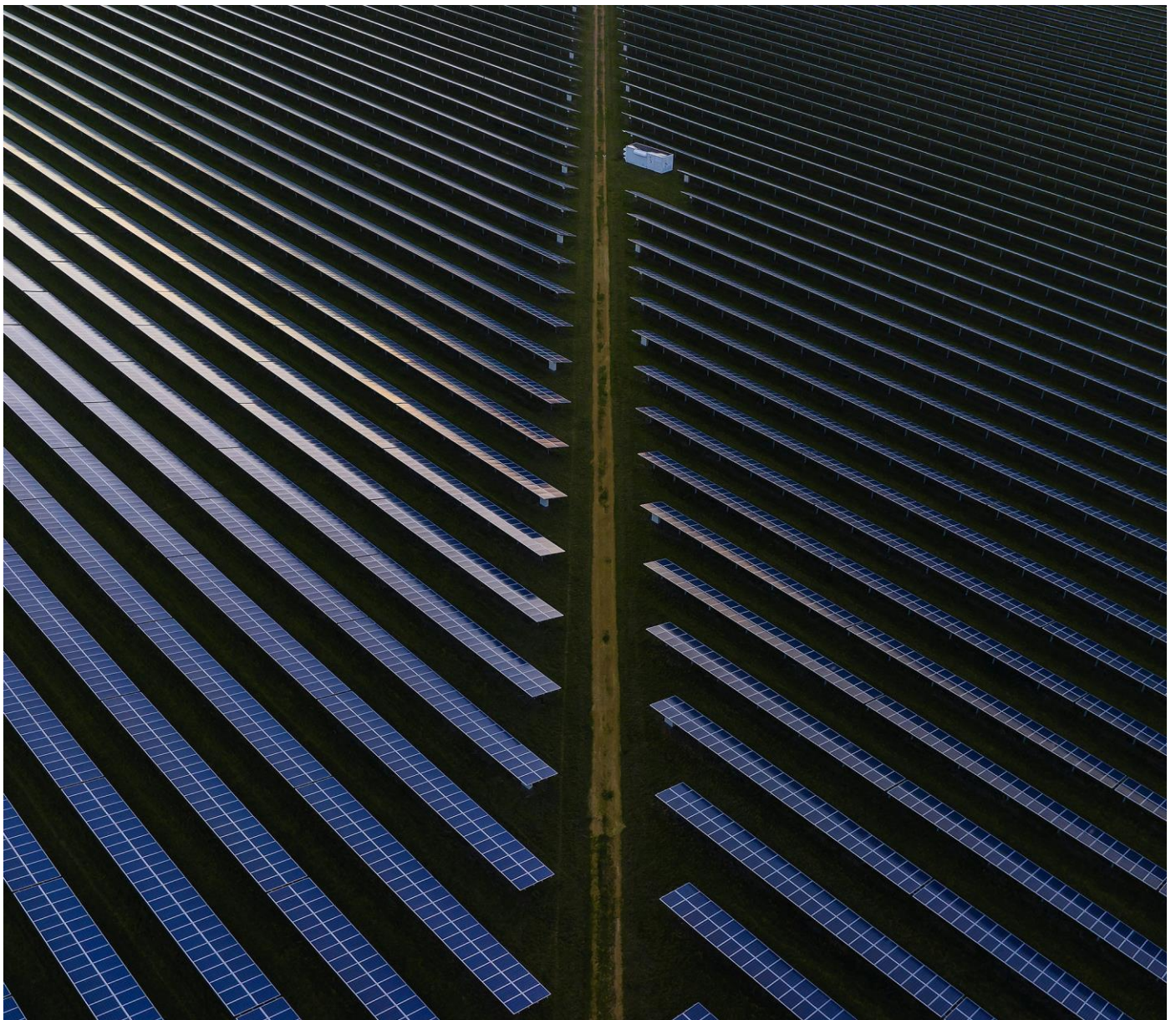


Lothian Pension Fund Global Alpha

Report for the quarter ended
30 September 2023



Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	6	Companies	1	Companies	None
Resolutions	82	Resolutions	3	Resolutions	None

The third quarter of the year saw the publication of the Global Alpha Stewardship Report for 2022. This is available on the website

Baillie Gifford was successful in its reapplication to the 2020 Stewardship Code

We have completed our 2023 voting season review and in some instances, this is informing future engagement priorities

