Lothian Pension Fund Global Alpha

Report for the quarter ended 31 March 2024

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	8	Companies	3	Companies	None
Resolutions	112	Resolutions	7	Resolutions	None

We are giving thought to how we adopt the new FCA SDR labelling for our UK OEIC range and will update clients in due course

Engagements with companies this quarter have focused on stock based compensation, supply chain management, and the climate transition

Global Alpha remains supportive of management at our investee companies. During 2023, we voted on 1,077 management resolutions, supporting 97.2% of proposals

Company Engagement

Engagement Type	Company
Environmental	Advanced Micro Devices, Inc., Adyen N.V., Analog Devices, Inc., BHP Group Limited, CRH plc, Hoshizaki Corporation, Pernod Ricard SA, Sea Limited
Social	Tesla, Inc.
Governance	Analog Devices, Inc., CRH plc, Compagnie Financière Richemont SA, Datadog, Inc., Entegris, Inc., Genmab A/S, Hoshizaki Corporation, Markel Group Inc., Microsoft Corporation, Netflix, Inc., Novo Nordisk A/S, PDD Holdings Inc., Pernod Ricard SA, Samsung Electronics Co., Ltd., Sartorius Stedim Biotech S.A., Sea Limited, Sysmex Corporation, The Trade Desk, Inc.
Strategy	AIA Group Limited, Amazon.com, Inc., CRH plc, DoorDash, Inc., PDD Holdings Inc., Pernod Ricard SA

An engagement may cover more than one topic. Notes on a selection of engagements can be found in this report. This is not exhaustive and further details of company engagements are available on request.

Votes Cast in Favour

Company	Meeting Details	Resolution(s)	Voting Rationale
Analog Devices	Annual 13/03/24	4	We supported the shareholder proposal on simple majority voting. We believe that supermajority voting requirements can lead to entrenchment and make it difficult to implement positive corporate government reforms.

Companies	Voting Rationale
Analog Devices, Genmab, Hoshizaki Corp, Nippon Paint, Novo Nordisk, Samsung Electronics, Sartorius Stedim Biotech, Shiseido	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Analog Devices	Annual 13/03/24	2	We opposed executive compensation because we do not believe the performance conditions for the long-term incentive plan are sufficiently stretching. We generally believe when performance is assessed relative to a benchmark that vesting of awards should only begin when performance is equal to, or above that, of the chosen benchmark.
Analog Devices	Annual 13/03/24	3	We opposed the ratification of the auditor because of the length of tenure. We believe it is best practice for the auditor to be rotated regularly as this works to ensure independent oversight of the company's audit process and internal financial controls.
Hoshizaki Corp	AGM 27/03/24	1.2	We opposed the election of the board chair due as we believe the company's capital strategy is not in the interests of shareholders and due to the absence of a shareholder vote on the dividend.
Sartorius Stedim Biotech	MIX 26/03/24	5	We opposed the remuneration report because the aggregate fees paid to the board of directors in 2023 exceeded the maximum amount approved by shareholders at the 2023 AGM, which we consider to be poor governance.

Companies	Voting Rationale
Sartorius Stedim Biotech	We opposed the resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

Company	Engagement Report
Amazon.com, Inc.	Objective: We attended Amazon's investor roundtable. This was an opportunity to speak directly with management - the CEO, CFO and each business area. The objective was to hear about management's long-term strategy, which led to some ESG fact-finding. Discussion: As always with Amazon, the main debate was about the balance of future investment versus what the business does today. Andy Jassy spoke of wanting to solve broken industries for customers, such as healthcare. It was reassuring to hear how incredibly customer-driven Amazon still is - and every member of management spoke with passion about customers. The CFO said the trust Amazon has cultivated with customers needs to be extended to investors to ensure the company reaches the levels of profitability it saw before the pandemic and push even further. We discussed regulation - mainly how this affects advertising with data, customer identity and generative artificial intelligence (AI). The head of Amazon web services (AWS) repeatedly referenced the energy required for AI from here. The head of worldwide operations, John Felton, spoke about how the company is making packaging decisions and why restructuring its inbound logistics will improve network efficiency and carbon reduction. We also heard how valuable Amazon finds the Rivian electric delivery van partnership. He spoke about how it is safer for drivers with better visibility, lower carbon, better for maintenance and could require less replacement than traditional combustion engine vans. John Felton spoke about how long it had taken to stabilise the supply chain after the pandemic and alluded to scrutiny with China - considering newer competitors. We are still waiting for more supply chain transparency, an issue we have raised several times in 2023 on calls, at an ESG roundtable and by letter. One of our engagement priorities for Amazon has been the treatment of staff - we have visited fulfilment centres, read through coverage and spoken with Amazon's ESG team. This meeting was valuable to hear about cultural changes and how head office teams are managed, considering headcount reductions in the last couple of years. Outcome: We came away with reassuring views on customer and shareholder alignment. Supply chain transparency is an ongoing topic, and it was interesting to hear other shareholders' views of Amazon and what they thought was necessary to ask.
Datadog, Inc.	Objective: We attended Datadog's first in-person investor day and met with the CEO. Datadog is a cloud-based monitoring and analytics platform that allows customers to monitor all the elements in their cloud ecosystem. An objective of attending the investor day and meeting with the CEO was to understand Datadog's rationale for stock-based compensation going forward. Discussion: Over the pandemic, we saw a run-up in US technology employees' wages and stock-based compensation (SBC). The argument for SBC is that employees become aligned with the company's longer-term success, which should align them with shareholders. However, as SBC is a non-cash expense, it is not factored into some of the most important metrics for software companies: revenue growth rates and free cash flow improvement. During the Datadog investor day, the CFO outlined the maximum target annual dilution of 2.5-3.5 per cent, which it has not hit historically. In our meeting with the CEO, Olivier Pomel, he explained that the company wants to keep dilution to within levels it can control. This is so as not to create the unsustainable situation competitors fell into during the pandemic of over-promising compensation but to offer market-level compensation for the technical roles. Outcome: We have engaged with several of our holdings on this subject and will continually monitor it as an important aspect of the investment case.

