Global Alpha Stewardship Report

2022

BAILLIE GIFFORD | Investment managers

Risk factors

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Stewardship for growth

Our core task as investors is identifying and nurturing companies capable of delivering exceptional long-term returns. Only a select number of businesses have this potential, and they often drive change across industries and the broader economy. Central to Global Alpha's approach is the desire to invest in companies with vast opportunities and build lasting relationships with those who are driving their success. We aim to embolden ambition, focus attention on long-term value creation and help businesses meet their full potential. We admire those following less travelled paths and believe that forced conformity can deeply damage a company's chances of success. To this end, we do not believe that environmental, social and governance (ESG) engagements should be governed by rigid templates and rules. However, we are equally strong in our belief that companies must be held to account when their standards fall short of those required to build truly lasting and admirable franchises.

Taking a long-term approach to investing helps embed the interests of society alongside those of asset owners. To be sustainable in the long term, companies must be run considering their stakeholders in the broadest possible sense. Businesses which abuse the environment, treat staff poorly or damage the fabric of society will ultimately fall foul of regulation or find themselves abandoned by their customers. Prioritising sustainability may require management to be brave and forgo short-term profit maximisation. Ultimately, this behaviour should deliver greater franchise value and improved long-term financial returns.

In this report, you can find the following insights:

— How the Global Alpha team thinks about ESG and how it is embedded in our investment process;

— Case studies of company engagements to illustrate how this might unfold in practice;

— An overview of our enhanced ESG audits;

— A review of portfolio-level ESG data;

— A record of our voting activities.

We hope that through shared transparency and dialogue, we can get better at what we do. Therefore, we encourage you to challenge and engage with us on our views and approach.

No shortcuts

We believe that the building blocks of our investment philosophy – bottom-up stock-level research and long-termism – chime with an increasing focus on ESG. We understand that businesses operate in a complex and dynamic world where their activities may have positive and negative impacts. There are no shortcuts. We believe that getting to know companies on a case-by-case basis is essential as we seek to understand their unique circumstances and assess material factors that may influence a company's sustainability.

The Global Alpha team explicitly recognises these considerations in our process. A central question we seek to address for all of our holdings is 'Is it sustainable?' The question is broad by design, encompassing aspects of the investment case which may impact a company's ability to compound growth many years into the future. This includes management's behaviours and actions in relation to ESG factors and whether they are likely to be good stewards of our clients' capital. We do not outsource our assessments of a company's most material issue areas, and their performance against these, to third-party data providers, relying instead on our own research and judgement. Our dedicated ESG analyst facilitates a deep understanding of investee companies and challenges the portfolio managers' approach to ESG considerations within the portfolio.

ESG considerations represent both opportunities and threats to the long-term success of our investee companies. Tesla's ambition to re-engineer the auto industry and Schibsted's commitment to disrupting itself in order to better serve users of its online classified platforms have been integral factors in our ongoing ownership of their shares. On the other hand, we have acted where we think the threat to sustainable growth is material.

Recent examples include decisions to sell holdings in Jefferies Financial Group owing to egregious remuneration practices; Ubisoft Entertainment over the emergence of a toxic corporate culture; and Lyft owing to unsustainable levels of stock-based compensation for staff that we did not believe to be aligned with the interests of our clients.

We are guided by Baillie Gifford's stewardship principles. These are:

Prioritisation of long-term value creation	**A constructive and purposeful board**	**Long-term focused remuneration with stretching targets**	**Fair treatment of all stakeholders**	**Sustainable business practices**

These principles address the material factors that matter over our investment time frame and are essential to delivering better long-term financial outcomes for shareholders. We lay out these principles in full on page 5 and provide engagement examples for each in the following pages. Furthermore, as a minimum, we expect all holdings to operate per the principles and standards set out in the *United Nations Global Compac*t, and we use a firmwide exclusion-based screen on controversial weapons.

Baillie Gifford's stewardship principles

Prioritisation of long-term value creation

We encourage company management and their boards to be ambitious and focus their investments on long-term value creation. We understand that it is easy for businesses to be influenced by short-sighted demands for profit maximisation but believe these often lead to sub-optimal long-term outcomes. We regard it as our responsibility to steer businesses away from destructive financial engineering towards activities that create genuine economic value over the long run. We are happy that our value will often be in supporting management when others don't.

