

BAILLIE GIFFORD & CO

Lothian Pension Fund Global Alpha

Report for the quarter ended
31 March 2022



Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	5	Companies	None	Companies	1
Resolutions	32	Resolutions	None	Resolutions	1

When thinking about ESG, it is as important to understand where you are starting from, as where you are hoping to go.

ESG approaches have to accommodate complexity and nuance - these issues do not lend themselves to binary classifications.

Ultimately, effective ESG integration involves ongoing research and engagement, not simple solutions.

Company Engagement

Engagement Type	Company
Corporate Governance	Carvana Co. , Peloton Interactive, Inc. , Prudential plc
Environmental/Social	Alibaba Group Holding Limited , Moderna, Inc. , Rio Tinto Group , Tesla, Inc. , Wizz Air Holdings Plc
AGM or EGM Proposals	BHP Group , Sea Limited , Ubisoft Entertainment SA
Executive Remuneration	Axon Enterprise, Inc. , Prudential plc

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

Companies	Voting Rationale
BHP Group Plc, Genmab, Hoshizaki Corp, SEA Ltd ADR, Wizz Air Holdings Plc	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

We did not vote against any resolutions during the period.

Votes Abstained

Companies	Voting Rationale
Hoshizaki Corp	We opposed the election of the chairman due to the absence of a shareholder vote on the dividend.

Votes Withheld

We did not withhold on any resolutions during the period.

Company	Engagement Report
Alibaba Group Holding Limited	<p>Objective: We met with Alibaba’s director of ESG engagement and IR in order to encourage improved ESG reporting and to explore how sustainability is managed across the Group.</p> <p>Discussion: Alibaba recognises that its ESG reporting has not been comprehensive enough in the past and has committed to improving it greatly in 2022. The ambition to target ESG improvements was evident on the call and we commended the ambition in Alibaba’s recently published carbon neutrality action plan, which seeks Scope 1 and 2 emissions neutrality by 2030. We also focused on the Group’s social responsibility strategy and discussed its new Common Prosperity committee which, chaired by the CEO, aims to establish accountability across the Group for delivering on a number of social initiatives, including improving the quality of jobs provided and enabled by Alibaba.</p> <p>Outcome: We followed up our call with further communications illustrating good sustainability practice and reporting and will continue to meet with the company to encourage positive social and environmental developments at Alibaba.</p>
Axon Enterprise, Inc.	<p>Objective: To discuss the executive compensation policy.</p> <p>Discussion: We engaged with CEO Rick Smith and CFO Jawad Ahsan on the company’s option and performance share plan. Axon has adopted a similar incentive programme to Tesla, based on operational and share price goals over a 10-year period. Company performance over the past few years has been such that the majority of targets have now been achieved and the company is now considering a follow-up plan. We are supportive of the long-term structure of the existing plan and encouraged by the company’s intention to repeat this. We were also glad to hear how the company is thinking about future-proofing the new plan so new employees and existing employees receive equitable incentives, including a service provision to promote retention. We also suggested the company reviews the operational goals attached to the new plan, with the inclusion of a returns-based target considered a sensible metric to focus management on capital allocation.</p> <p>Outcome: We are supportive of initial plans for a new company-wide long-term incentive plan. We intend to re-engage when they have developed a more fully-formed policy and ahead of the say-on-pay resolution.</p>
Carvana Co.	<p>Objective: Our meeting with CFO Mark Jenkins gave us an opportunity to discuss potential macro-economic headwinds and how to ensure management is aligned with the broader goals of the organisation.</p> <p>Discussion: Our Phoenix visit to meet Jenkins covered a range of topics: challenges of the external economic environment, sustainability of strong gross profit per unit, the challenges of scaling and how it continues to entrench its edge over competitors. All of this is underpinned by the discussion of maintaining the Carvana culture of transparency and alignment. Management spends a lot of time and thought in building a collaborative work environment in order to create a culture and the technology to respond quickly to clients. This reminds us of early Amazon. For example, open plan executive offices and transparent meeting rooms have helped promote a collaborative culture. While CEO Garcia’s commitment to give each employee a maximum of \$10,000 of Carvana shares in recognition of the company selling 100,000 vehicles is an indication of the culture of 'skin in the game' alignment.</p> <p>Outcome: The meeting presented useful insights into the business model and culture of the organisation and provided reassurance it can navigate potential challenges to future growth.</p>

