

Lothian Pension Fund Global Alpha

Report for the quarter ended
30 September 2024



Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	8	Companies	4	Companies	1
Resolutions	103	Resolutions	8	Resolutions	1

Company Engagement

Engagement Type	Company
Environmental	BHP Group Limited, Chewy, Inc., Contemporary Ampere Technology Co., Limited, Coupang, Inc., Li Auto Inc., Markel Group Inc., Petroleo Brasileiro S.A. - Petrobras, Ryanair Holdings plc
Social	BHP Group Limited, Contemporary Ampere Technology Co., Limited, MercadoLibre, Inc.
Governance	Advanced Drainage Systems, Inc., Alphabet Inc., Bellway p.l.c., Block, Inc., CBRE Group, Inc., Chewy, Inc., Comfort Systems USA, Inc., Compagnie Financière Richemont SA, Elevance Health, Inc., LVMH Moët Hennessy - Louis Vuitton, Societe Europeenne, Markel Group Inc., Mastercard Incorporated, Meta Platforms, Inc., Moderna, Inc., Moody's Corporation, NVIDIA Corporation, Olympus Corporation, Petroleo Brasileiro S.A. - Petrobras, Prosus N.V., Ryanair Holdings plc, Shiseido Company, Limited, Soitec SA, The Walt Disney Company
Strategy	Block, Inc., Datadog, Inc., Epiroc AB (publ), MercadoLibre, Inc., Moderna, Inc., Olympus Corporation, Ryanair Holdings plc

An engagement may cover more than one topic. Notes on a selection of engagements can be found in this report. This is not exhaustive and further details of company engagements are available on request.

Votes Cast in Favour

Companies	Voting Rationale
Advanced Drainage Systems, AeroVironment, Chewy, Prosus N.V., Richemont, Schibsted, Schibsted B, Soitec	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Advanced Drainage Systems	Annual 18/07/24	2	We opposed the ratification of the auditor because of the length of tenure. We believe it is best practice for the auditor to be rotated regularly as this works to ensure independent oversight of the company's audit process and internal financial controls.
Chewy	Annual 11/07/24	3	We opposed the executive compensation due to concerns with the structure of the policy which we do not believe are aligned with shareholders' best interests.
Prosus N.V.	AGM 21/08/24	3	We opposed the resolution to approve the remuneration report because of concerns with quantum and misalignment between pay and performance. Our concern also relates to the stretch of targets under the long-term incentive plan, all of which we do not deem to be in the best interest of long-term shareholders.
Prosus N.V.	AGM 21/08/24	8	We opposed the resolution to approve the remuneration policy because of concerns with a special 'moonshot' award for the CEO, in addition to the regular long-term incentive plan. We do not believe that the conditions attached to the award promotes appropriate pay for performance.
Richemont	AGM 11/09/24	10	We opposed the request to authorise other business. We do not believe this is in the best interests of clients who vote by proxy.
Richemont	AGM 11/09/24	5.17	We opposed the election of a non-executive director because of concerns relating to their suitability to chair the audit committee having previously been an employee of the company.
Richemont	AGM 11/09/24	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		
Chewy	We opposed the resolution which sought authority to issue equity because the potential dilution levels are not in the interests of shareholders.		

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
AeroVironment	Annual 27/09/24	1b	We abstained on the election of a director who is also a member of the audit committee due to ongoing concerns that the company's climate reporting is lagging behind its peers.

Votes Withheld

We did not withhold on any resolutions during the period.