Company Engagement

Engagement Type	Company
Environmental	Adyen N.V., Amazon.com, Inc., CoStar Group, Inc., Markel Group Inc., Prosus N.V., Ryanair Holdings plc, Tesla, Inc., Wayfair Inc.
Social	Adyen N.V., CoStar Group, Inc., Illumina, Inc., Tesla, Inc.
Governance	Adevinta ASA, Adobe Inc., Adyen N.V., Alibaba Group Holding Limited, Alnylam Pharmaceuticals, Inc., Amazon.com, Inc., B3 S.A. - Brasil, Bolsa, BalcAo, Cloudflare, Inc., CoStar Group, Inc., Compagnie Financière Richemont SA, Coupang, Inc., Illumina, Inc., Markel Group Inc., Mastercard Incorporated, Rio Tinto Group, SMC Corporation, STAAR Surgical Company, Sartorius Stedim Biotech S.A., Schibsted ASA, Shopify Inc., Snowflake Inc., Taiwan Semiconductor Manufacturing Company Limited, Teradyne, Inc., The Trade Desk, Inc., Thermo Fisher Scientific 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.

Company	Engagement Report
Adevinta ASA	<p>Objective: To ensure minority shareholders' rights are respected during a takeover offer.</p> <p>Discussion: Adevinta is a collection of European classified advertising businesses. It has a number of significant shareholders (including its former parent company, Schibsted), who collectively own the majority of its share capital and also have strong representation on the board. The company announced in September that a consortium of those shareholders, led by private equity company Permira, was considering an offer to take the company private. We have been engaging with the company's Chair and other board members to ensure that any offer is considered in a transparent way and that any recommendation reflects the company's many opportunities.</p> <p>Outcome: We have had a constructive preliminary discussion focused on the process, which provided reassurance that it will be overseen by Adevinta's independent directors. We will continue our engagement if an offer materialises later this year.</p>
Adyen N.V.	<p>Objective: The Dutch payments company Adyen suffered a significant share price drawdown following the release of the H1 2023 earnings report. Whilst we continue to have confidence in our investment thesis, we met with management to discuss how they could improve investor communication in future earnings reports.</p> <p>Discussion: The CEO and CFO requested feedback from us on how to improve market communications, given our long-standing relationship as supportive shareholders. Adyen is sincerely managed for the long term; as such, they do not provide near-term guidance and only report half-yearly. A recent sell-side open letter has called for Adyen to start guiding to quarterly key performance indicators (KPIs). As aligned long-term shareholders, we discouraged this, as it could lead to the company being managed to these short-term KPIs. We did, however, make it clear that a better balance should be struck between the long-term and the near-term in their market communication. For instance, we advocated that the company provide more directional guidance around material near-term developments, as they successfully did with their plans to countercyclically invest in headcount and their near-term volume guidance under exceptional COVID-19 conditions. Taking this approach should reduce informational vacuums and therefore reduce the likelihood of the market to incorrectly extrapolate short-term developments.</p> <p>Outcome: Following our feedback, Adyen intends to update the market on its plans to improve communications. As we would expect, Adyen remains resolute in finding a solution that does not unduly interfere with their focus on building the business for the long term.</p>

