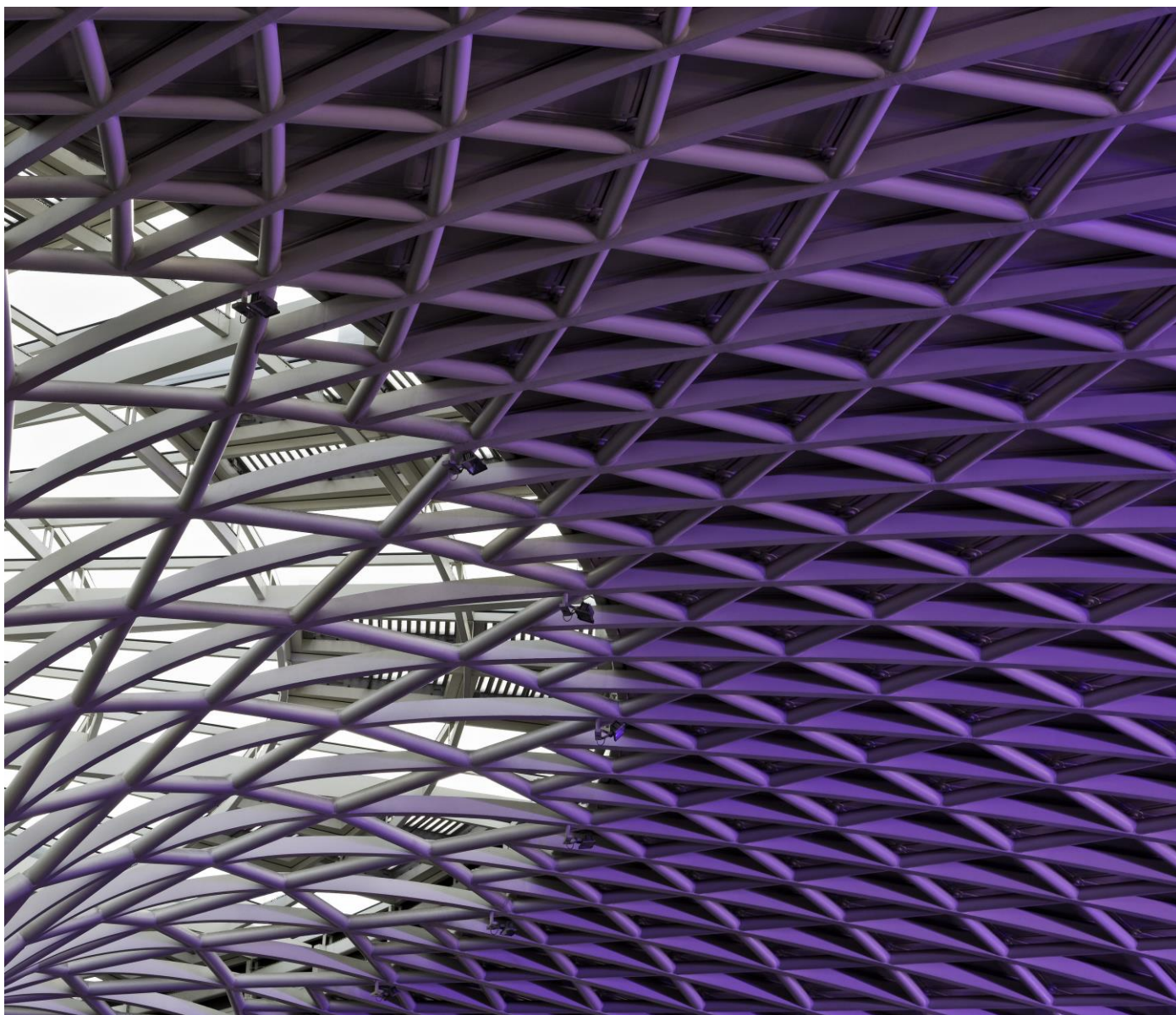


# **BAILLIE GIFFORD & CO**

Lothian Pension Fund Global Alpha

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Report for the quarter ended  
31 December 2019



