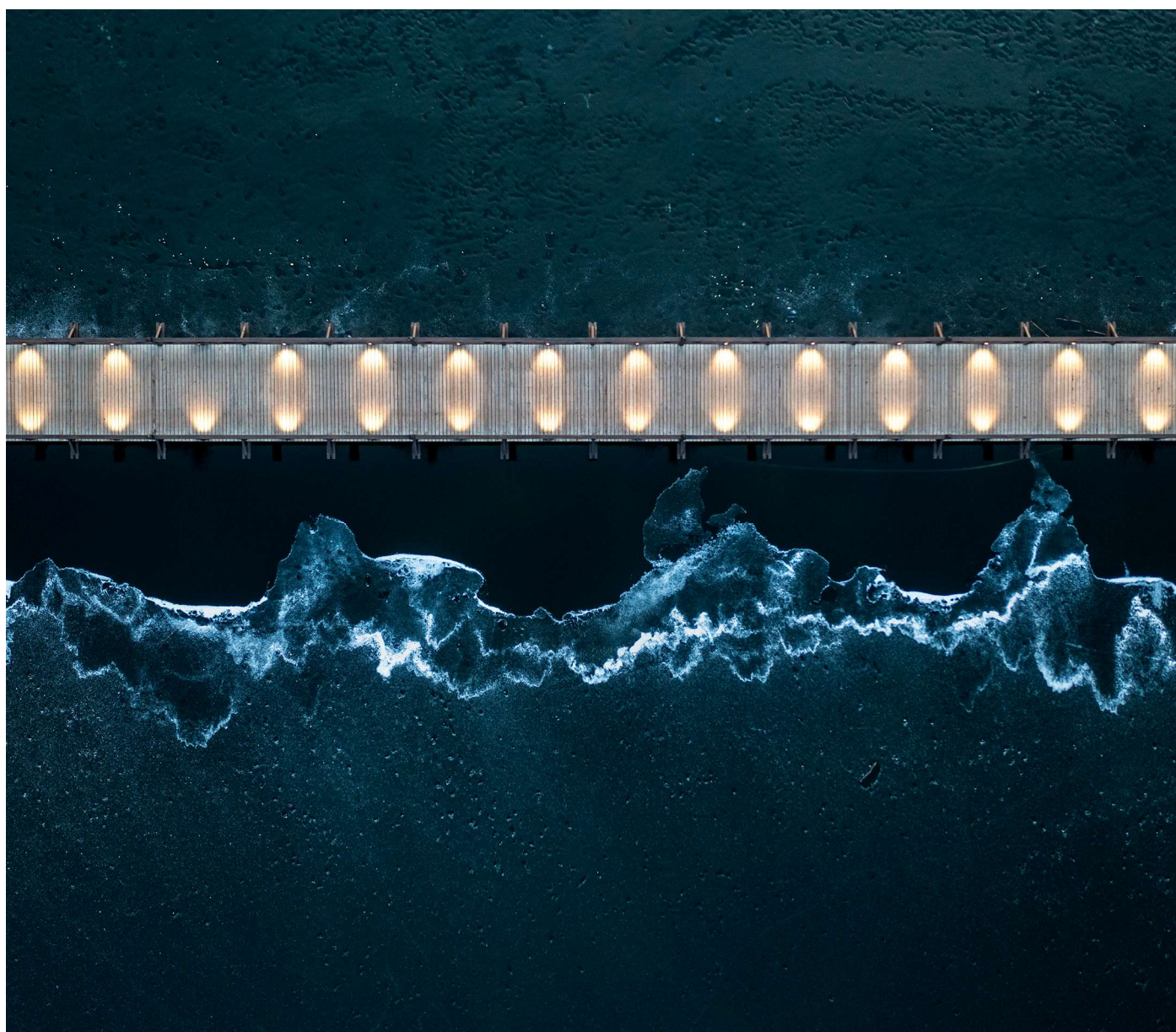


# Lothian Pension Fund Global Alpha

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Report for the quarter ended  
31 December 2023



## Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	6	Companies	3	Companies	1
Resolutions	78	Resolutions	13	Resolutions	1

The strategy continues to ensure our ESG research, integration and stewardship activities are focused on issues material to the investment case and companies' long-term growth prospects

Results of our climate audit show that 23 companies (representing 28% of AUM) have improved their climate audit rating since December 2021

Our engagements this quarter have covered a wide range of topics including employee rights, supply chain transparency, board diversity, and remuneration

## Company Engagement

Engagement Type	Company
Environmental	Albemarle Corporation, Amazon.com, Inc., Analog Devices, Inc., BHP Group Limited, Broadridge Financial Solutions, Inc., NovoCure Limited, Pool Corporation, Reliance Industries Limited, Ryanair Holdings plc, Snowflake Inc., Texas Instruments Incorporated
Social	Amazon.com, Inc., Netflix, Inc., Olympus Corporation, Reliance Industries Limited, Ryanair Holdings plc, Tesla, Inc.
Governance	Adyen N.V., Albemarle Corporation, Alibaba Group Holding Limited, Amazon.com, Inc., Analog Devices, Inc., BHP Group Limited, Broadridge Financial Solutions, Inc., Compagnie Financière Richemont SA, CyberAgent, Inc., Floor & Decor Holdings, Inc., HDFC Bank Limited, Moderna, Inc., NVIDIA Corporation, Nippon Paint Holdings Co., Ltd., NovoCure Limited, Olympus Corporation, Pool Corporation, Reliance Industries Limited, Schibsted ASA, Sea Limited, Shopify Inc., Tesla, Inc., Texas Instruments Incorporated, The Charles Schwab Corporation
Strategy	Amazon.com, Inc., Reliance Industries Limited, Ryanair Holdings plc, Schibsted ASA, Tesla, Inc.

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

Companies	Voting Rationale
BHP Group Ltd - DI, Broadridge Financial Solutions, CyberAgent Inc, Estee Lauder, Microsoft, Pernod Ricard SA	We voted in favour of routine proposals at the aforementioned meeting(s).

## Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Estee Lauder	Annual 17/11/23	3	We continued to oppose executive compensation due to the continued practice of granting sizable one-off awards.
Microsoft	Annual 07/12/23	10	We opposed a shareholder resolution requesting a tax transparency report. We believe the company's current disclosures are in line with peers and provide shareholders with adequate disclosure.
Microsoft	Annual 07/12/23	11	We opposed a shareholder resolution requesting a report on the implications of siting datacentres in countries with human rights concerns. We believe the company has a robust framework in place and ranks highly on its governance practices and there is clear evidence of a commitment to protect human rights. We therefore do not believe that supporting this proposal is necessary at this time.
Microsoft	Annual 07/12/23	12	We opposed a shareholder resolution which would mandate third-party political reporting. We believe the requested disclosure is beyond the company's control and seeks to micromanage decisions on the company's third party affiliations.
Microsoft	Annual 07/12/23	13	We opposed a shareholder resolution requesting a report on risks relating to the spread of misinformation and disinformation due to the company's AI. We believe the company's disclosures are already extremely robust on this topic, and it is unclear how this additional report would be additive.
Microsoft	Annual 07/12/23	5	We opposed a shareholder resolution requesting a report on gender-based compensation and benefits inequities. We believe the company's disclosures are fulsome and do not believe this is a material risk to the business.
Microsoft	Annual 07/12/23	6	We opposed a shareholder resolution requesting a report on risks of omitting viewpoint and ideological diversity from the company's diversity policy. Currently the company includes 'political affiliation' as a category in its anti-discrimination policy and provides information on its policies and processes working to mitigate discriminative behaviours. We believe the company's current efforts are sufficient.
Microsoft	Annual 07/12/23	7	We opposed a shareholder resolution requesting a report of government takedown requests by the United States government. The company currently discloses data regarding government takedown requests and the quality of this reporting is not lacking or out of line with peers.