A constructive and purposeful board

We believe that boards play a key role in supporting corporate success and representing the interests of minority shareholders. There is no fixed formula, but it is our expectation that boards have the resources, cognitive diversity and information they need to fulfil these responsibilities. We believe that a board works best when there is strong independent representation able to assist, advise and constructively test the thinking of management.

Long-term focused remuneration with stretching targets

We look for remuneration policies that are simple, transparent and reward superior strategic and operational endeavour. We believe incentive schemes can be important in driving behaviour, and we encourage policies which create alignment with genuine long-term shareholders. We are accepting of significant pay-outs to executives if these are commensurate with outstanding long-run value creation, but plans should not reward mediocre outcomes. We think that performance hurdles should be skewed towards long-term results and that remuneration plans should be subject to shareholder approval.

Fair treatment of stakeholders

We believe it is in the long-term interests of companies to maintain strong relationships with all stakeholders, treating employees, customers, suppliers, governments and regulators in a fair and transparent manner. We do not believe in one-size-fits-all governance and we recognise that different shareholder structures are appropriate for different businesses. However, regardless of structure, companies must always respect the rights of all equity owners.

Sustainable business practices

We look for companies to act as responsible corporate citizens, working within the spirit and not just the letter of the laws and regulations that govern them. We believe that corporate success will only be sustained if a business's long-run impact on society and the environment is taken into account. Management and boards should therefore understand and regularly review this aspect of their activities, disclosing such information publicly alongside plans for ongoing improvement.

Our engagement – principles in action

Cloudflare

Overview and objectives

Cloudflare is a US-listed cloud services provider. We are currently a top-five shareholder in the business, owning approximately 9 per cent of the stock on our clients' behalf. We benefit from good access to management and the board, which we have used to understand how Cloudflare's culture and business practices support the long-term investment case.

Action taken

Ahead of the 2022 AGM, we were consulted by the compensation committee, which planned to award stock options equivalent to 2 per cent of the business to co-founders Matthew Prince and Michelle Zatlyn. The options would vest over the next 10 years if Cloudflare's market cap increased 14 times. In return, Prince and Zatlyn would receive \$3.3bn each. After listening to the committee's proposals, we had several concerns. First, we were consulted only a matter of weeks before the AGM, so we had no real opportunity to influence the size or terms of the award. Second, the vesting conditions were focused solely on market cap targets. As a bottom-up investor, the lack of operational goals was a key issue for us, as we believe strong fundamentals drive long-term value creation. And finally, we didn't think the awards were necessary. At the time of the AGM, the co-founders owned 12 per cent of the business. Therefore, by hitting the committee's market cap targets, they would make over \$30bn over the next ten years. An extra \$3bn not only seemed unnecessary but greedy.

Outcome

We explained our intention to oppose the option grant based on these concerns. The resolution to approve the award required support from a majority of shareholders. Our decision to oppose proved to be the decisive swing vote, and the committee withdrew the resolution ahead of the AGM and forfeited the awards. This is a good outcome, and we continue to engage with the company as long-term constructive shareholders.

Rio Tinto

Overview and objectives

Rio Tinto is a global mining business. Its exploration, mining and processing operations focus on iron ore, aluminium, copper and minerals. Over the past couple of years, we have engaged extensively with the company on various ESG issues which we consider important to the company's ability to generate long-term returns for our clients.

Action taken

In May 2020, Rio Tinto destroyed a site of significant cultural heritage at Juukan Gorge, within Australia's Pilbara region. We were highly concerned by this incident and the company's response, which we viewed as lacking respect for indigenous people, damaging to key stakeholder relationships and indicative of poor cultural and governance practices within the organisation. Despite changes to the senior management team, including appointing a new chief executive, we wrote to the board outlining our belief that a new chair was required. We explained that an external, internationally renowned change-agent, unburdened by Rio Tinto's previous governance failures, would help restore confidence and increase the likelihood of lasting change. Subsequent discussions with the senior independent director were candid. They ran concurrently with engagements with management and the Pilbara indigenous people, which enabled us to hear concerns and monitor progress.

Outcome

Following a managed succession period, Rio Tinto appointed Dominic Barton as its new chair in May 2022. As a large, long-term shareholder in the business, we believe our engagement contributed to this change in leadership. We think Mr Barton has made an encouraging start to his tenure by seeking to address Rio's cultural and governance weaknesses in coordination with broader business development and focus on operational performance. We think this approach presents the best chance of creating sustainable long-term value for the benefit of all stakeholders.