Company	Engagement Report
Moderna, Inc.	<p>Objective: Following the 2021 publication of the World Health Organisation's (WHO) roadmap to achieving global Covid-19 vaccination in 2022, we wanted to discuss the feasibility of the recommendations the roadmap outlines for vaccine manufacturers with Moderna. We wanted to emphasise our continued support for steps that will improve global vaccine access. We spoke with the company's General Counsel about this in January.</p> <p>Discussion: We are confident that Moderna is meeting the recommendations and spirit of the WHO's roadmap in most areas. On this call, we requested more detail about its manufacturing ambitions on the African continent and encouraged further ambition in its Global Public Health strategy. More public announcements are likely on this in the near future, but we see these as very positive developments which will improve access to mRNA vaccines and therapeutics over the long term. There are, however, elements of the WHO's roadmap that Moderna does not believe it can meet in full, such as the rapid transfer of know-how and technology.</p> <p>Outcome: We continue to build our understanding of this very complex area of global vaccine equity and will continue to encourage appropriate steps towards achieving this at Moderna.</p>
Peloton Interactive, Inc.	<p>Objective: We had a series of meetings with Executive Chair John Foley, CFO Jill Woodworth, board members Karen Boone and Jay Hoag, and new CEO Barry McCarthy to discuss recent management changes.</p> <p>Discussion: Our initial concern with Foley's replacement, Barry McCarthy, was that this was a cosmetic move to boost the share price ahead of a potential acquisition. While McCarthy's track record is admired from his days as CFO at Spotify and Netflix, it wasn't immediately clear that his experience is relevant to the areas where Peloton has struggled (notably in the hardware business). However, the board explained that it is the partnership of McCarthy and Foley that is essential for Peloton's next stage of growth. We believe that the combination of their skill sets will be powerful as McCarthy has partnered with visionary founders before and views Foley among these. McCarthy plans to examine all areas of the business and has already identified key areas where immediate improvement needs to be made, such as ongoing evaluation of leadership, staffing changes and a shift in resource allocation from low-value hardware to high-value software.</p> <p>Outcome: We think McCarthy's appointment is a positive development, and we will continue to engage and monitor the progress the company makes.</p>
Prudential plc	<p>Objective: To explore the leadership transition and the board's decision that the new CEO and CFO will be based in Asia.</p> <p>Discussion: We had a call with the chair following the announcement that the CEO is stepping down. The CFO will serve as interim CEO to provide continuity and will help with the transition before he too steps down. Both the new CEO and CFO will be based in Asia. The search for a new CEO has started.</p> <p>Outcome: The chair is experienced in CEO searches. We are satisfied with the succession management process and, as most of the business and growth potential is in Asia, with the decision to base the executives there.</p>

Company	Engagement Report
<p>Tesla, Inc.</p>	<p>Objective: We engaged with the company to learn more about its decision to open a showroom in Xinjiang and the recent legal case against the company alleging racist behaviour at its Fremont factory.</p> <p>Discussion: We received helpful clarity regarding Tesla's operations in Xinjiang. We are cognisant of concerns about human rights abuses in the region involving the Uyghur population. The company explained that the new site is a service centre used for customers, who previously had to drive three hours to other centres in China. We also learned that Tesla is investing in their responsible teams and has been completing upstream audits on their supply chain. Reviews of tier-one suppliers have been completed and work is ongoing to assess tier two to four suppliers. Reassuringly, all work done so far shows no sign of forced labour.</p> <p>The second half of our discussion focused on the recent Department of Fair Employment and Housing (DFEH) case against Tesla alleging Black employees experienced pervasive racism. There are a few similar cases outstanding against the company. However, it is difficult to prejudge the outcome of these processes. What we have seen over consecutive years is that the company is increasing its investment in human capital management and employee engagement. This includes better terms and conditions for staff, improving health and safety statistics and a more diverse employee base throughout the organisation.</p> <p>Outcome: We received some helpful clarification on important employee and supply chain topics. We will continue to monitor these issues going forward, including raising them with the company ahead of this year's AGM.</p>
<p>Ubisoft Entertainment SA</p>	<p>Objective: We engaged with Ubisoft as part of its pre-AGM roadshow.</p> <p>Discussion: This was a good opportunity to discuss proposed company resolutions in advance of the July AGM and we primarily focused on those related to executive remuneration. The targets within the ESG components are evolving and we noted a shift towards more stretching targets as part of this, which is positive. However, we voiced concerns about the proposed reduction in the vesting period for the performance share awards available to the Executive Committee.</p> <p>Outcome: We provided constructive feedback on key aspects of executive remuneration and will analyse the finalised resolutions once these are published in advance of the AGM.</p>
<p>Wizz Air Holdings Plc</p>	<p>Objective: To discuss the company's approach to human capital management and employee engagement.</p> <p>Discussion: We continued our dialogue with Wizz Air about its staff and how it thinks about unionisation. The company is focused on maintaining a good relationship with staff, ensuring that it provides well-paid jobs and responsible rostering. Both of which are vital for employees to have a healthy, comfortable lifestyle. Work is also ongoing to maintain open communication with staff, including regular surveys and base visits by management.</p> <p>Outcome: We encouraged the company to continue communicating with its staff and where possible improve the disclosure of information which will allow stakeholders to better understand the company's human capital management practices.</p>

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