**Voting Activity**

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	15	Companies	5	Companies	1
Resolutions	141	Resolutions	11	Resolutions	1

Institutional investors have begun to pay more serious attention to ESG factors in the past decade, but the ESG research industry is relatively new

Most ESG ratings companies only focus on assessing risks. Disclosure from companies is also still very limited, so those that don't invest in sustainability reporting are marked down, regardless of their underlying performance

Investors and other users of the data need to be very careful about making judgements based on such partial information

**Company Engagement**

Engagement Type	Company
Corporate Governance	<a href="#">Advantest Corporation</a> , <a href="#">Alibaba Group Holding Limited</a> , <a href="#">Alphabet Inc.</a> , <a href="#">CyberAgent, Inc.</a> , <a href="#">Naspers Limited</a> , <a href="#">Ryanair Holdings plc</a> , <a href="#">SMC Corporation</a> , <a href="#">Seattle Genetics, Inc.</a> , <a href="#">Shopify Inc.</a> , <a href="#">Teladoc Health, Inc.</a> , <a href="#">Tesla, Inc.</a>
Environmental/Social	<a href="#">Amazon.com, Inc.</a> , <a href="#">Apache Corporation</a> , <a href="#">CRH plc</a> , <a href="#">EOG Resources, Inc.</a> , <a href="#">Illumina, Inc.</a> , <a href="#">Kirby Corporation</a> , <a href="#">Martin Marietta Materials, Inc.</a>
AGM or EGM Proposals	<a href="#">Advantest Corporation</a> , <a href="#">BHP Group Plc</a> , <a href="#">CyberAgent, Inc.</a>
Executive Remuneration	<a href="#">MarketAxess Holdings Inc.</a> , <a href="#">Prudential plc</a> , <a href="#">SAP SE</a> , <a href="#">Stericycle, Inc.</a>

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

## Votes Cast in Favour

Company	Meeting Details	Resolution(s)	Voting Rationale
Microsoft	Annual 04/12/19	5	We supported a shareholder proposal requesting that the company produce enhanced disclosure on gender pay disparities across their business.
<b>Companies</b>	<b>Voting Rationale</b>		
Adevinta, Adevinta Asa A, Autohome Inc - ADR, BHP Group PLC, Broadridge Financial Solutions, CyberAgent Inc, Hays, Microsoft, Myriad Genetics Inc, Orica, Pernod Ricard SA, Ping An Insurance, Prudential, ResMed, Trip.com Group	We voted in favour of routine proposals at the aforementioned meeting(s).		

## Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
BHP Group PLC	AGM 17/10/19	21, 22	We opposed two shareholder proposals requesting amendments to the company's constitution and suspension of specific trade association memberships as we do not believe they are in shareholders' best interests.
CyberAgent Inc	AGM 13/12/19	2.9-2.11, 3.1-3.3	We opposed the election of two outside directors and four inside directors, due to ongoing concerns over board composition.
Microsoft	Annual 04/12/19	4	We opposed a shareholder proposal requesting a report on employee representation at board level as we believe it to be overly prescriptive and of limited value to shareholders.
Pernod Ricard SA	MIX 08/11/19	E.16	We opposed the authority to issue shares via private placement as we do not believe this is in our clients' best interests.
ResMed	Annual 21/11/19	3	We opposed the executive compensation policy as it includes a retesting provisions which we do not believe provides alignment with shareholders.

## Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
CyberAgent Inc	AGM 13/12/19	2.1	We abstained on the election of the president, due to ongoing concerns over board composition.

## Votes Withheld

We did not withhold on any resolutions during the period.