Company	Meeting Details	Resolution(s)	Voting Rationale
Microsoft	Annual 07/12/23	8	We opposed a shareholder resolution requesting a report on the risks to the company of its perceived involvement in the development of weapons for the military. We don't view this to be a material risk for the business currently.
Microsoft	Annual 07/12/23	9	We opposed a shareholder resolution requesting a report on the company's retirement funds' management of systemic climate risk. We do not believe this is a material risk for the company and think they are doing enough by offering employees a range of investment options.
Companies		Voting Rationale	
Pernod Ricard SA		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

Company	Meeting Details	Resolution(s)	Voting Rationale
Estee Lauder	Annual 17/11/23	1a	We withheld support from the re-election of on incumbent compensation committee member, who is also the lead independent director, due to continued unaddressed concerns over the executive compensation practices.



Company	Engagement Report
Adyen N.V.	<p>Objective: Following a discussion in the summer with the co-CEO and CFO of Adyen, the Dutch global payments processing platform, we engaged the company again to assess aspects of our investment thesis in more detail. Specifically, we discussed investor communications, rising headcount and culture.</p> <p>Discussion: For context, Adyen's share price approximately halved in August 2023, primarily due to the market's reaction to signs of competitive headwinds in Adyen's US digital business. Having discussed this with the co-CEO and CFO in August, we decided to kick the tyres of Adyen's US business. Specifically, we held meetings in San Francisco with the head of the North American business, the CFO, the global head of human resources and members of the management board, as well as several of Adyen's customers (and competitors' customers) in the US digital segment. We discussed management's decision to switch from a six-monthly reporting cycle (a common practice in the Netherlands) to a quarterly update cycle until at least next year, to provide greater visibility amid amplified investor uncertainty. With this decision, we believe management has struck a balance between listening to market feedback on communication while not caving to all the market's short-term demands. We also discussed what Adyen's doubling in headcount since 2021 might imply for its culture. While this countercyclical expansion stands to be competitively advantageous in the long run, and while Adyen remains very lean relative to any relevant competitor, we questioned whether the sheer speed of its expansion could result in operational strains. Management informed us that it has slowed the pace of hiring in the latter half of the year, partly as it had already completed most of its previously announced recruitment drive, and partly as it started to feel that recent interview candidates would dilute talent density in the company. Regarding culture, it was striking to witness the extent to which the cultural values from Adyen's Amsterdam headquarters - known as the 'Adyen Formula' - had permeated into the day-to-day business of its US operations.</p> <p>Outcome: Meetings with Adyen's US business were encouraging and consistent in terms of Adyen's growth opportunity, competitive advantage, cultural differentiation and operational execution.</p>

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**Company**


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Alibaba Group Holding Limited

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**Objective:** We held several engagements with Alibaba, the Chinese e-commerce platform, to discuss progress and next steps in its organisational restructuring. Our most recent engagement with the company sought to understand management's rationale for (a) cancelling the IPO for its cloud business and (b) founder Jack Ma's structured share sale

**Discussion:** In a meeting with Chairman Joe Tsai at our Edinburgh offices, we were told about the Alibaba partnership's reasons for reorganising the company. In their view, the new governance structure created divisional CEOs for faster and nimbler decision-making to compete more effectively with fast-moving competitors. The company also shed some of its non-core businesses (e.g. gradually withdrawing from India and selling stakes in other businesses) and split its assets into six business units to allow for better alignment, improved operational efficiency, an easing of the regulatory burden, and potentially some de-risking of the company from possible US sanctions. In this context, we met separately with the CEO and CFO of Cainiao, Alibaba's logistics business (which may be one of the first units to IPO), to delve into its domestic and overseas market opportunities and its competitive edge. Following these engagements, we then learned of the cancellation of the public listing of the cloud business, Alibaba Cloud, in the context of the US announcing that it would expand its restrictions on China's access to semiconductors. If such a spin-out were to occur, management believes that it could result in competition between Alibaba and Alibaba Cloud for domestic computing resource for artificial intelligence. While , manufacturing will be the main bottleneck. The timing of the IPO cancellation was unfortunate in that it coincided with an announcement that founder Jack Ma's family had entered a pre-structured share sale plan earlier in 2023, giving them the ability to sell stock over a one-year period beginning in November 2023. We were informed the sale is with a view to raise funds to invest in agriculture and charitable endeavours, and shares included in the plan represent 8 per