Company	Engagement Report
DoorDash, Inc.	Objective: In March, we engaged with Tony Xu, DoorDash's CEO and co-founder, focusing on the grocery segment's transition from the experimental to the growth phase, to understand its potential. Discussion: Groceries is a significantly larger yet less penetrated market online than the restaurant sector. DoorDash's initial foray into the grocery market has been profitable, especially with express aisle goods. Despite this success, Tony Xu aims to tackle larger basket sizes for weekly shopping, which could unlock substantial gross merchandise volume (GMV). The main challenge is improving inventory visibility to reduce substitutes and foster the adoption of online offerings. One approach the company is trialling involves creating micro fulfilment centres for quicker deliveries. This is a strategic step towards this goal, despite its capital intensity. Doordash's current grocery markets have seen growing basket sizes and order frequency, alongside decreasing costs. The impact of advertising on profitability, potentially enhancing returns compared to the restaurant business, remains an area for further exploration. Outcome: The discussion with Tony Xu offered deep insights into DoorDash's strategic efforts and challenges in expanding its grocery business. Initiatives to improve inventory visibility underscore DoorDash's commitment to growth and innovation in this segment, supporting our forward-looking hypothesis.
PDD Holdings Inc.	Objective: To gain further insights from PDD including international regulatory engagement, compliance alongside business expansion, and ESG disclosure. Discussion: In January, investors met with PDD's Head of Capital Markets and talked about its ESG-related strategies. PDD emphasised its commitment to openness in engaging with consumer protection authorities in the US, UK, and EU. Despite challenges linked to their Chinese origins, there's a proactive stance towards regulatory and media inquiries, with a system in place to remove dubious products, leveraging their Chinese supply chain knowledge. Although still in the early stages, the company are receptive to feedback on ESG topics, whilst acknowledging that they will need to evolve in tandem with their global business growth. They appointed a Dutch independent director specialising in food safety and toxicology in August 2023. It was helpful for investors to have discussions with the company which contrasts with some external commentary. The backdrop of intense scrutiny and the potential for regulatory challenges were acknowledged, highlighting the complex environment in which they operate. Outcome: The meeting provided additional insights into the company's strategic approach to regulatory transparency, compliance, and ESG disclosures. We will follow up with the company further on sustainability and supply chain management and encourage more standardised ESG reporting.