Company	Engagement Report
<p>Advantest Corporation</p>	<p>Advantest provides testing for semiconductor and component products. We contacted the company to advise that we had voted in favour of all proposals at its annual general meeting. Management requested a meeting to discuss various ESG initiatives. Advantest has been recognised in Japanese media for promoting female participation in the workforce, having appointed a woman to the board in 2018, and has made English the official language of board meetings to help non-Japanese directors contribute to discussions. We also heard about experiments aimed at facilitating a healthy corporate culture, and progress against internal targets. One interesting insight was that the company is increasing the percentage of females in its graduate intake, but that progress to management level in Japan will take longer than in non-Japanese branches. We also discussed continued experiments with the integrated report - this year's was modelled on a UK strategic report - and how to improve disclosure in areas such as executive remuneration.</p>
<p>Alibaba Group Holding Limited</p>	<p>The fact that Alibaba's partners took 18 months to agree on the company's six core values suggests that they are more than typical corporate speak. Daniel Zhang, chairman and CEO, believes these values codify the lessons and beliefs that Alibaba's co-founders historically passed on verbally to new employees - a sensible move as the company now has over 100,000 employees and aims to flourish into the next century. Values are disseminated widely as partners move between parts of the business. Zhang also spoke about the challenges caused by regulatory scrutiny. In addition to approaching regulators as early as possible ahead of new product announcements, the company is taking steps to build trust and understanding. For example, Ant Financial and AliCloud have built training tools to help regulators grasp the capabilities, implications and potential benefits of concepts such as the blockchain.</p>
<p>Amazon.com, Inc.</p>	<p>We visited Amazon's fulfilment centre in Dunfermline to learn more about employee pay and working conditions. Our tour walked us through the fulfilment process, from receiving an order to completion and dispatch. This was followed by a discussion with the general manager. In recent years, the company has raised wages of warehouse staff in the US and UK to \$15 and £9.50 per hour, which is in line with living wage recommendations. Additional benefits including private healthcare, further education funding and subsidised travel, ensure that pay and conditions are competitive relative to industry peers for unskilled positions. We are supportive of the company's efforts to improve working conditions and encouraged managers to provide health and safety data to allow us to monitor progress in this area. We had a subsequent call with lead independent director, Jon Rubinstein, and Kara Hurst, the head of sustainability. We discussed Amazon's Climate Pledge and ambition to be a leader in meeting the Paris Agreement goals. Rubinstein provided insight on how the board operates, supports the management team, identifies and recruits new directors and thinks about succession planning. We are fortunate to have access to key individuals that can help us understand the company's operations and corporate governance.</p>
<p>Apache Corporation</p>	<p>We met Ken Neupert, the vice president for health, safety, security and environment, and other members of management to discuss corporate governance and sustainability. The board has been refreshed, with new independent director Juliet Ellis providing investment expertise. More resource has also been added to the core sustainability team, with the appointment of a specialist environmental manager. The company aspires to be a leader in ESG reporting. Its latest sustainability report complies with Task Force on Climate-related Financial Disclosures (TCFD) and is indexed against the Sustainability Accounting Standards Board (SASB). We believe Apache can do more to show how its approach influences its core operations and resilience of the business. We recommended providing scenario analysis, evaluating how the company's future carbon performance would compare to the targets in the Paris Agreement.</p>

