12,059,437	199,442,251
<b>Total Pension Funds</b>	<b>187,275,641</b>	<b>107,173</b>	<b>12,059,437</b>	<b>199,442,251</b>
<b>Total</b>	<b>187,275,641</b>	<b>107,173</b>	<b>12,059,437</b>	<b>199,442,251</b>

	(GBP)	Book Cost (GBP)	Market Value (GBP)
<b>As at 30 September 2014</b>			
<b>Pension Funds</b>		109,629,823.41	187,275,641.47
		109,629,823.41	187,275,641.47
<b>Income</b>			
Management Fee Rebate	107,172.64		
	107,172.64		
<b>Net Total Income and Charges</b>		107,172.64	107,172.64
Change in Market Value of Investments		0.00	12,059,437.17
<b>As at 31 December 2014</b>		<b>109,736,996.05</b>	<b>199,442,251.28</b>
<b>Of which:</b>			
Pension Funds		109,736,996.05	199,442,251.28
<b>Total</b>		<b>109,736,996.05</b>	<b>199,442,251.28</b>

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