Baillie Gifford™

Stewardship Report
Year ended 31 December 2024

Global Alpha

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Contents

Stewardship in an ever-evolving world

Over the course of 2024, we have seen increasingly divergent perspectives emerging on how businesses should navigate their responsibilities regarding environmental, social and governance (ESG) issues. Yet, in this increasingly complex and volatile world, we have not deviated from our approach to identifying exceptional businesses and integrating material ESG factors into our investment process.

We firmly believe that to be sustainable in the long term, companies must be run considering their stakeholders in the broadest possible sense. This conviction has not changed, even as public discourse around ESG has become increasingly fractured. Our dedication to thoughtful, nuanced analysis of potential holdings and ongoing stewardship is unwavering. We continue to be guided by a single north star: delivering exceptional long-term returns for our clients.

While our core philosophy remains steadfast, we recognise that navigating today's rapidly changing world requires continuous learning and adaptation. Throughout 2024, we've deepened our understanding of multi-layered issues such as the global climate challenge by engaging with experts to support the evolution of our thinking. This pursuit of knowledge enables us to better evaluate the material factors that may influence a company's sustainability over the longer term.

In this report, you will find the following insights:

- Company engagement examples
- Introduction to Baillie Gifford's Climate Scenarios Project
- Relevant ESG and carbon metrics

As always, we hope this report will be the springboard for an ongoing conversation. If you would like to discuss anything you read here in more detail, please do not hesitate to get in touch.

The Global Alpha Team

Baillie Gifford's Stewardship Principles

Only a select number of special businesses have the potential to deliver exceptional long-term returns for our clients. Our core task as investors remains to identify those companies and invest in them on your behalf. But this is only the start of the story.

After purchasing an initial holding, we take an active stewardship role. Our aim is to embolden ambition, focus attention on long-term value creation, and help businesses meet their full potential. If we get this right, not only can these companies deliver exceptional returns over the long term, but they may even influence change across whole industries and the broader economy.

Our aim is to embolden ambition, focus attention on long-term value creation, and help businesses meet their full potential

Long-term value creation

We believe that companies that are run for the long term are more likely to be better investments over our clients' time horizons. We encourage our holdings to be ambitious, focusing on long-term value creation and capital deployment for growth. We know events will not always run according to plan. In these instances, we expect management to act deliberately and to provide appropriate transparency. We think helping management to resist short-term demands from shareholders often protects returns. We regard it as our responsibility to encourage holdings away from destructive financial engineering towards activities that create genuine value over the long run. Our value will often be in supporting management when others don't.

Alignment in vision and practice

Alignment is at the heart of our stewardship approach. We seek the fair and equitable treatment of all shareholders alongside the interests of management. While assessing alignment with management often comes down to intangible factors and an understanding built over time, we look for clear evidence of alignment in everything from capital allocation decisions in moments of stress to the details of executive remuneration plans and committed share ownership. We expect companies to deepen alignment with us, rather than weaken it, where the opportunity presents itself.

Governance fit for purpose

Corporate governance is a combination of structures and behaviours; a careful balance between systems, processes and people.
Good governance is the essential foundation for long-term company success. We firmly believe that there is no single governance model that delivers the best long-term outcomes. We therefore strive to push back against one-dimensional global governance principles in favour of a deep understanding of each company we invest in.
We look, very simply, for structures, people and processes which we think can maximise the likelihood of long-term success. We expect to trust the boards and management teams of the companies we select, but demand accountability if that trust is broken.

Sustainable business practices

A company's ability to grow and generate value for our clients relies on a network of interdependencies between the company and the economy, society and environment in which it operates. We expect holdings to consider how their actions impact and rely on these relationships. We believe long-term success depends on maintaining a social licence to operate and look for holdings to work within the spirit and not just the letter of the laws and regulations that govern them. Material factors should be addressed at the board level as appropriate.

Spotlight on: our Engagement Hub

We must have the appropriate infrastructure to be effective stewards on our clients' behalf. To this end, we continue to evolve our suite of in-house tools, enhancing our ability to exercise our rights and responsibilities for our clients.

We have developed and implemented a proprietary system (our Engagement Hub) that provides a firmwide view of the details and status of engagement objectives. This is the result of a multi-year project involving internal consultation and refinement to deliver a solution that best supports our approach to stewardship.

The platform allows investment strategies to record engagement priorities, anticipated timelines, desired outcomes and to track progress over the lifecycle of engagements. We envisage two overarching benefits to be realised from this tool.

First, the holistic view of engagement objectives will enable better coordination, transparency and collaboration across the investment floor, supporting more effective coordination of our stewardship activities. Second, we anticipate that having more detailed tracking of engagement objectives in a central database will support us in producing more effective reporting on engagement outcomes in future years.

The project entered its pilot phase in the second half of 2024 and has already supported us in providing more detailed quarterly reporting to clients on several data points, including types of engagements and how these are progressing against objectives. Looking ahead to 2025, we will continue to build out the usage of the Engagement Hub and consider how we can harness the platform to continue to improve our engagement reporting to clients.

Company engagements: Stewardship Principles in action

© Amazon

Amazon

Online retailer and web service provider

Background

We first invested in Amazon in 2006. Over our long holding period, the company has matured from a US retail disruptor to an entrenched and diversified leader across ecommerce, cloud computing and streaming. It has also evolved and improved its processes and governance across a range of ESG issues, including climate, employee welfare, and supply chain management. However, we believe the company can be more proactive and continue to engage on these issues.