Company	Engagement Report
Amazon.com, Inc.	<p>Objective: We spoke with the company's head of ESG engagement to discuss progress and developments in Amazon's climate strategy. With one of the largest value chains in the world, Amazon's sustainability initiatives mitigate risk of supply chain disruptions, support its brand and reputation, contribute to operational efficiencies and long-term cost savings.</p> <p>Discussion: Amazon has positioned itself as a climate leader by setting ambitious decarbonisation targets and establishing The Climate Pledge to accelerate climate action by the world's top companies. However, recent developments indicate challenges to delivering on its climate strategy. We discussed the company's decision to step back from its SBTi commitment. Amazon referred to methodological differences with the SBTi regarding business complexity and differentiated pathways, both organisations' approach to offsets and Amazon's ongoing development as a high growth business. The company are looking at alternative organisations to validate its emissions targets and we hope a new supply chain standards report, due in 2024, provides more insight into how the company is progressing climate action and sustainability across its value chain. Finally, we repeated our encouragement for Amazon to broaden the scope of its targets to include upstream emissions from first-party and third-party sellers on its platform. Given the company's systemic importance, we believe this would be an important catalyst for decarbonisation across the value chain.</p> <p>Outcome: We remain supportive of Amazon's long-term aspiration to be net zero by 2040 and understand the pathway to this goal will be challenging. We asked for greater transparency in how Amazon plans to achieve its objectives and outlined our belief that external validation of its targets is important to ensure accountability beyond its immediate emissions boundary. We will continue to monitor the company's progress and engage when necessary.</p>
Compagnie Financière Richemont SA	<p>Objective: We engaged with the Swiss luxury holding group Richemont due to board changes and our ongoing concerns regarding executive remuneration practices.</p> <p>Discussion: The concerns relate to poor structure and disclosure of remuneration, which undermine our ability to assess pay for performance. This meant we voted against variable remuneration at the 2022 Annual General Meeting (AGM). We requested to speak directly with the Lead Independent Director and Chair of the Remuneration Committee, Clay Brendish, ahead of the 2023 AGM, but we were informed that this would not be possible until after our voting deadline. We spoke with an Investor Relations representative instead. Richemont informed us that it does not want to disclose targets for the Long-Term Incentive Plan (LTIP) remuneration portion for reasons of commercial sensitivity. We then asked for reflections on the significant dissent on remuneration received from free-float shareholders at last year's AGM. Richemont believed the primary reason for this was the undisclosed executive receiving a special award. This year, Richemont has disclosed the CFO as the beneficiary. Replacement of long-tenured board members is also an ongoing process, and the board is seeking new representatives with an understanding of clientele in the US and Asian markets.</p> <p>Outcome: We escalated voting action to oppose the Remuneration Committee Chair and the variable remuneration component at the 2023 AGM. Remuneration was the subject of significant dissent again this year, with 23% of shareholders voting against executive variable remuneration. The Remuneration Committee Chair also received 9% of votes against their re-election.</p>

Company	Engagement Report
CoStar Group, Inc.	<p>Objective: CoStar provides information, analytics and online marketplaces to the commercial real estate industry in North America and the UK. The objective of our meeting was to explore aspects of sustainability most material to CoStar, namely, human capital, social issues and data privacy.</p> <p>Discussion: During our discussion about human capital and social issues, management was keen to balance employees' needs and the imperative for growth. CoStar conducted a materiality assessment several years ago, identifying attrition and engagement as concerns. They believe the answer to this issue was in people leadership. The board spends a lot of time on strategy alongside acquisitions and integrations, and the head of HR presents to CoStar's board at least twice yearly. Attrition rates have fallen, and engagement scores have subsequently risen, suggesting this focus on people leadership is having a positive effect.</p> <p>Data privacy has always been on top of CoStar's priority list due to its large dataset, which is a source of competitive advantage. The engagement surfaced CoStar's continued focus on strengthening its data and cyber security as it integrates AI further into its business.</p> <p>Outcome: By engaging thoughtfully, we expand our understanding of an investment opportunity by considering the whole-system implications of a company's actions. Through ongoing discussions with company leadership, it has become clear that CoStar sees human capital, social issues and data privacy as among the most material to the long-term sustainability of their businesses. We agree.</p>
Coupang, Inc.	<p>Objective: To gain further understanding of how Coupang, the South Korean e-commerce platform, promotes a culture that seeks to strike the right balance between risk and reward. Coupang's CEO, Bom Kim, also asked for our honest feedback on how the company could navigate long-term relationships and capital markets.</p> <p>Discussion: Kim was explicit in emphasising that he did not want the company's relatively recent profitability to result in complacency, nor should it be at the expense of growth. He views growth through the lens of customer proposition - any growth slowdown prompts a revision of the proposition, rather than making investments that do not directly improve the customer experience and product. Regarding our feedback and our experience with long-term investment relationships, we suggested Kim would benefit from a better balance between hyperbole and humility when addressing investors at larger events.</p> <p>Outcome: We retain enthusiasm about the opportunity set for Coupang, as well as confidence in the company's ability to execute on these opportunities, enabled by its differentiated culture. Going forward, we would like to continue discussions on investor-investee relationships and communicate our support for ambitious goal-setting.</p>