**Outcome:** Our engagements in recent months have helped us evaluate scenarios for Alibaba's future growth following the company's restructuring. It also confirmed the lack of correlation between the IPO cancellation and founder Jack Ma's share sale plan.

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**Objective:** Alongside a small group of other shareholders, we met with two of the non-executive directors and a number of senior managers in Washington, DC. Over a number of hours, the conversations covered Board effectiveness, employee satisfaction, climate-

**Discussion:** Amazon has become one of the world's largest employers, making attraction and retention a critical challenge. The head of global workplace health and safety presented convincingly on efforts to make the company an exemplar of safety excellence and transparency. There is a similar ambition for the "career choice" training programme, which some 150,000 employees have joined so far. Keeping employee satisfaction high is almost certainly required if Amazon is to keep its locations union-free. This goal is not without controversy, but the company clearly views it as core to maximising the operational flexibility it thinks it needs for continuous improvement in process and automation. On climate, there is continued progress in renewable fuels and some response to our long-standing request for expanded scope 3 disclosures. Discussion of advancing AI as a tool for both Amazon retail and enterprise customers took the conversation into the working of the Board: how it educates itself and challenges the

**Outcome:** Amazon's agenda came across as twofold: to demonstrate the engagement of the independent directors and the efforts being devoted to employee satisfaction. We left messages on expanded supply chain engagement and the opportunity to lead on responsible and transparent AI.

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Company	Engagement Report
BHP Group Limited	<p>Objective: Ahead of the November AGM, we spoke with Fiona Wild, VP of Climate and Sustainability and members of the IR team to discuss climate-related issues. Unlike last year, there were no specific related resolutions, but we have specific concerns regarding the extent of scope 3 ambition and the use of scenarios.</p> <p>Discussion: With improved climate-related disclosure in this year's annual report, we were able to have a constructive discussion on the development of scenario analysis. Of particular note is the introduction of more robust physical risk scenarios, which the company has been able to use to explore near-term asset and labour resilience. We would like to see this work better integrated into the transition scenarios used for strategic planning and further disclosure of assumptions in the financial statements. On emissions, we continue to press for more information on the development of the downstream iron-to-steel value chain. It was useful to discuss the challenges in reducing methane emissions from the remaining coal mines and positive to hear of the specific R&amp;D efforts for better monitoring and control. We should expect the first battery-driven mine truck in 2024, with fleet replacement over the following decade. We also discussed the improved disclosure of lobbying activities and pushed for a better definition of materiality and alignment.</p> <p>Outcome: A very useful update on progress that allowed us to make an informed judgement on voting ahead of the AGM and to provide early feedback prior to the revised Climate Transition Plan that will be put to shareholders in 2024. We will speak again before that.</p>
Moderna, Inc.	<p>Objective: Ahead of the 2024 AGM, Moderna reached out to get our feedback on some proposed governance changes and ask for our view on some compensation practices.</p> <p>Discussion: During the meeting, we discussed the governance changes proposed, which are uncontroversial and will continue to evolve as Moderna matures as a company. The changes include adopting a majority voting standard for director elections, adopting a proxy access bylaw and the right of shareholders to call a special meeting. We also discussed compensation at a high level. Moderna has come to the end of its first cycle of equity awards linked to performance conditions, and was open about the challenges of setting long-term targets.</p> <p>Outcome: Moderna would like our feedback again once compensation performance targets are disclosed to help them calibrate how challenging the targets are, which we agreed we would be happy to do. We remain interested in how the board will evolve in the short to medium term and we will keep in touch about progress on this.</p>
NVIDIA Corporation	<p>Objective: How has NVIDIA so persistently and successfully identified and delivered next-generation products into the market sooner than anyone else? This was the focus of our meeting with CEO Jensen Huang and CFO Colette Kress in New York.</p> <p>Discussion: Unlike competitors Intel and AMD, NVIDIA is much more a computing company than a chip company. Its shift to selling servers, its cloud initiatives, and its CUDA software all bear this out. Huang is positioning NVIDIA to dominate computing writ large. Its business model allows customers to pick and use what they need from NVIDIA's various hardware and software offerings. The result is that NVIDIA has insight into how almost everyone is working on AI applications and what their needs are. Huang explained that he has configured the governance of the company to support such foresight. In short, they focus on peripheral vision and the dissemination of information. Hence, Huang has a high number of direct reports who each provide him with regular updates on what they hear from their customer interactions. Our discussion was useful in understanding that NVIDIA's prowess is not solely a function of Huang's astute decision-making and widespread respect for his vision - it is also thanks to the strength of the company's organisational culture and its genuinely non-siloed structure. NVIDIA, therefore, tends to know what the most interesting thing that is 'happening' is. This is a kind of secret sauce in building the next generation of products, placing the company consistently ahead of competitors.</p> <p>Outcome: Our meeting with senior management was valuable in understanding how NVIDIA is structured and governed for foresight and what this implies for the company's competitive advantage.</p>