Company	Engagement Report
CRH plc	<p>Our investors and Governance and Sustainability team met the new chairman of CRH, Richie Boucher. Our conversation focused on long-term strategy, board composition, remuneration and the company's approach to carbon. We asked for a separate call to focus on carbon and this was set up a few weeks later with CRH's head of sustainability. While cement accounts for 10% of revenue, carbon produced from cement makes up 80% of the company's CO2 emissions. It has worked to reduce emissions at every stage of production. CRH is now looking at carbon capture technology to help improve efficiencies and reduce carbon emissions further. We were impressed by this proactive approach, and the transparency of its reporting is industry leading. We plan to follow up next year with a site visit. We will also have a call with the chairman to provide more detailed feedback on remuneration.</p>
EOG Resources, Inc.	<p>We continued to engage with EOG by attending a field tour and operations visit in Midland, Texas. Over two days, the company provided a detailed explanation of how sustainability is embedded in its operations. We met over 30 employees, from COO Billy Helms to field engineers. EOG aims to be among the S&amp;P 500's best companies and believes its distinctive culture, decentralised structure and technical proficiency enhances resilience to threats from climate change and decarbonisation. The company has cut methane emissions by 45% and increased the proportion of reused water from 6% to 21%. It is also investing in electronic fracturing fleets and solar energy, which will reduce reliance on diesel engines, providing significant environmental benefits and cost savings. Overall, we were impressed by EOG's approach to sustainability. The focus on improving its environmental impact seems aligned with ambitions to remain a best in class operator. Furthermore, innovation, emission reductions and improved water usage are grounded in efforts to remove costs and increase business efficiency. While vulnerable from the broader transition risk of decarbonisation, EOG is progressing in the areas it can control, and this should improve the resilience of the business.</p>
Illumina, Inc.	<p>A discussion with CEO Francis deSouza helped us understand Illumina's operational progress and its contributions to society. He emphasised the significance of Illumina's collaboration with the UK National Health Service in sequencing genomes at vast scale. The opportunity is particularly significant from a societal perspective, as 95% of people have a gene variant that influences how they react to drugs, and billions of dollars are spent addressing adverse reactions. Large scale genome sequencing could deliver more personalised treatments, more efficiently. Uses vary from early diagnosis of genetic disease in children to pre-surgery checks for reactions to anaesthesia, and appropriate drug dosage based on a patient being able to metabolise drugs. We also discussed data privacy. Around 40% of customers store their genetic data in the Illumina cloud, but deSouza underlined Illumina's philosophy of acting as a good steward of customer data.</p>
Kirby Corporation	<p>Kirby is among the larger contributors to Global Alpha's carbon footprint, although it doesn't disclose emissions details, so this rank is based on industry estimates. We met the director of environmental compliance, Morgan Johnson, at the company's Houston headquarters to discuss Kirby's approach to sustainability. Johnson explained that while it complies diligently with relevant regulations, Kirby's reporting is still developing. The company is working to codify and quantify data to improve its environmental impact. Initiatives include investing in tier four diesel engines which comply with US Environmental Protection Agency standards, using ultra-low sulphur fuel in all vessels, and working to improve logistics. The company believes it compares well with peers and is maintaining strong stakeholder relationships. We encouraged management to reflect these efforts in future sustainability reports, including specific disclosure of total emissions data and long-term objectives.</p>