CRH

Overview and objectives

CRH is an Irish domiciled building materials business with a large and growing exposure to North America. It is one of the largest contributors to the portfolio's carbon footprint. We aimed to encourage more detailed disclosure regarding the consideration of climate-related issues by the board and the company auditors. Specifically, we sought more detail on assumptions, including future costs and plausible policy interventions, accounting judgements, and scenario analyses for possible pathways.

Action taken

We took part in collaborative engagement coordinated through Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take action on climate change. We spoke with the board chair, Richie Boucher, and the chair of the audit committee, Shaun Kelly.

CRH has strengthened its decarbonisation targets, demonstrating leadership within the construction materials industry that we believe is potentially advantageous but has cost implications. The company commits to being net zero by 2050 and recently outlined new goals, which target an absolute reduction in scope 1 and 2 emissions* of 30 per cent by 2030 versus 2021 levels. These new targets have been validated by the Science Based Targets initiative to be in line with a 1.5-degree pathway.

The focus of our discussion was to encourage more specificity in the financial accounts and to discuss the potential impacts on CRH's business of meeting these long-term objectives. We also asked how the board examines climate risks and how it determines materiality in terms of the company's accounts. We explained that given the carbon-intensive nature of CRH's business, alongside its potential exposure to physical change, it would be helpful for investors to have insight into how the company was thinking about the value of the business and assets under various climate change scenarios. We stressed that more comprehensive disclosure in its annual accounts and auditors' report are important for shareholders to make informed investment decisions.

Outcome

The CRH 2022 annual report, published at the start of March 2023, demonstrates a significant improvement in the disclosure of how, when and by whom climate-related issues are considered in strategy discussions and against existing financial assessments. CRH has also now quantified the incremental spend required to meet its 2030 decarbonisation goals. We consider CRH a leader in terms of its engagement with decarbonisation and the recycling of building materials. We look forward to further discussions on quantitative transparency in 2023 – particularly concerning scenarios for different plausible climate outcomes.

Sea Limited

Overview and objectives

Sea Ltd is a consumer internet company. It has three core businesses across digital entertainment, ecommerce and financial services. Incorporated in the Cayman Islands, it is permitted to adopt several unconventional governance practices. Our research identified the board as an area for improvement, and we engaged with them to encourage adding directors with requisite skills and independence.

Action taken

We spoke directly with the company's founder, chief executive and chair, Forrest Li. We discussed how he sees the board's role and how it can support Sea Ltd's long-term strategy. In the past year, the board has shrunk from six to five directors, of which only two are non-executives. We outlined our belief that the board lacks independence and that the non-executive cohort does not have sufficient expertise in Sea Ltd's core business segments. We believe this is important, as it could limit the board's ability to oversee management and provide constructive input to strategic decisions. Mr Li acknowledged that the board is too small and explained that his ideal size would be nine directors, split between four from management and five non-executives. He confirmed that recruitment is ongoing, and the company hopes to add independent directors with domain expertise soon. Desired candidate criteria include research and technology expertise, understanding macro developments and value creation from operational excellence.

Outcome

As outlined in our stewardship principles, we believe a constructive and purposeful board is fundamental to long-term value creation. The board simultaneously supports management's implementation of the business strategy and protects the interests of the company's stakeholders. Accordingly, we were pleased to learn that steps are being taken to ensure Sea Ltd's board has the relevant skills, experience and independence to fulfil these responsibilities. We will monitor the appointment of new directors and look forward to further opportunities to engage with the company.

* See page 13 for definitions.

Our portfolio audit journey

From a research perspective, Global Alpha's stewardship approach combines relevant ESG factors with thematic portfolio reviews, as exemplified below. While our investors incorporate ESG considerations into our stock-level research, we also conduct regular thematic 'ESG audits' that enable us to identify outliers across the portfolio and guide our company engagement. The Strategy's dedicated ESG analyst leads this auditing and focuses on areas we believe to be necessary for the long-term financial sustainability of our clients' holdings.

In recent years, we have completed portfolio audits on tax (2018 and 2020), climate (2021), board composition and executive remuneration (both 2022).