Objective

In 2024, we engaged with Amazon through two key discussions. The first was an investor roundtable with Amazon's management, including the CEO and CFO, to understand their long-term strategy and ESG initiatives. The second meeting was with Amazon's ESG team to delve into issues including employee engagement, supply chain transparency, and artificial intelligence (AI) governance.

Discussion

Three key areas to highlight from engagements this year are:

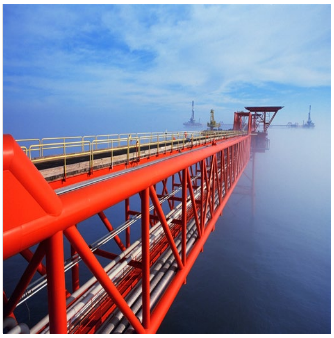
01. **Labour practices** – There are various company-wide initiatives to support employee engagement, including the 'Dragonfly' software tool that records employee safety-related feedback to turn into measurable action. Over 200,000 observations were actioned in 2023 and injury rates have reduced to substantially below the industry average.

02. **AI governance** – We were pleased to hear that Amazon is engaging with governments on AI regulation with interoperable international standards. The company has established internal principles for responsible AI use and has board oversight. The appointment of Andrew Ng (co-founder of Google Brain, DeepLearning.AI and Coursera) has strengthened this approach. We have encouraged the company to continue acting as a thought leader in transparency and educating retail customers.

03. **Climate** – Amazon has substantial decarbonisation ambitions and in 2023 alone, it contracted 28GW of renewable power (equivalent to more than 50 per cent of the UK's entire installed capacity). We are also encouraged that Amazon will disclose new supply chain standards. We supported a related shareholder resolution at the 2024 AGM and see these new standards as an opportunity to expand the company's boundaries for supply chain emissions reporting and consequent decarbonisation ambitions. The partnership with Rivian for electric delivery vans, for example, was noted for its benefits in safety, maintenance, and carbon footprint.

Outcome

We believe the company's proactive approach to ESG issues is commendable. However, challenges persist regarding its adherence to its stated commitment to workers' freedom of association and collective bargaining rights. We supported a shareholder resolution on this issue at the AGM and will continue to monitor going forward. Ongoing key topics for engagement going forward also include supply chain transparency and AI governance.



Petrobras

Brazil's national oil and natural gas producer

Background

Petrobras was purchased for the portfolio in 2024[1] but is a stock the Global Alpha team knows well, having previously owned the company between 2005 and 2014. Our investment is underpinned by the quality of the company's asset base, particularly its oil reserves in the Santos Basin, found beneath the ocean floor off the coast of Brazil. These are among the world's lowest-cost reserves outside the Middle East and are unusually productive, with relatively low levels of carbon intensity.

While Brazil has one of the lowest carbon electricity grids in the world, fuels provided by Petrobras still play an important role in the country's energy system (particularly when hydro is not operating). The company also plays a crucial role in Brazil's economy as a significant contributor to government revenue and employment across a long value chain, with a proportion of pre-salt exploration royalties specifically funding health and education[2].

Objective

As Petrobras is also held in Baillie Gifford Emerging Markets strategies, the Global Alpha team has benefited from insight generated from engagements that took place earlier in 2024, which informed our investment case for the stock. Engagements over the course of the year focused on two key priorities. First, we sought to monitor and assess the company's operational emissions targets and strategy in relation to Brazil's energy transition and global climate goals. Our expectations include full emissions disclosure and a clear plan for reducing operational emissions, with a focus on any fugitive methane. We are also interested in the interplay between social and environmental factors in Brazil's energy transition. Second, we aimed to monitor governance given the Brazilian government's majority voting control and significant economic interest, recognising the risk of political intervention despite positive developments following the 2015 corruption scandal.

Discussion

Governance – Given the Brazilian government's majority voting control[3], governance remains a critical focus area. In the wake of the 'Lava Jato' corruption scandal in 2015, a range of improvements were implemented in Petrobras and Brazil for state-owned enterprises. Bylaws now reduce political interference, and there are more gatekeepers for decisions. Costs were cut, capital spending was optimised, and growth returned. However, progress has not been smooth, and the risk of political intervention remains. In addition, since 2016, Petrobras has had nine chief executive officers, with the latest change occurring in May 2024. While there are always concerns that a new government could bring new interventions and that a new CEO and board will have differing views, the CEO's tenure appears to be going well.

[1] Excluded from Responsible Global Alpha portfolios due to revenue-based screens relating to fossil fuels.

[2] Reference: https://www2.camara.leg.br/legin/fed/lei/2012/lei-12734-30-novembro-2012-774705-publicacaooriginal-138258-pl.html

[3] Brazilian law requires that the Brazilian federal government owns the majority of voting stock and has the power to elect a majority of the board members and, through them, executive officers, who are responsible for day-to-day management. The government holds just over 50 per cent of the voting shares and has a direct economic stake of just under 30 per cent.

Climate – As a major oil producer in an emerging market, Petrobras has a complex role at the nexus of the climate and energy transitions. Petrobras has demonstrated commitment to reducing its operational emissions, having set a goal of net zero operational emissions by 2050. As Brazil has restored and ramped up its climate commitments, the company will need to increase operational decarbonisation alongside ensuring effective capital allocation for new projects to ensure it remains competitive. We are encouraged that the company has already achieved a 41 per cent reduction in total operational absolute greenhouse gas emissions between 2015 and 2023 and met its intensity target of 15 kg carbon dioxide equivalent per barrel (CO_2e/barrel) of oil.