Company	Engagement Report
Pernod Ricard SA	Objective: We took up Pernod Ricard's annual offer of a meeting with the lead independent director. In late 2023, the company announced a leadership change in its US operations, a market that contributes twenty per cent of sales. Given this and the company's view of the US as a 'must-win' market, we wanted to hear the board's perspective on the reasons for the change. Discussion: Pernod Ricard's explanation for the leadership changes initially lacked clarity, but it appears that the company has identified several technical challenges that impinge on the successful implementation of its US strategy. Consequently, the company brought in Conor McQuaid to replace the former US CEO. McQuaid has a wealth of experience, having worked for Pernod Ricard for over twenty-five years. His primary task is to ensure the company executes its US strategy. The board considered that the former CEO did well, but the change was necessary. Additionally, the board has welcomed Max Koeune to strengthen US business expertise, having recognised a skills gap. Course correcting in the US will be a focus for the board in its meetings this year; indeed, the board will come together to have a whole day focused on the matter in a few months. Outcomes: We were disappointed to learn that the successful implementation of the company's US strategy appears to have been a blind spot at the board level. On the positive side, the board has taken action to fill an identified skills gap by adding Max Koeune. It was encouraging to hear of various touchpoints throughout 2024 where this matter will be top of the agenda for the board. We will look to follow up with the company later in the year.
Samsung Electronics Co., Ltd.	Objective: To learn more about the company's corporate governance and sustainability approach and encourage continued progress. Discussion: In January, we joined a group meeting organised by the Asian Corporate Governance Association with Mr Hanjo Kim, the chairman of the board at Samsung Electronics. We also spoke to the IR in February ahead of the annual general meeting in March. Samsung is committed to improving its corporate governance standards and has undergone a three-year review to benchmark global-leading companies. The board is enhancing pre-reporting, independent director feedback and member contributions. The company is aligning incentives with long-term company performance. We were able to hear more about the distinct roles within the company's leadership, mainly how the board's chair and the executive chairman work together. There is currently no plan for JY Lee to join the board. The company has reiterated its commitment to reducing greenhouse gas emissions, transitioning to renewable energy and enhancing product efficiency, but has more work to do on these topics. Outcome: The meetings provided further insights into the company's governance, the roles of the chairman and the executive chairman, and strategic investment opportunities. We will have a follow-up meeting with the company regarding the sustainability targets and commitments.

Company	Engagement Report
Tesla, Inc.	Objective: We spoke with Tesla's Vice President of Global Supply Chain Management, Karn Budhiraj, to learn about the company's supply chain management strategies in China. We wanted to understand how Tesla mitigates risks associated with upstream forced labour and human rights abuses. We also sought an update on ongoing union issues affecting its Nordic operations. Discussion: Budhiraj outlined Tesla's approach to managing its supply chain in China, highlighting the challenges of ensuring transparency and traceability amid stringent Chinese regulations. The company's proactive measures include investing in its supply chain team and insisting on international standards for direct suppliers outside China. However, the Counter-Espionage law in China has posed significant obstacles, limiting Tesla's ability to conduct audits and gather necessary supplier information. Despite these challenges, Tesla is committed to sourcing responsibly and engaging diligently with its Chinese supply chain partners. It is also exploring alternatives to reduce reliance on high-risk regions by nearshoring critical mineral procurement and setting up refining operations in the US. We also discussed Tesla's handling of labour union issues. The company remains focused on direct communication with employees, with local management taking the lead in resolving problems ongoing in the Nordics. We were told that the majority of Tesla's workforce in Sweden doesn't want to strike or unionise, reflecting confidence in the company's employee relations approach. Outcome: This discussion provided valuable insights into Tesla's approaches to supply chain management in China. It reinforced our belief that the company is committed to operating responsibly by finding solutions to regulatory and manufacturing challenges. Understanding ongoing developments in the company's dialogue with employees and labour unions was also helpful. We believe these issues are material for the long-term investment case and plan to monitor progress in the future.
The Trade Desk, Inc.	Objective: We accepted an offer to engage with The Trade Desk's board and senior management. We focused on the company's corporate governance, particularly its dual-class share structure, executive remuneration and its approach to stock-based compensation. Discussion: We spoke to the lead independent director and chair of the Governance Committee, Lise Buyer; Compensation Committee chair, Kate Falberg; and CFO, Laura Schenkein. We discussed whether the board is considering extending the dual-class share structure beyond December 2025, when its sunset provision activates. It was explained that a final decision had not been made yet. We outlined our openness to an extension if it increases the probability of long-term value creation and minority shareholder interests are carefully considered and protected. Regarding executive compensation, we reiterated our concerns over the mega option grant awarded to CEO Jeff Green in October 2021, which we voted against. We also outlined concerns over the compensation committee's decision to grant Green an additional $25m in options and restricted stock units (RSUs) in April 2023, despite expectations that the 2021 grant would be his sole equity award for its 10-year vesting period. Finally, we discussed the company's use of stock-based compensation, which CFO Schenkein described as a vital tool for attracting and retaining talented employees. We outlined our belief that employee equity awards are a significant cost to the business. We encouraged the board to be mindful that the company's shareholders bear these costs and exercise discipline in the future. Outcome: We unfortunately did not gain as much insight and clarification as we had hoped on these critical areas of the company's corporate governance. We plan to complete a review of the current board composition and its decisions ahead of this year's AGM. We also plan to follow up on the dual-class share structure when the board has more concrete proposals on whether to request an extension.

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