2018

Tax (2018 and 2020) – As long-term investors, we believe it is vital that our holdings pay an appropriate amount of tax. Businesses benefit from the infrastructure of the countries in which they operate and therefore have a responsibility to contribute in a manner that makes growth sustainable and equitable. In auditing the portfolio, we sought to understand why the effective tax rates for some companies are lower than the statutory rates. **AJ Gallagher** benefits from a reduced tax rate due to its investment in clean coal operations, which qualify for tax credits. Our subsequent research and engagement have focused on the sustainability of these practices and whether they could increase investment risk by undermining the company's license to operate or serving as a distraction to the core business. Our work has reassured us on both.

2019

2020

© Getty Images South America

Climate (2021) – Climate change is one of the most significant challenges of our time, and we believe it has the potential to influence the returns we seek to deliver for our clients. Our audit of the portfolio assessed the climate strategies of each holding. We identified laggards that provide no disclosure or don't set emissions targets, including **Prosus** and **Albemarle**, as well as climate leaders such as **CBRE, Microsoft** and **Alphabet**: companies that demonstrate excellent climate preparedness, including accelerated emissions reduction targets aligned with a 1.5-degree scenario. The audit informed our subsequent engagements, and we are encouraged by the progress made by several of our holdings, including Prosus and Albemarle, where climate reporting has been improved and medium and long-term decarbonisation goals have been set.

2021

© Sea Limited

Board composition (2022) – A board fit for purpose is fundamental to long-term value creation. The portfolio audit sought to identify stocks lacking strong independent representation able to assist, advise and constructively test management's thinking. We used board data to flag companies where independence was less than 50 per cent and where the average independent director tenure exceeded 10 years. We combined this with other governance characteristics to understand the broader context for objective oversight at each business. **Estée Lauder** was flagged for having an entrenched board, and we are pleased to see two new independent directors appointed in the last year. **Sea Ltd** was identified due to a lack of independence and the need for increased skills and experience within its non-executives to oversee and support the management team. Accordingly, we prioritised engagement with the company and, as outlined in the case study on page 7, we were pleased to learn that steps are being taken to strengthen the board.

© Axon

Executive remuneration (2022) – We believe incentive schemes can be crucial in driving behaviour, and we encourage policies that align with genuine long-term shareholders. We routinely review executive pay plans as part of our investment analysis and ahead of each year's vote on remuneration. Our portfolio audit complemented this work and focused specifically on the levels of stock-based compensation (SBC) granted by each business. **Snowflake, Axon** and **The Trade Desk** were identified as having high levels of SBC relative to revenue. Subsequent research has sought to understand the reasons why and how equity awards are distributed across each business and have been informative for our views on pay for performance at each company.

2022

ESG and carbon metrics

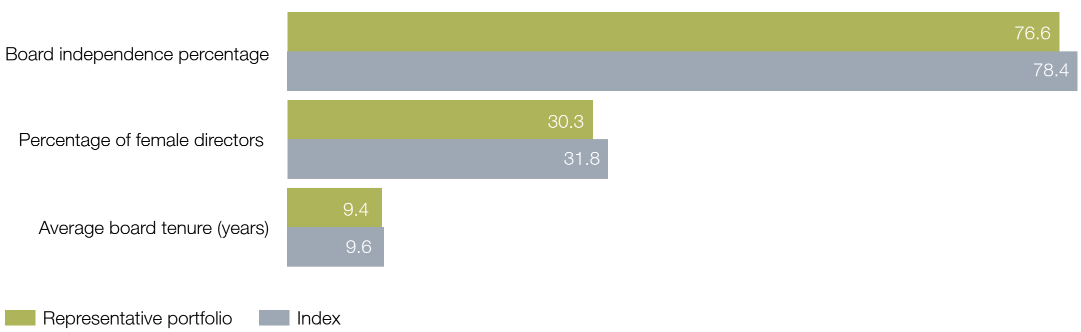
Our investment research draws on a broad range of sources, from company visionaries to academic experts to data providers. They help us meaningfully inform, support or challenge our contentions about companies' long-term prospects, including their governance and sustainability. We view data not as a checklist to be mechanically ticked off, but as the starting points for meaningful conversations with companies and stakeholders. We recognise the intangible nature of corporate character means our approach must be more nuanced and qualitative. The following data points compare the representative portfolio to the MSCI ACWI to illustrate the importance of such nuance and the questions we seek to explore through our broader analysis and company engagement.

The portfolio has one Russian holding which is non-compliant with the UN Global Compact, Sberbank. It has been valued at zero by our Fair Value Pricing Committee due to the ongoing issues in the Russian market and therefore is not included in any of the data points shown.