In August 2024, we met with the heads of governance and climate in Brazil followed by a meeting with the chief financial officer (CFO) in London in September. In its updated business plan from November 2023, Petrobras increased its allocated capital expenditure for operational decarbonisation[4]. We learned that the company is focusing on efficiency gains, identifying opportunities to eliminate flaring further and improve energy consumption and supply. Petrobras has one of the largest carbon capture and storage (CCS) programmes globally in the context of offshore oil and gas production, and this expertise is now being explored for new onshore CCS hubs that would link with adjacent emitting industries (such as chemicals and cement). The company has increased capital expenditure on low-carbon projects from six to 11 per cent of total spending. It is also exploring small investments in solar and onshore wind where it can be profitable, along with Sustainable Aviation Fuels (SAF) and hydrogen.

Outcome

The meetings with Petrobras and other experts in Brazil helped us better understand the company's governance and operations within the context of the global energy transition, as well as Brazil's particular opportunities and potential. We are supportive of Petrobras's approach and continue to encourage and challenge the company to be more ambitious in managing its direct, operational impacts. The company demonstrates strategic awareness and is willing to debate the shifting options for capital allocation that may unfold between oil and gas, new energies and shareholder dividends.

The complexities surrounding Petrobras's role in Brazil reinforce the need for nuance regarding oil and gas exposure. Given the important role that Petrobras plays in Brazil, owning Petrobras means working in partnership with the Brazilian government, which brings opportunities and risks. We will continue to monitor progress and engage with the company on these topics where appropriate.

[4] Areas of particular focus include the electrification of new floating production, storage and offloading (FPSO) vessels and delivery of its near-zero methane emissions target for 2030.

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Samsung Electronics

Global leader in semiconductor products, mobile communications, and consumer electronics

Background

We purchased Samsung Electronics for the portfolio in 2024, excited by the growth opportunity in its semiconductor business. Within our research prior to purchase, we weighed up the materiality of governance concerns relating to accusations of stock price manipulation and unfair trading surrounding vice chairman Lee Jae Yong. Having previously held the company between 2009 and 2018, we gained confidence based on clear evidence of Samsung improving its governance practices. Since purchase, governance issues have been our top engagement priorities.

Objective

Over the course of 2024, we met with the company twice to better understand its progress and direction of travel, seeking to encourage continued progress on various governance topics. We also discussed its sustainability strategy, performance, and targets.

Discussion

Prior to investment we conducted a thorough review of Samsung's corporate governance practices to assess improvements made since our first period of ownership. We found that the company had formed a Compliance Committee (composed of six independent directors and one executive director). It has also sought advice and expertise from Korea University's Corporate Governance Research Institute and Boston Consulting Group (BCG) on governance reform, top management's compliance risks and evaluation indicators. We noted the separation of the roles of chair of the board and CEO, which was designed to enhance transparency and promote accountability in decision-making. Since then, Samsung has benchmarked its corporate governance standards against those of other leading companies globally and is aligning incentives with long-term company performance.

Environmental strategy –

- Setting its environmental strategy in 2022 marked a milestone for Samsung. The company committed to achieving net zero emissions across all global operations by 2050, with an interim target of achieving net zero (scope 1 and scope 2) for its consumer electronics business by 2030. Plans were also put in place to increase its use of renewable energy, to increase water reuse and to develop carbon capture technology. The company is progressing well, developing and commercialising technologies to capture and use carbon emitted from its semiconductor manufacturing sites.
- Reducing scope 2 emissions continues to be a challenge but Samsung remains committed to fully transitioning to renewable energy at its global and device division sites. It is working with industry peers through the Semiconductor Climate Consortium to develop a sector-based approach for this transition. The company is also working on its approach to water management. At two of its sites, water is recycled to meet standards for re-use in the chip manufacturing process.

Outcome

Our 2024 engagements have helped us to better understand Samsung's progress and direction of travel in its environmental strategy and improvements to its corporate governance standards. We remain committed to supporting Samsung Electronics in its journey towards improved sustainability and governance practices.

CRH

Building materials supplier

Background

Baillie Gifford has been a shareholder in building materials company CRH since 1995 and the company has been a Global Alpha holding since the strategy's inception in 2005. Over our holding period, our discussions have spanned a wide range of strategic and operational topics, including environmental and governance-related items, and have focused on supporting long-term value creation.

Objective

Our engagements with CRH throughout 2024 focused on executive compensation, decarbonisation strategies and shifting regulatory landscapes. After CEO Albert Manifold's retirement, we also sought to understand how the transition to his successor Jim Mintern (previously CFO) was being managed.

Discussion

On remuneration, we noted the shift towards US-style compensation structures due to CRH's increasing US market presence. We provided feedback on the increased quantum of pay and revision of the long-term incentive framework.

On climate-related issues, discussions highlighted CRH's integration of pricing carbon in all strategic decisions, including their acquisitions and divestments. We specifically sought clarification on ongoing sustainability disclosures and scenario analysis following regulatory changes in the US market. Discussions also focused heavily on the changing regulatory environment and divergence between the US and the EU. CRH explained their lobbying approach, which is often locally focused, such as improving the sustainability of material standards and building regulations at a municipal level.