Company	Engagement Report
Olympus Corporation	<p><b>Objective:</b> We met with the CEO of Olympus, Stefan Kaufmann, to understand Olympus' status in the diagnosis and remediation of issues raised in recent warning letters from the FDA. This meeting sought to cover the underlying drivers of the FDA complaints and establish a starting point for future monitoring and potential engagement.</p> <p><b>Discussion:</b> When Kaufmann assumed leadership, Olympus had three main priorities: innovation for growth, patient safety and sustainability, and productivity. However, following the FDA warnings, Kaufmann elevated patient safety to the top priority. While partially symbolic, this reorganisation was shared to be an important beacon for refocusing the manufacturing and quality assurance functions at Olympus. We questioned the underlying drivers of the FDA complaints, and Mr Kaufmann shared that part of the cause for the FDA letters was a clash between Japanese manufacturing practices and American regulation, as well as disjointed internal systems that led to longer feedback loops. Olympus is currently working on improving the capacity of the quality assurance and product safety team, which Mr Kaufmann now believes to be industry-leading. Mr Kaufmann also acknowledged that strengthening internal information flows between teams could have facilitated more effective issue escalation. To fix this, Olympus are implementing new IT tools building faster feedback loops while attempting to enable a culture where the escalation of issues is more acceptable. Part of the incentives to enable this change include the introduction of product quality-related targets in employee bonuses. There are a lot of moving parts, but we were glad to hear that Mr Kaufmann recognised the importance of change management, rooting out the drivers of these issues and monitoring the changes he has implemented.</p> <p><b>Outcome:</b> We came away from the meeting positive about the directionality of remediation and with a greater understanding of Mr. Kaufmann's efforts to improve patient outcomes. The meeting also provided insight into Olympus' ongoing efforts to address the FDA's concerns and provided us with some data points for future monitoring.</p>
Reliance Industries Limited	<p><b>Objective:</b> To assess the company's ambitions, targets, succession planning and future growth opportunities.</p> <p><b>Discussion:</b> We met with the company as well as other organisations during our recent trip to India. The first meeting focused on a range of topics across telecoms, retail, media and energy, and a follow-up discussion (as part of a wider group) provided further understanding of the New Energy business and the company's climate strategy. Reliance's business areas are energy-hungry, including data centres for telecoms and refineries for the oil-to-chemical business. The company's decarbonisation commitments (Net Carbon Zero by 2030) sit alongside its New Energy investments via integrated solar manufacturing with energy storage, electrolyser manufacturing and green hydrogen production. The company is reviewing round-the-clock power opportunities for each business user, which can include combinations of solar and other green energy. The company sees opportunities to significantly reduce its energy costs once its captive renewable energy is ready. The solar PV manufacturing facility is expected to be ready within the year, and by early 2027, both the solar and battery facilities are expected to be operational and fully integrated. On the question of whether anticipated changes in climate were causing the company to adjust operating practices in any areas, no further information was provided.</p> <p><b>Outcome:</b> The discussions provided an important opportunity to assess and calibrate the company's ambition, strategy and targets, given poor disclosures on some topics.</p>