Company	Engagement Report
Martin Marietta Materials, Inc.	<p>Martin Marietta is a top-ten contributor to Global Alpha's carbon footprint. In recent years we have pursued a rather frustrating line of engagement with the company to encourage better disclosure of its environmental impact. We met Kirk Light, cement division president, at the company's Texas cement plant, to learn more about its approach to sustainability. Light explained that the company has invested over \$1 billion in improving the efficiency of its cement facilities since 2014, including alternative fuel systems, water re-use and other patented technologies. These deliver environmental and financial benefits. Martin Marietta is also collaborating with the Portland Cement Association and Massachusetts Institute of Technology Concrete Sustainability Hub to improve cement design, reduce carbon emissions and inform future technologies. Our discussions reinforced our view that Martin Marietta is focused on operational excellence and has been underreporting its efforts to reduce its environmental footprint. The 2018 sustainability report provided a better explanation of the company's efforts and we received reassurances that the 2019 report will include firmwide emissions data along with reduction targets. The company, and the broader cement industry, have made strides to improve the environmental profile. Further improvements will rely on regulatory and policy initiatives as well as emerging carbon capture technologies.</p>
Naspers Limited	<p>Our investment managers and Governance &amp; Sustainability team had a call with Naspers' investor relations and chief people officer to discuss remuneration. Naspers made improvements to remuneration last year, and we supported it for the first time after years of taking voting action. The call aimed to suggest further improvements. Key for us is disclosure of targets attached to metrics in the remuneration policy. We asked for a follow-up call to discuss broader environmental, social and governance topics. This took place a few weeks later with the head of legal, company secretary and the chief people officer. We discussed the demerger process and progress regarding the listing of Prosus earlier in 2019, plus the potential changes to board composition at Naspers as a result. We also discussed the governance structure at Prosus and fed back on ways we felt it could be improved. We will follow up in the New Year.</p>
Ryanair Holdings plc	<p>An investment manager and a member of our Governance and Sustainability team met Ryanair's company secretary in our offices. We discussed the evolving company structure and resulting changes among the management team, progress with unions, opening of new routes and bases, treatment of voting rights in a hard Brexit scenario and remuneration which received low support at the 2019 AGM (we opposed on behalf of our clients). Having engaged with members of the board as part of a collaborative meeting with other shareholders after the AGM in September, we have now requested a meeting with the incoming chairman. We hope to arrange this for early 2020 and plan to discuss issues we believe are material to the sustainability of Ryanair's business model and our investment thesis.</p>
SAP SE	<p>We had a call with investor relations for a high-level discussion on the remuneration committee's proposed changes to remuneration policy in 2020. The detail will be available next year, but the direction of travel sounds positive. We have opposed remuneration in the past because of concerns over how stretching the targets are, and alignment with strategy. The proposed changes will result in better alignment, and we are pleased that our feedback has been taken into consideration. We look forward to reading the detail and hope the changes are sufficient for us to support.</p>
Shopify Inc.	<p>Harley Finkelstein, the chief operating officer, stressed that Shopify should do whatever merchants require. The company has the potential to be the world's first retail operating system, comprising aggregated marketing, fulfilment, finance and more - whereby brands can maintain their direct-to-consumer relationships rather than passing through intermediated department stores or platforms. Finkelstein sees this as further democratisation of the internet. Commenting on the move into fulfilment this year, he noted that it is a distraction for brands which otherwise should focus on their products and marketing/positioning, and a problem Shopify can help to address.</p>
SMC Corporation	<p>SMC, a pneumatic equipment manufacturer, has long demonstrated a traditional Japanese approach to corporate governance, with minimal board independence and low dividend payments. We have frequently engaged with the company on these topics. This year, the chairman's son became representative director, offering potential governance improvements. We met him and subsequently wrote a letter conveying our shared ambition to improve SMC's corporate governance to promote long-term value creation.</p>

Company	Engagement Report
Stericycle, Inc.	<p>Following our engagement in June, we had a follow-up call with Stericycle to discuss final changes to executive remuneration policy. The company has responded to our suggestions to move the return on invested capital (ROIC) metric from the annual bonus to the long-term incentive plan (LTIP), place a greater weighting on performance-based awards, and introduce a total shareholder return modifier. One outstanding area is the length of the performance period in the LTIP, which is three annual targets rather than a single three-year objective. The board decided that, given ongoing uncertainty due to investment in a new enterprise resource planning system and portfolio rationalisation, moving to a single three-year target was not possible. However, the intention is to do so in future. We are encouraged by the changes and believe the company has responded to shareholder feedback. We look forward to engaging further.</p>
Teladoc Health, Inc.	<p>We visited Teladoc to meet the new CFO, Myla Murthy. Teladoc is a telemedicine business in which we have recently taken a holding given its potential to address growing healthcare needs by offering cheaper and more convenient medical advice. During our meeting we explored the growth opportunity and tried to develop our understanding of the company culture - this takes time. With Murthy being new to the company, and the role, it was helpful to get her initial impressions.</p>
Tesla, Inc.	<p>We had a call with Chairwoman Robyn Denholm to discuss plans to develop Tesla's corporate governance and her views on the business more generally. Denholm explained that successful execution of strategy remains the number one priority and she has been impressed by accelerating operations in Shanghai. The senior management team was described as strong, working well together and using the board more regularly for advice and support. Denholm is focused on the role of board members as constructive stewards of the business and maintains regular one-to-one dialogue with management, including CEO Musk. Work is ongoing to refresh the board and implement changes to the bylaws and articles. Efforts to reform the latter were frustrated at the 2019 AGM due to low shareholder turnout, and plans are in place to address this in 2020. We believe she has had a positive influence since her appointment, and we are supportive of her work to facilitate Tesla's long-term mission.</p>

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