Further engagements emphasised understanding CRH's decarbonisation trajectory beyond 2030, particularly given uncertainties around Carbon Capture Utilisation and Storage (CCUS) technologies. We encouraged deeper transparency regarding its carbon cost calculations and their impact on business operations. We also encouraged further dialogue around how CRH supports low-carbon product innovation through its CRH Ventures project.

Outcome

We are pleased to see that the CEO transition is going smoothly. Our engagements with the company have helped us to gain clarity on executive succession plans and recruitment. We now have a clearer understanding of the balance between maintaining a long-term strategic focus on executive remuneration structures and US market practices. We also received assurance that recent acquisitions were thoroughly assessed in terms of their compatibility with decarbonisation targets. We believe that, while CRH's interim (2030) emissions targets remain credible, longer-term strategies for 2050 are less clear due to reliance on technological innovation. We will continue to monitor this closely.

Looking ahead to 2025, we will pay particular attention to the strategic implications of regulatory divergence between US and EU policies. We remain committed to supporting CRH's transition towards net zero emissions by 2050 through constructive engagement and ongoing stewardship efforts.

Climate Scenarios Project: navigating an uncertain future

We are standing at the crossroads of our planet's future. Here, the global climate challenge presents us with not one, but two, simultaneous transitions. On one hand, we're witnessing a technological revolution in energy sources and uses. On the other hand, we're facing an unparalleled shift in our physical environment.

Thoughtful analysis of the likely impacts of the twin transitions of energy and climate is crucial within the research and analysis of all potential holdings and on an ongoing basis once a company has entered the portfolio.

For some companies, these transitions will present new growth opportunities. For others, there is a clear risk of straight obsolescence or other challenges posed to their growth that remain unclear at this juncture.

Understanding, describing and quantifying these risks and opportunities is not easy. We have found significant limitations in the ability of 'quantitative' tools, as they are too narrow and ultimately unsuited to the requirements of an active growth manager with a long-term investment horizon. At the same time, we recognise the need to challenge ourselves to explore a range of varied but plausible futures.

So we enlisted the help of partners Deep Transitions (a collaboration between the universities of Utrecht and Sussex) and Independent Economics (a macroeconomics consultancy) to develop a set of climate scenarios to help us integrate climate themes into our investment process. The scenarios are based on NGFS (Network for Greening the Financial System) 'orderly', 'disorderly' and the 'hot house world' scenarios and were refined through rigorous debate across Baillie Gifford's investment teams. This has exposed knowledge gaps and differences of opinion that will help us to ask better questions of companies within our ongoing engagement. And as the opportunities evolve, we can adapt – or develop new – perspectives.

The scenarios

Hot House World

In this scenario, global efforts to mitigate climate change fall short, with global warming exceeding 2.5C by 2100. The consequences, including those below, are increasingly extreme:

- Extreme weather events become more frequent and disruptive
- Large-scale migration due to uninhabitable areas
- Geopolitical tensions drive protectionist agendas, with globalisation going into reverse

The combination of physical damages, inefficient energy systems and geopolitical conflict results in a highly volatile and inflationary environment, leaving countries in a poor state to regain control. Importantly, though industry and politics are distracted by what is happening, they are not passive. Significant investment and innovation arise around adaptation efforts – especially in agriculture, healthcare, disaster management and ultimately new energies.

Orderly transition

In this scenario, we see a smooth and coordinated global effort to combat climate change, containing the global average temperature rise to 1.5C by 2100. Key features include:

- Rapid adoption of renewable energy sources
- Strong policy support and global cooperation
- Energy efficiency and circularity are prioritised early and assisted by progress in artificial intelligence (AI)

Even within this scenario, the physical realities society faces change: extreme weather events are more common and areas of the world are now unliveable and inarable. Adaptation requires significant investment but is largely successful.

This scenario is only feasible if powerful political and institutional feedback loops work together, driving rapid cost reductions, learning effects, economies of scale, and technological tipping points.

Disorderly transition

In this scenario, we see a delayed and more chaotic global response to climate change, initially following an emissions trajectory on course for a Hot House World before pressure grows for a more ambitious response. Key features include:

- The system is ‘shocked’ towards a successful transition and requires radical change and strong innovation to meet climate targets
- Rapid scaling of relatively immature technologies and the scrapping of functional high-carbon assets
- Higher costs, increased inequality, and greater disruption compared to an orderly transition

There is a near-infinite set of idiosyncratic disorderly scenarios but the forces that are strong enough to materially shock the trajectory, setting it on a trajectory to success are fewer in number. We continue to work with Independent Economics to explore the range of possible forces.

Key themes across scenarios

Regardless of which scenario unfolds, several themes emerge that investors and society should be aware of:

01

Physical climate change is real and impactful
Across all scenarios, we see significant changes to our physical environment. From more frequent extreme weather events to shifts in agricultural zones, the impacts will be felt globally. It is important to consider how these changes may affect supply chains, infrastructure, and entire business models.

Portfolio lens
In light of this, we have already further considered the global logistics and sourcing dependencies of Amazon and PDD Holdings, the owner of ecommerce platforms Pinduoduo and Temu.

02

Key energy technologies have passed the tipping points of mass adoption
The transition to new energy technologies features across all scenarios. However, pace varies significantly between the scenarios, as well as between regions and within different sectors.