Company	Engagement Report
Sea Limited	<p>Objective: We met with founder and CEO Forrest Li and Chief Operating Officer Yanjun Wang in Singapore to discuss management's strategic decision to lean into long-term growth at the expense of near-term profitability.</p> <p>Discussion: Last time we met with Forrest Li in our Edinburgh offices, he suggested that SEA would cap its losses at a breakeven level, beyond which it would happily reinvest in future growth should opportunities arise. That breakeven point has now arrived. Opportunities have also appeared. SEA's ecommerce platform, Shopee, is therefore reinvesting and expanding, translating into top-line rather than bottom-line growth at this stage. However, the stock market appears to dislike this and reads it as a change in strategy. Li believes the market wants SEA to just continue to post linear increases in profit, whereas he believes it is too early in the company's growth trajectory for that. He frames it as a test of reward today versus (larger) reward tomorrow. Given the operational stresses that the company has faced over the past year or so, there had been a risk that the company reined in its risk-taking at the expense of its long-term growth. Reassuringly for long-term investors, Li's remarks suggest that SEA's quick-moving predatory impulse survives.</p> <p>Outcome: Management appears to be executing a strategy that is consistent and on the basis of strengthened operational performance. Of course, the long-term investment case is not without risk. However, our continued access to senior management has been helpful in gaining insights into SEA's strategic decision-making at a time when the stock market appears fixated on the short term.</p>
Tesla, Inc.	<p>Objective: We met with Tesla's head of Investor Relations and its new Chief Financial Officer (CFO), Vaibhav Taneja, following the retiral of Zach Kirkhorn in August. We aimed to understand how Taneja planned to maintain the financial and operations roles Kirkhorn played at the company and how he sought to support Tesla's future growth.</p> <p>Discussion: Taneja discussed his focus on maintaining and growing market share in a higher interest rate environment through continued efficiency to save costs and making the investments needed in auto innovation and other initiatives. Taneja continues to be the Chief Accounting Officer, for which he has identified a team of people to assume his previous responsibilities.</p> <p>Outcome: A new CFO marks a significant change for Tesla. Kirkhorn joined in 2010 and was CFO from 2019. We are pleased to have opened a relationship with Taneja and aim to continue observing Tesla's progress with his executive direction.</p>
Texas Instruments Incorporated	<p>Objective: The purpose of this call was to discuss Texas Instruments' climate strategy and how the company are ensuring a resilient supply of electricity given challenges relating to Texas's energy grid.</p> <p>Discussion: Texas Instruments confirmed work is underway on a post-2025 decarbonisation target (its current one expires in 2025). They explained that this area is of interest to their customers, who are thinking about how they will meet their own climate targets. There may be a risk that, without having a suitable decarbonisation plan, some customers will choose to procure analogue semiconductors from peers who have stronger climate commitments. From a resilience perspective, Texas Instruments highlighted the multiple mechanisms they have in place to ensure redundancy of their electricity supply, such as positioning fabrication plants at the grid intersection of various power generation facilities.</p> <p>Outcome: We are pleased that Texas Instruments is thinking about how its approach to climate will impact its customers and that they have a strategy in place to ensure that operations can continue in the event of future grid failure or outage.</p>

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