Baillie Gifford™

Stewardship Report
Year ended 31 December 2023

Global Alpha

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Stewardship for growth

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

We firmly believe that to be sustainable in the long term, companies must be run considering their stakeholders in the broadest possible sense.

We also acknowledge that businesses operate in a complex and dynamic world where their activities may have both positive and negative impacts. Our fundamental stock research and decision-making incorporates the balance of these impacts. We consider all of the material factors which may influence a company's sustainability in a nuanced and thoughtful way.

In this report, you will find relevant portfolio data and the following insights:

- Company engagement examples
- Case studies of companies' progress on climate considerations
- Deep-dive on stock-based compensation

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

Is it sustainable?

A simple question but far from easy to answer. This is a question we carefully consider for all portfolio holdings. And it forms an integral part of our investment process and our overall approach to stewardship.

In recent years we believe that the building blocks of our investment philosophy – bottom-up stock-level research and a long-term investment horizon – have chimed with an increasing focus on environmental, social and governance (ESG) factors.

We therefore decided in late 2018 that it would be beneficial to recognise these considerations more explicitly in our process and we introduced a fourth question to our investment framework – '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.

One of the defining features of the Global Alpha portfolio is the diversity of holdings from across the growth spectrum. We expect companies in each profile to exhibit different characteristics and to perform differently across the market cycle. So, it follows naturally that each holding will be unique when it comes to the consideration of ESG topics. As such, we consider ESG on a stock-by-stock basis, analysing both the threats and opportunities impacting on the long-term success of all holdings.

We do not outsource our research responsibilities 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.

When answering the question 'Is it sustainable?', we are guided by Baillie Gifford's stewardship principles, which 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 04.

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Baillie Gifford's stewardship principles

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.

Company engagements – stewardship principles in action

Richemont

Owner of luxury goods brands

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Principles

- Alignment in vision and practice
- Governance fit for purpose

Overview and objectives

Richemont is the owner of luxury brands including Cartier, Chloé and Van Cleef & Arpels. We have some ongoing concerns regarding executive remuneration practices and sought to engage with the company on this matter, as well as to discuss recent changes to the board.

Discussion

Our concerns relate to the poor structure and disclosure of remuneration, which undermine our ability to assess pay for performance. In light of this, we voted against remuneration at the 2022 Annual General Meeting (AGM).

In this engagement, the company informed us that it does not want to disclose targets for the Long-Term Incentive Plan (LTIP) for reasons of commercial sensitivity. We then asked for reflections on the significant dissent on remuneration received from free-float shareholders at last year's AGM. Richemont believed the primary reason for this was the undisclosed executive receiving a special award. Since then, Richemont disclosed the CFO as the beneficiary.

Replacement of long-tenured board members is also an ongoing process, and the board is seeking new representatives with an understanding of clientele in the US and Asian markets. Our investment case is based largely on the opportunity for Richemont's brands to grow in Asian markets, particularly in China, and so we are supportive of this search.

Outcome

At the 2023 AGM, we escalated voting action to oppose the Remuneration Committee Chair and the variable remuneration component given the continued poor disclosure. Remuneration was the subject of significant dissent again at the 2023 AGM, with 23 per cent of shareholders voting against executive variable remuneration. The Remuneration Committee Chair also received 9 per cent of votes against their re-election. Our engagements on this matter are ongoing.

©MartinMariettaMaterialsCompany.

Martin Marietta Materials

Cement and aggregates manufacturer

Principles

- Long-term value creation
- Sustainable business practices

Overview and objectives

Martin Marietta Materials is a leading supplier of building materials that are crucial for the revitalisation of American infrastructure. As one of the largest contributors to the portfolio's carbon footprint, we have engaged regularly on the company's sustainability strategy. In September 2023 we met with CEO Ward Nye and CFO Jim Nickolas in Edinburgh. Alongside a discussion of key business priorities and outlook, we discussed sustainability targets.

Discussion

The company has been improving its sustainability disclosures having set decarbonisation targets for its scope 2 emissions in 2022. At that time, we encouraged the company to report to the Carbon Disclosure Project and commit to the Science-Based Targets initiative (SBTi).

The following May, at the 2023 AGM we opposed a shareholder resolution asking the company to set SBTi targets. While we were supportive of the proposal in principle, we felt the timeframe over which to set these SBTi targets was too short and, therefore, unrealistic. We engaged with the board and received a clear commitment to make the climate efforts requested, albeit on a longer timescale. At our meeting with the company in September 2023, management confirmed that SBTi targets have been set. The company now has a two-year window for targets to be verified.