Board membership

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

What does the data tell us: Forty-eight of the companies in the portfolio have at least 30 per cent female representation on the board. Twenty-two companies have 20 per cent or fewer female directors, with three companies (Coupang, Meituan and Sea Ltd) having no women on the board. We continue to engage on issues of board diversity, including female representation.



Source: MSCI. As at 31 December 2022. Based on a representative portfolio.

UN Global Compact compliance

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

What does the data tell us: Six companies are on the watchlist (Amazon, Meta, Rio Tinto, BHP, Thermo Fisher Scientific and Tesla). We expect all our holdings to respect internationally accepted human rights and labour rights throughout their business operations and value chains. 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 analysis.

UN Global Compact compliance status	Representative portfolio %	Index %
Pass	91.5	89.5
Non-compliance	0.0	1.8
Watchlist	8.5	8.6
No data	0.0	0.2

Source: Sustainalytics. As at 31 December 2022. 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 does the data tell us: Across the holdings, close to 30 per cent are founder-led (as compared to 18 per cent in the Index). Furthermore, the ownership of the investee companies tends to be more concentrated than the market average. For example 51 per cent of the Index holdings are regarded as widely-held compared to just 29 per cent of the Global Alpha portfolio. 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. However, the data doesn't tell us about the founder's 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 %	Index %
Controlled (≥ 30%)	5.8	4.2
Principal (10–30%)	28.4	18.4
Founder firm (chief executive/chair)	28.2	17.6
Family firm (≥ 10% and board)	7.8	7.5
Widely-held	29.0	50.6

Source: MSCI. As at 31 December 2022. 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.

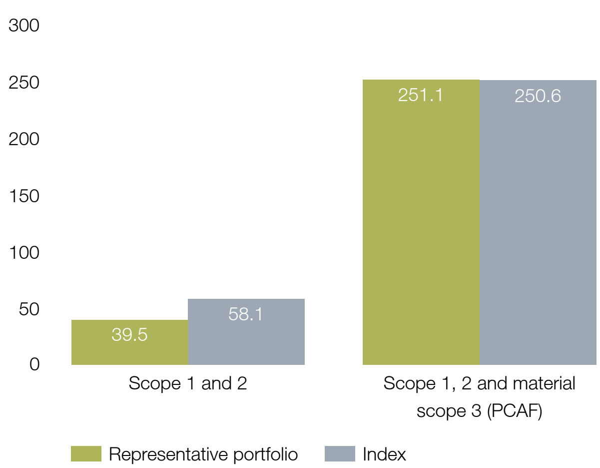
What it is: These metrics allow the comparison of portfolios containing companies of different sizes and across industries. We recognise that climate metrics analysis is imperfect. In addition to concerns about data accuracy and availability, this analysis can only tell us where a company is – not where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

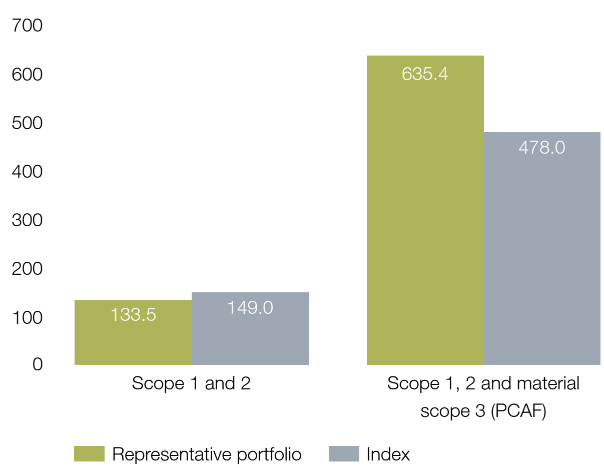
— **Weighted Average Carbon Intensity (WACI)**: The WACI of the portfolio represents the aggregated carbon intensities of the companies in a portfolio, scaled by the size of the holding. The WACI metric helps measure a portfolio's exposure to high-carbon-intensity companies.

What does the data tell us: The portfolio has a lower relative carbon footprint than the Index on a scope 1 and 2 basis. When comparing scope 1, 2 and material scope 3 emissions, the portfolio is roughly in line with the Index when looking at the carbon footprint, and higher than the Index when considering the WACI. A greater weight in carbon-intensive companies in the portfolio versus the benchmark results in higher carbon footprint and WACI figures than the MSCI ACWI. Six companies account for over 90 per cent of the WACI of the portfolio. BHP and Rio Tinto are the largest drivers, and CRH, Reliance, Martin Marietta Materials and Ryanair are significant contributors. As at the end of December 2022, the total weighting of those six companies was 13.2 per cent versus the MSCI ACWI weighting of 0.2 per cent.