Company	Engagement Report
Prosus N.V.	<p>Objective: Prosus' businesses operate in high-growth markets that are more vulnerable to climate-related risks. Climate mitigation and adaptation will help portfolio companies reduce operational risk, enhance valuations, and increase their ability to raise capital. We met with the company to monitor the evolution of its climate strategy.</p> <p>Discussion: We spoke with the Head of Global Sustainability, Prajna Khanna, to learn more about the company's approach to climate change and its long-term ambitions. In conversation we learnt that over the past 12-18 months, the company has made significant progress in better understanding possible sources of climate-related risk and opportunity across its own operations and portfolio of holdings and taken steps to address those. Disclosure of emissions data has improved this year (an expectation under EU regulation), and new decarbonisation targets have been set. Specifically, the company commits to reduce absolute scope 1 and 2 emissions by 100 per cent by 2028 versus a 2020 baseline. It also targets 35 per cent of eligible private and listed investments by invested capital have set validated SBTi targets by 2028. The latter scope 3 target is important as this is where the majority of the company's emissions are located. We also learnt that the company aims to show leadership in representing emerging markets and southern hemisphere businesses in the development of climate policy and standards.</p> <p>Outcome: Following our discussion, the company's emissions targets received external validation from SBTi, including confirmation of alignment with a 1.5-degree pathway. This demonstrates significant improvement in the business's climate strategy. We believe these improvements are supportive of the long-term investment case and should facilitate sustainable value creation for the benefit of our clients.</p>
Shopify Inc.	<p>Objective: Merchant software company Shopify decided to sell its logistics arm in May this year. The company had been investing heavily in building this fulfilment network. We believed this could enable Shopify to continue to deepen its relationships with merchants and broaden its opportunity set. Shopify's decision to sell the division challenged this view. Our objective was to understand what drove Shopify's decision to sell, as well as how that sale was executed.</p> <p>Discussion: We met with Toby Lutke, CEO and founder, to discuss these points in July. Lutke expressed that his reasons for selling the logistics arm centred on investment, culture, margin, and opportunity. Expanding on these areas, Lutke noted that a changed cost of capital environment increased the cost of building a logistics network beyond what would make it a viable proposition. On culture and margin, Lutke became increasingly of the view that Shopify, a high-margin software business, couldn't become a company fixated on basis points of savings, and couldn't run the logistics arm at attractive enough margins. Regarding opportunity, Lutke expressed that the decision to sell the logistics arm would be better for the business, resulting in more retailers and better margins. He noted that making the business leaner would make it ideally suited to capture the substantial opportunities available from new AI technology.</p> <p>Outcome: The discussion with Lutke reassured us. The decision to exit logistics was Lutke's alone. It shows he retains the moral authority to shape his business on key issues, something we look for in long-term companies. We plan to continue engaging with Shopify's management and monitor the company's progress.</p>
The Trade Desk, Inc.	<p>Objective: Following several high profile departures at the company over the last few years, we met with Investor Relations (IR) to understand the rationale for Co-Founder/Chief Tech Officer, Dave Pickles, retiring.</p> <p>Discussion: We discussed the circumstances around Pickles' departure, with IR highlighting that he had been stepping back from operational responsibilities for some time. Proactive succession planning means that the company has established credible successors and is well placed for the future.</p> <p>Outcome: While the individual explanations are reasonable, the trend of management turnover bears close watching. We will continue to monitor this for signs of cultural strain.</p>

Votes Cast in Favour

Companies	Voting Rationale
Advanced Drainage Systems, Alibaba Group Holding, Chewy, Prosus N.V., Richemont, Snowflake Inc	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Richemont	AGM 06/09/23	6.1	We opposed the appointment of the chair of the remuneration committee due to ongoing concerns with executive variable remuneration practices which we do not believe are in the best long term financial interests of shareholders. Concerns include poor disclosure and a lack of responsiveness to previous shareholder dissent.
Richemont	AGM 06/09/23	9.3	We opposed the approval of executive variable remuneration due to ongoing concerns with remuneration practices which we do not believe are in the best long term financial interests of shareholders. Concerns include poor disclosure and a lack of responsiveness to previous shareholder dissent.
Companies	Voting Rationale		
Richemont	We opposed the request to authorise other business. We do not believe this is in the best interests of clients who vote by proxy.		

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

Votes Not Cast

Companies	Voting Rationale
Ryanair	No Vote: We no voted this meeting as the company has restricted the voting rights of non-EU holders of Ordinary shares and ADRs post-Brexit.

Head Office
Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +044 (0)131 275 2000

Copyright © Baillie Gifford & Co 2023