Votes Not Cast

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

Company	Engagement Report
<p>Block, Inc.</p>	<p>Objective: We had a one-to-one video call with Jack Dorsey, chief executive officer of fintech company Block, in August 2024. We wanted to explore further the transformative plans Dorsey has initiated at the company. The conversation aimed to assess how Dorsey's leadership and Block's organisational restructuring could enhance Block's agility and long-term profitability.</p> <p>Discussion: Jack Dorsey is orchestrating a pivotal transformation at Block, aiming to challenge industry titans by synergising its merchant and consumer services. The establishment of a centralised sales function under Nick Molnar is a notable shift, which aims to infuse Afterpay's high-performance sales culture into Block. This strategic move is anticipated to bolster customer retention and acquisition, particularly for its financial services platform, Square, as it scales.</p> <p>The organisational restructuring extends to a functional model across engineering and design, driven by the vision of integrating Square and Cash App to unlock significant value. Dorsey's commitment to leveraging AI and proprietary tools could also sharpen Block's competitive edge. Despite a cautious stance on the long-term impact of large language models (LLMs), Dorsey is optimistic about the potential of AI, especially federated learning, to democratise the tech landscape.</p> <p>The discussion also highlighted Cash App's initiatives to enhance direct deposit penetration, a critical component of Block's growth strategy. The overall business performance and strategic shifts indicate a promising trajectory for Block, potentially ahead of where our current Forward Looking Hypothesis suggests.</p> <p>Outcome: The engagement with Jack Dorsey offered insights into Block's strategic direction and operational enhancements. The dialogue underscored the potential of Block's organisational changes and technological investments to elevate its market position and profitability.</p>
<p>Contemporary Amperex Technology Co., Limited</p>	<p>Objective: To follow up and learn the company's stance on US lawmakers urging the addition of CATL to the import ban list this June, and to understand its implications on the Ford partnership in the US. We also took the opportunity to gain a greater understanding of the impact of lithium resources on CATL's business operations.</p> <p>Discussion: The board secretary and IR confirmed there was no additional update after CATL's public response to the allegations a few months ago. The company reiterated its position that there is no connection to forced labour or any violations of US law and regulations. It labelled some of the accusations as "wrong and misguided." CATL confirmed that its partnership with Ford in the US remains unaffected by these allegations. The discussion also touched on the dynamics of lithium supply and demand. CATL expressed confidence in the long-term demand for lithium and emphasised its strategic positioning to capitalise on this demand. The company's ownership of mines in strategic locations across China, Indonesia and South America, along with its active pursuit of high-quality assets globally, underscores its commitment to securing a stable lithium supply chain.</p> <p>Outcome: This situation underscores the complexities businesses face when navigating geopolitical tensions, especially in sectors such as electric vehicles and battery manufacturing, where supply chains are global and subject to regulatory scrutiny. Despite these challenges, the ongoing partnership between CATL and Ford suggests a strong business relationship and confidence in the ability to comply with US regulations.</p>

Company	Engagement Report
Coupang, Inc.	<p>Objective: To encourage Coupang to report scope 1 and 2 emissions to better understand its climate exposure and material risks.</p> <p>Discussion: Climate considerations are crucial to Coupang's success for two main reasons: urban pollution and regulatory compliance. Coupang operates in densely populated areas of Korea, with 70 per cent of the population living within seven miles of a fulfillment centre. Seoul, known for its narrow streets and high vehicle usage, ranks among the worst cities globally for air pollution. Additionally, as a company listed in the US, Coupang must adhere to the latest SEC requirements to disclose scope 1 and 2 emissions. Currently, the company prioritises recycling and green packaging over emissions disclosure.</p> <p>We recommended that Coupang begin disclosing its scope 1 and 2 emissions, though we advised against setting targets until the company has a clearer understanding of its carbon footprint. Furthermore, we offered the support of our Climate Team and agreed to provide examples of companies in similar sectors that we admire.</p> <p>Outcome: Following our meeting, the company indicated it is evaluating internally whether to include its scope 1 and 2 emissions in its forthcoming ESG report. We look forward to studying the report once published.</p>
Datadog, Inc.	<p>Objective: To understand how co-founder and chief executive officer Olivier Pomel envisions artificial intelligence (AI) may impact Datadog's business.</p> <p>Discussion: Pomel believes that AI is accelerating the move from on-premise software to the cloud while increasing the complexity of cloud-based software. In his view, Datadog should benefit as companies will have a greater need to observe and monitor more complex cloud-based infrastructure and software. We explored with Pomel whether AI is shifting the value from writing code, which can be increasingly automated, to understanding, running, and securing code areas where Datadog's business model seems well-positioned. We also considered whether AI could automate observability, potentially disrupting the core of Datadog's business model. However, there is currently no evidence from potential competitors that this is feasible, highlighting the complexity of the task. Meanwhile, Datadog is leveraging AI to enhance its product offerings, primarily by utilising its own observability data. This approach may further strengthen its competitive advantage.</p> <p>Outcome: This was a thought-provoking conversation about the long-term vision for Datadog's business. Could software development become as much about observing and analysing AI models as it is about writing software? If so, is Datadog's long-term growth potential correlated closely with the advancement of AI? We will continue to monitor and reflect on such questions in the context of our long-term investment thesis.</p>