Carbon footprint tonnes of carbon dioxide equivalent (tCO_2e)/USD million



Weighted average carbon intensity (WACI) tCO_2e/ USD million revenue

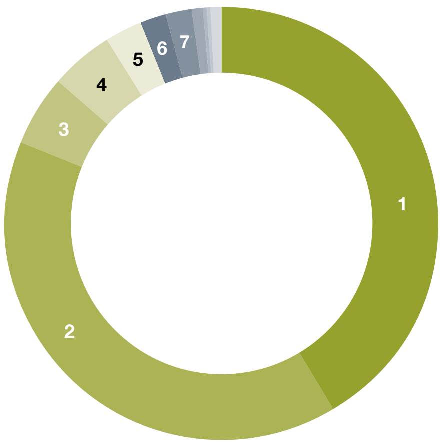


Source: MSCI. As at 31 December 2022. Based on a representative portfolio.

Top contributors to total emissions

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

Contributors to total emissions



		(%)
1	BHP Group	41.5
2	Rio Tinto	39.8
3	CRH	5.2
4	Reliance Industries	4.7
5	Ryanair	2.7
6	Woodside Energy Group	2.1
7	Martin Marietta Materials	1.8
8	Albemarle Corporation	0.8
9	Wizz Air Holdings	0.4
10	Service Corporation International	0.2
11	Rest of Portfolio	0.7

Source for charts: Baillie Gifford, FactSet, MSCI ESG Research.
As at 31 December 2022.

Further 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.

— **Material scope 3 emissions:** Measurement of indirect scope 3 emissions from certain material sectors, in accordance with guidance from the Portfolio Carbon Accounting Framework (PCAF). As of 2021, material scope 3 emissions include those from the oil, gas and mining sectors. Coverage will expand in 2023 to include other industrial sectors, and again in 2026, when all sectors will be included.

The data

Total emissions represent the absolute GHG emissions from assets held, allocated on an ownership basis. This means a portfolio holding 1 per cent of a company's stock would be attributed 1 per cent of the company's emissions.

The FactSet platform pulls in data from MSCI, Sustainalytics, ISS and BoardEx. It is fact-checked by our ESG analysts and is considered correct at the time of publishing.

For more detail, please see the **Baillie Gifford Investment Stewardship Activities Report**

The future

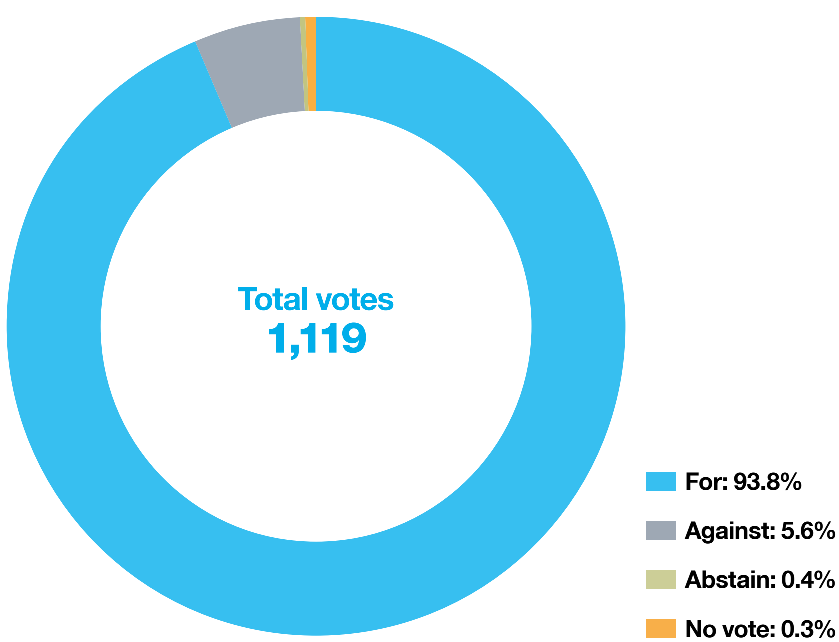
The information above provides data for a minimal number of ESG indicators. The list is not complete and will evolve. We are focused on securing accurate, robust and comparable numbers. We will add other charts in response to client demand and our ability to source reliable data.