Portfolio lens
Both orderly and disorderly scenarios are likely to increase transition risks for companies with more highly carbon-intensive products, processes or supply chains. In 2024 we engaged with holdings such as building materials company CRH and airline Ryanair to understand more about their plans to address these risks. In contrast, high-voltage cable manufacturer Nexans is a key enabler of electrification, providing the subsea cabling required to connect offshore wind farms to the grid.

03

Slower, messy futures will allow transitional solutions to persist for longer
These solutions include natural gas, simple biofuels, hybrid cars and fossil-based hydrogen. Each offers a lower-carbon pathway but not a zero-carbon pathway. They optimise rather than disrupt.

Portfolio lens
Under orderly transition scenarios, there may be significant opportunities for holdings that are directly helping to drive the decarbonisation of the economy. Key enablers in the portfolio, including battery maker CATL should benefit. In addition, Li Auto's extended range electric vehicles allow consumers to bridge the technology and perception gap from combustion engines to full battery power.

04

Local becomes more important than global
All scenarios point towards greater geographic fragmentation. This could manifest in different energy and technology mixes across regions, shifting patterns of human settlement, and local efforts to adapt to climate challenges. We should expect different technology stacks in different regions and be prepared to manage that nuance.

Portfolio lens
This consideration reinforces our investment thesis for Mercado Libre's region-focused ecommerce business model.

05

Opportunities in complexity
The uncertainty inherent in climate change creates opportunities for businesses that can help navigate this complexity. This includes areas such as insurance, logistics, energy management, and climate risk assessment.

Portfolio lens
Faced with regional policy, technology and weather volatility, property services and investment specialist CBRE can help its clients access appropriate real estate and make the right decisions on refurbishment and resilience.

06

New solutions from necessity not choice
Adaptation will be essential. Innovations in agriculture and our diets may be necessary because traditional farming practices may become unsustainable with higher temperatures and scarcer water. A harsher climate could reinforce the shift to online entertainment. Increased migration could necessitate financial innovation – be that digital currencies or money transfers. Primary healthcare may require greater investment, with shorter life expectancies underpinning a consolidating funeral sector.

Portfolio lens
Your diversified portfolio is well-positioned to benefit from these shifts. Current holdings include online entertainment companies Netflix and Spotify, fintech company Block, healthcare holdings Alnylam Pharmaceuticals and Novo Nordisk, and funeral services company Service Corporation International.

Investment implications

There are already clear takeaways from the Climate Scenarios Project that reinforce the importance of maintaining our long-term, bottom-up approach to investment:

- **Diversification** – It is crucial to build portfolios that can outperform across different potential futures. An important aspect of our investment philosophy is the diversity of growth within the portfolio, represented in our three growth profiles. Our aim always is to run a portfolio that is well-balanced across the three growth profiles and underpinned by a broad range of structural growth drivers. The geographical and sectorial mix of holdings also provide resilience.
- **Adaptability** – Companies that demonstrate the ability to adapt to changing conditions – whether in terms of physical climate impacts or shifting regulatory landscapes – are likely to be more resilient. We will continue to assess the skill of management teams in leading companies through change, as well as the robustness of company balance sheets. We consider profitability, levels of debt, and levels of free cash flow, which all support companies in not only weathering change but also getting on the front foot and investing ahead of change.
- **Engagement** – With our long-term investment horizon, we can play a role in driving change through regular engagements with investee companies. Our engagements focus on encouraging ambition, extending time horizons and understanding attitudes to stakeholders. We can apply the climate scenarios lens to these discussions.

Assessing risks and opportunities to the portfolio over the long term is challenging due to the uncertainties involved. However, within the Hot House World – and to some extent the Disorderly, scenario – it is anticipated that physical climate impacts become the main climate-related risk to returns. Impacts on people and economic activity are likely to affect most holdings in the portfolio.

There may, however, be some opportunities for companies whose products and services assist with climate adaptation. By considering a range of possible futures, we can better prepare for the challenges and opportunities that lie ahead. We are committed to integrating these climate scenarios into our investment process to support us in making more informed decisions and will continue to enhance and evolve our thinking in this area.

Let’s talk data: ESG and carbon metrics

Our investment research draws on a broad range of sources, from company management teams to academic experts, to data providers. They help us to meaningfully inform, support, or challenge our contentions about companies’ long-term prospects, including their governance and sustainability.

We view data not as a checklist to be mechanically ticked off, but as the starting point for meaningful conversations with companies and stakeholders. We recognise that the intangible nature of corporate character means our approach must be nuanced and qualitative.

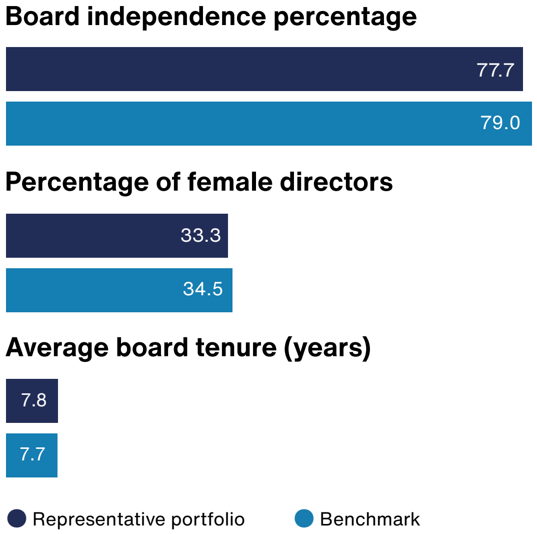
The following data points compare a Global Alpha representative portfolio to the MSCI All Country World Index to illustrate the importance of such nuance and the questions we seek to explore through our broader analysis and company engagement.