Company	Engagement Report
Olympus Corporation	<p>Objective: We were invited to present to Olympus' management and board of directors. The purpose was to share our expectations for Olympus, focusing on long-term growth prospects and addressing potential risks. This session included a presentation followed by a Q&A, aiming to provide Olympus with insights from an investor's perspective.</p> <p>Discussion: The discussion covered 3 key areas. First, we shared our long-term growth expectations for the company, providing a description of how we anticipate that by focusing on operational efficiencies and market expansion, Olympus can elevate its operating margins significantly. Given the starting valuation, achieving these expectations should result in attractive returns for our clients and outperformance in both Japanese and global markets.</p> <p>Second, we shared some short-term goals that we believe could help Olympus achieve these long-term goals. These included focusing on resolving any final quality assurance concerns raised by the FDA and focusing on market share expansion.</p> <p>Third, we stressed the importance of balancing profitability targets with the need to reinvest in research and development and business development to safeguard the long-term health of the business.</p> <p>Lastly, we reflected on our experience holding Olympus shares on behalf of clients over the long term. We shared that we are supportive of efforts to enhance production efficiency, improve quality, and simplify the business to avoid unforced errors and execute on the large opportunity set.</p> <p>Outcome: The meeting was valuable for articulating our long-term expectations for Olympus. It underscored the importance of being a long-term, supportive shareholder and provided a constructive step towards enabling Olympus's global competitiveness. The meeting established key milestones for assessing progress in subsequent discussions with senior management.</p>
Petroleo Brasileiro S.A. - Petrobras	<p>Objective: To better understand how Petrobras' operational emissions reductions and governance controls are being implemented and to continue to encourage further progress.</p> <p>Discussion: We met with Petrobras' head of governance and head of climate in Brazil, followed by a meeting with the chief financial officer (CFO) in London. Petrobras has environmental targets, including greenhouse gas emissions associated with oil and gas production. However, over the years, we have encouraged the company to be more ambitious. The company highlighted that its reservoirs have enabled low-cost and lower carbon barrels, it has also invested in technologies for further emissions reduction. Examples of this would include new floating production, storage, and offloading (FPSO) vessels that have decarbonisation technologies. The company is resolutely focused on efficiency, identifying opportunities to go even further in eliminating flaring and improving energy consumption and supply. Of course, efficiency gains will become incrementally harder, so the company aims to stay abreast with new technology that can enable further improvement. 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 being extended to onshore CCS hubs. Petrobras has a strong safety record, but we discussed how the company addresses governance and sustainability standards in new markets, where they highlighted new compliance and controls.</p> <p>While the company has embarked on energy transition projects, these remain a small part of its overall business. Management sees its expertise in biofuels and sustainable aviation fuels (SAF), as long-term opportunities for the business, but the CFO reiterated the focus of the company's mission, which is replacing oil reserves through ongoing exploration to underpin long-term production growth at the company.</p> <p>Outcome: The meetings with Petrobras and other experts in Brazil helped us better understand the company's governance and sustainability practices in the local context.</p>

Company	Engagement Report
Ryanair Holdings plc	<p>Objective: This post-AGM visit to the company HQ included meetings with departments across the business. For board engagement, our aim was to better understand the skills of the new board appointees; for the sustainability team we were seeking clarity on decarbonisation planning especially with regards to sustainable aviation fuel (SAF); and for our meeting with the chief operating officer (COO), we wanted to explore supply chain disruption.</p> <p>Discussion: The Chair justified recent board nominees in the context of operational execution. The sustainability team clarified SAF contracts and other measures targeting emissions reductions are embedded in their 2050 NZ plan. The COO introduced Ryanair LABS and discussed some of the supply chain bottlenecks currently facing the company.</p> <p>Outcome: A thorough update on the business across operational, sustainability and supply chain matters. These meetings should help us better calibrate the opportunity in the next few years and boost our confidence that Ryanair has a tangible edge in sustainability versus its LCC peers and long-haul carriers.</p>
Soitec SA	<p>Objective: To encourage simplification of executive pay plans and the strengthening of minimum ownership requirements for executives.</p> <p>Discussion: We spoke to the chair of the remuneration committee, Delphine Segura Vaylet, following this year's AGM. On the call, we outlined reservations over the complexity of executive pay plans. We also queried the suitability of some non-financial performance metrics included in the latest policy. Delphine explained that the committee adopts a benchmarking approach each year, but acknowledged our concerns. She added that the non-financial metrics discussed would be reviewed by the committee. Finally, we sought to understand the board's thinking on building executive ownership. We noted levels of executive ownership and corresponding requirements are both relatively low. Delphine agreed that this was a topic the board could pay more attention to going forward.</p> <p>Outcome: Delphine appeared open to the feedback provided, intimating that action would be considered by the remuneration committee. She also asked if we could share our updated remuneration principles, which we have committed to doing. We look forward to being consulted on executive pay going forward and will monitor related developments.</p>

LPF PUBLIC DATA

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