Proxy voting

Exercising the voting rights attached to our clients' holdings is an integral part of our stewardship responsibilities. Co-ordinated internally by our dedicated ESG Services Team, our investment-led voting decisions are focused on what we believe are our clients' best interests. The investment managers are actively involved in this process. 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 investee companies and strengthens our position when engaging with them. For this reason, we prefer that our clients delegate voting authority to us.

We invest in high-quality management teams 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 engage or successfully influence change. We understand the nuances of responsible stewardship and therefore use abstentions when we think voting decisions are not black or white. 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.

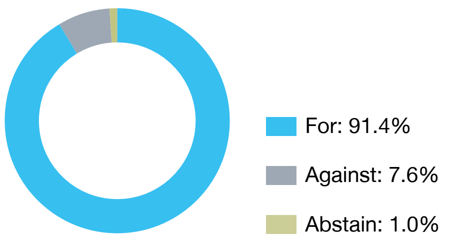
Global Alpha proxy voting record



Source: Baillie Gifford. Data from 1 January 2022 to 31 December 2022.
Figures may not sum due to rounding.
Based on a representative portfolio.

Management resolutions: breakdown of voting activity

Remuneration

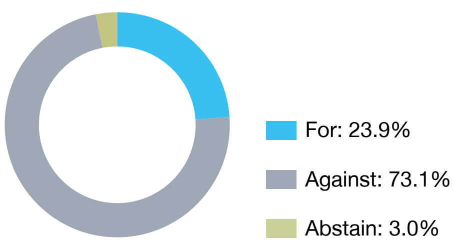


Example – Booking.com

We opposed the executive compensation due to the compensation committee's use of discretion in the past year. In response to the impacts of Covid-19 on the business, the committee adjusted the performance targets attached to the annual bonus and long-term incentive plans. These decisions meant management received bonus payouts under both plans when ordinarily awards would not have been vested. The committee also made generous one-off retention awards. We outlined our concerns that the adjustments to executive pay and the special payments did not align with shareholders' experience or provide appropriate incentives for management. We opposed the executive compensation resolution and communicated our decision to the company. The resolution failed, and we intend to re-engage with the company to learn how it plans to respond to the vote outcome and shareholders' concerns.

Voting result: For 31.7%; Against 68.2%

Shareholder proposals

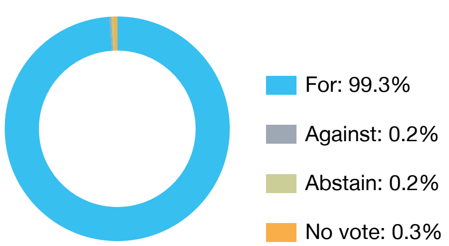


Example – Tesla

We supported a shareholder proposal requesting Tesla publish a report outlining the effectiveness of its efforts to prevent harassment and discrimination within its workforce. In recent years, the company has been the subject of numerous allegations and lawsuits claiming discrimination and harassment at its manufacturing facilities. We have engaged directly with the board on this subject, being explicit in our expectations that Tesla needs to ensure fair treatment of all employees. We have been reassured by Tesla's response to the health and safety of its staff. The company has been proactive and thoughtful in its improvement of practices and policies. While this proposal failed to receive majority support, we believe the fair treatment of employees is crucial to long-term value creation, and we will continue to encourage greater transparency around this topic by the company.

Voting result: For 46.5%; Against 52.6%

Director elections



Example – Hoshizaki

We abstained on the re-election of the chair due to concerns over the large amount of cash held on the company's balance sheet and the absence of a separate dividend resolution on the AGM agenda. While we have been encouraged by the announcement of a new capital policy at Hoshizaki, we consider the level of cash held for contingencies to be unnecessarily conservative and not an efficient use of capital. Having reviewed the business' capital structure, we believe the company can use its balance sheet more effectively. We think a greater proportion of cash could be returned to shareholders through dividends and share buybacks without inhibiting the funding of growth investments. We are in ongoing dialogue with the company and hope to see progress over the next year.

Voting result: For 95.9%; Against 1.6%; Abstain 2.5%

Source: Baillie Gifford. Data from 1 January 2022 to 31 December 2022.
Figures may not sum due to rounding.
Data based on a representative portfolio.

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