Board membership

What it is: We look to company boards to provide effective oversight. Typical data points on board composition are shown below.

What the data tells us: Where the data is available, 24 of the companies in the portfolio have at least 40 per cent female representation on the board. Six companies have equal gender balance (Adyen, Nexans, Novo Nordisk, Sartorius Stedim Biotech, Schibsted and LVMH). The Trade Desk and Epiroc stand out with 57 per cent and 54 per cent female representation on their respective boards. Eighteen companies have 20 per cent or less female directors. In this report last year, we highlighted SEA Ltd as the only portfolio holding with no women on its board. Strengthening the composition of the board at SEA Ltd in terms of independence and experience was an engagement priority for us. We continued to engage with the company on this issue and we are now pleased to see that a new female director has been appointed.

These data points are interesting and provide a useful snapshot but only capture a few of the elements we evaluate in determining whether companies meet our expectation that boards have the resources, cognitive diversity and information they need to fulfil these responsibilities.



Source: MSCI. As at 31 December 2024. Based on a representative portfolio. Benchmark: MSCI All Country World Index

United Nations Global Compact compliance

What it is: This indicator uses company compliance with the 10 United Nations Global Compact Principles as a proxy for social performance and exposure to corporate controversies.

What the data tells us: None of the companies in the portfolio are non-compliant. Six are on the watchlist (Amazon, BHP, LVMH, Meta, Thermo Fisher Scientific and UnitedHealth). We expect all holdings to respect internationally accepted human rights and labour rights throughout their business operations and value chains. Where we feel improvement is needed, we are seeking better data and disclosures about companies' approaches to taxation, supply chain due diligence, pay rates and labour rights. While data can help us reflect on a company's behaviour, it can't replace the deeper insights derived from our own fundamental analysis.

UN Global Compact Compliance Status	Representative Portfolio %	Benchmark %
Pass	88.4	87.7
Non-Compliant	0.0	1.2
Watchlist	11.7	11.0
No Data	0.0	0.0

Source: Sustainalytics, MSCI. As at 31 December 2024. Benchmark: MSCI All Country World Index. Based on a representative portfolio.

Ownership

What it is: The table below highlights the range and concentrations of different ownership structures held within the portfolio.

What the data tells us: We believe it often takes influential and visionary leadership, backed by aligned and patient shareholders, for a company to spearhead disruptive change while remaining focused on its long-term mission. This is why we tend to have relatively higher exposure to founder firms than the Index. Across the holdings, close to 45 per cent are founder-led (compared to 27 per cent in the Index). However, the data doesn't tell us about the founders' other business activities, the relevant skills and experience of the management team, or attitudes towards shareholder rights and other stakeholders. Consequently, our focus is on more fundamental research and ongoing engagement to determine what works in practice for each company.

Owner type	Representative Portfolio %	Benchmark %
Controlled (≥ 30%)	7.0	5.0
Principal (10–30%)	24.5	17.3
Founder firm (chief executive/chair)	45.0	27.4
Family firm (≥ 10% and board)	3.5	5.9
Widely-held	20.0	44.3

Source: MSCI. As at 31 December 2024. Benchmark: MSCI All Country World Index. Based on a representative portfolio.

Climate metrics

Addressing climate change is one of the most significant challenges of our time. From shifting weather patterns that threaten food production and disrupt supply chains, to rising sea levels that increase the risk of catastrophic flooding, the impacts of climate change are global in scope and unprecedented in scale. Growing societal pressure and regulatory action combine with the physical impacts of climate change to create new risks and opportunities for companies. As long-term investors, we must consider these to understand the implications for long-term value creation.

What it is: These metrics allow the comparison of portfolios containing companies of different sizes and across industries. We recognise that climate metrics analysis is imperfect. In addition to concerns about data accuracy and availability, this analysis can only tell us where a company is, not where it is going. We follow guidance from the Taskforce on Climate-Related Financial Disclosures (TCFD) and the Partnership for Carbon Accounting (PCAF) in calculating such metrics.

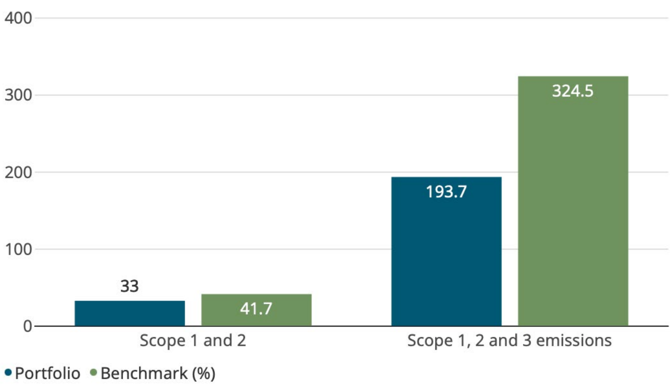
- **Carbon footprint**: Represents the aggregated greenhouse gas (GHG) emissions per million £/$invested and allows for comparing the carbon intensity of different portfolios.

  The terms ‘Weighted Average Greenhouse Gas Intensity’ (WAGHGI) or ‘Weighted Average Greenhouse Gas Intensity by Enterprise Value Including Cash’ (WAGHGI by EVIC) refer to the same metric and may be used interchangeably. We use the term ‘carbon footprint’ consistently throughout this report.
- **Weighted Average Carbon Intensity (WACI)**: The WACI of the portfolio represents the aggregated carbon intensities per $m revenue of the companies in a portfolio, scaled by size of holding. The WACI metric therefore helps measure a portfolio’s exposure to high carbon intensity companies and can be used for comparisons with other portfolios.

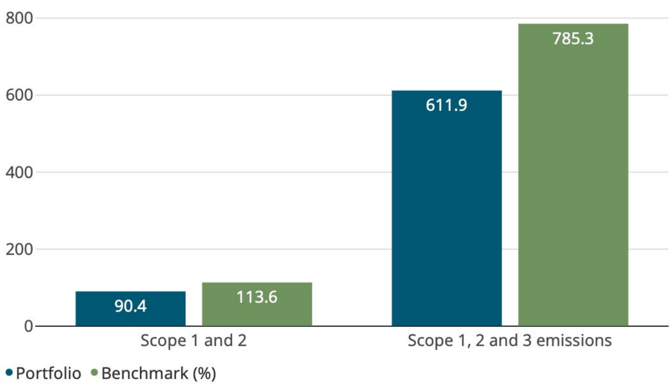
What the data tells us:

The portfolio has a lower relative carbon footprint than the Index on a scope 1 and 2 basis and also when comparing scope 1, 2 and 3 emissions. The portfolio’s WACI is also lower than that of the index on both a scope 1 and 2, and a scope 1, 2, and 3 emissions basis. This is due to the portfolio’s lower weight in carbon-intensive companies versus the benchmark.

Carbon footprint tCO_2e/USD million



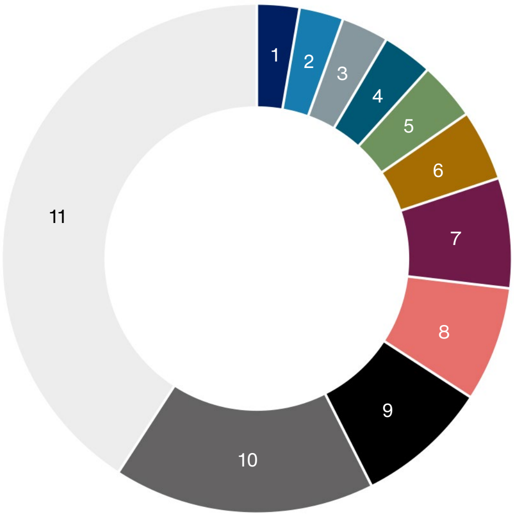
Weighted average carbon intensity tCO_2e/USD million revenue



Source: MSCI. As at 31 December 2024. Based on a representative portfolio.
Benchmark: MSCI All Country World Index.
Scope 1,2 and 3 emissions definitions can be found on page 19.

Top contributors to total carbon emissions

The chart below highlights the top ten contributors to the portfolio's total emissions.



Contributors to total carbon emissions (%)

1	Reliance Industries	2.7
2	AutoZone	2.8
3	CBRE Group	3.0
4	Stella-Jones	3.2
5	CATL	3.7
6	Martin Marietta Materials	4.5
7	Petrobras	7.0
8	CRH (London)	7.3
9	Ryanair	8.4
10	BHP Group	16.6
11	Rest of the fund	40.9

Source for charts: Baillie Gifford, MSCI ESG Research.
As at 31 December 2024. Based on a representative portfolio

Definitions

- **Scope 1 emissions**: Measurement of direct GHG emissions from operations that are owned or controlled by a company. Typically relates to the combustion of fossil fuels on-site and in direct control of the company.
- **Scope 2 emissions**: Measurement of indirect emissions of a company associated with the generation of purchased electricity, steam, heat and cooling. It indicates a company's energy usage and can be helpful in highlighting energy intensity and efficiency.
- **Scope 3 emissions**: Measurement of indirect emissions from a company's upstream and downstream value chain. Scope 3 effectively represents the emissions from the network within which a company operates. It is, therefore, useful in understanding wider emissions exposure and determining spheres of influence.
- **Total carbon emissions**: Total carbon emissions represent the absolute greenhouse gas (Scope 1, 2 and 3) emissions from assets held and allocated on a proportional basis. This means a portfolio holding 1 per cent of a holding's enterprise value would be attributed 1 per cent of the holding's emissions.

List of service providers

Portfolio	Brief description of purpose
Board Ex	Relationship-mapping tool
CDP	ESG data tool (climate, water, forestry)
Glass Lewis	Proxy advisory firm
Equilar	Executive compensation platform
IIAS	Proxy advisory firm for the indian market
ISS	Proxy advisory firm
MSCI	ESG research and data and restriction screening
RepRisk	ESG and business conduct risk research and quantitive soutions
Sustainalytics	ESG research, restrictions screening (e.g. controversial weapons, UNGC)
ZD Proxy	Proxy advisory firm for the Chinese market
Technology enablers	**Brief description of purpose**
Bloomberg	Financial and ESG data tool
LSEG Workspace (Eikon)	Financial and ESG data tool
Factset	Financial and ESG data tool

Proxy voting report

Exercising the voting rights attached to portfolio holdings is an integral part of our stewardship activities. Coordinated internally by our dedicated ESG Services Team, our investment-led voting decisions are focused on what we believe to be in clients' best interests.

We do not outsource any stewardship activities and routinely communicate votes against management to the company to maintain an ongoing dialogue. Voting supports our ability to build long-term relationships with companies and strengthens our position when engaging with them.

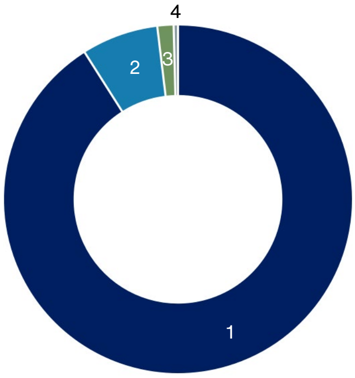
We invest in high-quality companies where we believe the governance structure supports the long-term investment opportunity. We seek to avoid investments where corrective action is required to generate value. Accordingly, we support most resolutions put forward by investee companies, voting against proposals on the few occasions where we disagree with decisions taken by management or where we have not been able to successfully influence change through engagement.

We understand the nuances of responsible stewardship and therefore use abstentions when we think voting decisions require a more nuanced response than simply 'yes' or 'no'. We review the merits of each proposal on a case-by-case basis, considering the broader context in which companies operate. This approach enables us to maintain constructive relationships with management and the board as part of a gradual, long-term engagement process.

Total votes

1,243

Global Alpha proxy voting record



1 For	91.0%
2 Against	7.1%
3 Abstain	1.5%
4 No vote	0.5%

Source: Baillie Gifford. Based on a representative portfolio. Figures may not sum due to rounding.

Proxy voting case studies and outcomes

Walt Disney

The Walt Disney Company is a US-incorporated entertainment company with worldwide operations. During 2024, Disney was targeted by two separate activist campaigns seeking to contest director elections at the company and nominate their own candidates. Both campaigns were predicated on the view that fresh challenge on the board would be beneficial, with each activist advocating for a change in company strategy. There were also concerns over succession planning following the removal of the CEO in 2022 and the subsequent return of Bob Iger, who served as CEO and Chairman from 2005 to 2020, and then as Executive Chairman and Chairman of the Board through 2021.

Ahead of voting at the AGM, we conducted a comprehensive board review, considering industry experience, committee composition and strategic opportunities. We concluded that Disney's director candidates remain well-placed to provide effective oversight. We also welcomed the recent appointment of two high-calibre candidates which reassured us regarding Disney's approach to succession planning. Having reviewed the cases made by all parties, we supported the company's slate of nominees and withheld votes for nominees from both activist shareholders at the AGM.

We were pleased that all management proposed nominees were successfully elected to the board. We will continue to monitor board composition, but we are currently comfortable with the company's governance arrangements.

Naspers/Prosus

Naspers Limited is a South African multinational internet, technology and multimedia holding company. We hold Prosus, its Dutch-listed subsidiary. At the 2024 AGM, shareholders were asked to approve an incentive plan for the newly appointed chief executive officer (CEO) and the remuneration report for his predecessor.

We joined a pre-AGM group investor call to discuss the CEO's pay arrangements, including a proposed one-off 'moonshot' award of $100m in Naspers/Prosus shares. This would be contingent upon the doubling of group market capitalisation over time and total shareholder return (TSR) being above the 50th percentile of a peer group of global technology companies.

Looking at this through the lens of our new remuneration principles, we did not believe it reflected an appropriate alignment between pay and performance. Due to Naspers/Prosus's large shareholding in Tencent, the payout under the moonshot award would likely be driven primarily by Tencent's performance, a company outside of the scope of the CEO's control. As such, we opposed the remuneration policy.

Concerns were also noted regarding the remuneration report. The former CEO's remuneration ranked in the 90th percentile, while TSR performance was in the bottom quartile of our selected peers. Additionally, we felt the targets attached to equity awards were insufficiently challenging. We opposed the remuneration report on concerns that vesting outcomes did not reflect appropriate pay for performance.

Both resolutions were adopted at the AGMs of Naspers and Prosus despite receiving dissent levels of between 12 per cent and 17 per cent, respectively. We have communicated our concerns to the companies and will continue scrutinising the link between pay and performance. If our concerns remain unaddressed, we may consider escalating our approach in future years.

Looking to the future

The consideration of ESG issues chimes emphatically with Global Alpha's investment philosophy and long-term investment horizons. It is embedded in our investment process. Given the intangible – and therefore often difficult to quantify – nature of ESG issues, coupled with the ever-changing world we live in, our in-depth analysis of every portfolio holding provides a deeper and more sophisticated understanding of companies, the issues they face and the materiality of those issues. Our engagements allow us to assess how companies can address ESG issues through tailored, case-by-case discussions, rather than relying on standardised disclosures or tick-box approaches.

In everything we do, we humbly recognise how much there is to learn. We will continue to evolve our stewardship approach and enhance our thinking across a range of topics within the ESG sphere. Our efforts will ensure that we not only respond to the continually evolving landscape of changing environmental challenges, regulation, and societal attitudes but also proactively anticipate change and the materiality of this for the companies that we hold.

Our aim in this report was to bring to life the range of stewardship activities undertaken throughout the year. Looking ahead to 2025, we seek to capitalise on the foundations laid over the last twelve months. While we undertake our responsibilities as stewards of our clients' assets in 2025 against a more complex backdrop, we look forward with great optimism.

Further reading:

Baillie Gifford: The Climate Scenarios Project

Baillie Gifford & Co TCFD-aligned Climate Report

Global Alpha TCFD report

Global Alpha | Investment Strategy | Baillie Gifford

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