Outcome

We believe Martin Marietta Materials is a responsible operator, demonstrating significant progress in its sustainability strategy. Overall we see tangible evidence of progress and it is a positive development that the company has committed to set science-based targets. We remain mindful that Martin Marietta remains one of the highest emitters in the portfolio, however, and look forward to continuing our discussions with management and the board.

Amazon

Online retailer and web service provider

Principles

- Long-term value creation
- Sustainable business practices

Overview and objectives

We engaged with Amazon on more than one occasion during 2023, with the conversations covering board effectiveness, employee satisfaction, climate-related impacts, supply chain expectations and more. In one meeting, we spoke with the company's head of ESG engagement to discuss progress and developments in Amazon's climate strategy. With one of the largest value chains in the world, Amazon's sustainability initiatives mitigate risk of supply chain disruptions, support its brand and reputation, contribute to operational efficiencies and long-term cost savings.

Discussion

Amazon has positioned itself as a climate leader by setting ambitious decarbonisation targets in 2019 and establishing The Climate Pledge to accelerate climate action by the world's top companies. However, recent developments indicate challenges in delivering on its climate strategy.

We discussed the company's decision to step back from its Science-Based Targets initiative (SBTi) commitment. Amazon referred to methodological differences with the SBTi and the company is looking at alternative organisations to validate its emissions targets. We hope a new supply chain standards report, due in 2024, will provide more insight into how the company is progressing climate action and sustainability across its value chain.

Finally, we repeated our encouragement for Amazon to broaden the scope of its targets to include upstream emissions from first-party and third-party sellers on its platform. Given the company's systemic importance, we believe this would be an important catalyst for decarbonisation across the value chain.

Outcome

We remain supportive of Amazon's long-term aspiration to be net zero by 2040 and understand that decarbonisation is a complex process. In a letter sent to the company in October, we asked for greater transparency in how Amazon plans to achieve its objectives and outlined our belief that external validation of its targets is important to ensure accountability beyond its immediate emissions boundary. We will continue to monitor the company's progress in this area and will engage when necessary.

© Bloomberg /Getty Images.

Olympus

Medical and scientific equipment manufacturer

Principles

- Alignment in vision and practice
- Sustainable business practices

Overview and objectives

Olympus is a Japanese medical and scientific equipment supplier and is a leader in the field of gastrointestinal endoscopy. In March 2023 the company received warning letters from the US Food and Drug Administration (FDA) regarding quality failings in its production of endoscopes. We met with the CEO of Olympus, Stefan Kaufmann, to understand Olympus' status in the diagnosis and remediation of these issues. This meeting sought to cover the underlying drivers of the FDA complaints and establish a starting point for future monitoring and potential engagement.

Discussion

Following the FDA warnings, Mr Kaufmann elevated patient safety to the top priority. In this meeting, we questioned the underlying drivers of the FDA complaints, and Mr Kaufmann shared that part of the cause for the FDA letters was a clash between Japanese manufacturing practices and American regulation, as well as disjointed internal systems that led to longer feedback loops. Olympus is currently working on improving the capacity of the quality assurance and product safety team, which the company believes to be industry-leading.

Mr Kaufmann also acknowledged that strengthening internal information flows between teams could have facilitated more effective issue escalation. To fix this, Olympus are implementing new IT tools building faster feedback loops while attempting to enable a culture where the escalation of issues is more acceptable. Part of the incentives to enable this change include the introduction of product quality-related targets in employee bonuses. There are a lot of moving parts, but we were glad to hear that the company recognise the importance of change management, rooting out the drivers of these issues and monitoring the changes that have been implemented.

Outcome

We came away from the meeting more positive about the direction of remediation and with a greater understanding of the company's efforts to improve patient outcomes. The meeting also provided insight into Olympus' ongoing efforts to address the FDA's concerns and provided us with some data points for future monitoring.

Case study – Ryanair

Ryanair is a budget airline headquartered in Dublin, Ireland. Based on passenger numbers, the company is the leading airline in Europe, carrying 182 million travellers in 2023 and aiming to grow passenger numbers to 300 million over the next ten years.

Globally, aviation accounts for two per cent of total greenhouse gas (GHG) emissions and if the sector was a country, it would rank in the top ten emitters, equivalent to total annual emissions from Japan. It is one of the most challenging sectors to decarbonise, with a combination of technological, operational and policy innovation required. Accordingly, Ryanair's efforts to decarbonise its business are crucial to ensuring its business model is sustainable and mitigating risks to long-term value creation for its shareholders.

Ryanair has been held in Global Alpha since 2010 and, over the holding period, we have engaged regularly with the company on a range of ESG issues.

© Ryanair.

ESG focus areas: climate transition

Ryanair has made progress with its climate strategy over recent years. The company has set the following targets a Net Zero 2050 goal (including a 74 per cent cut in scope 1, 2 and 3 emissions*, supplemented by 26 per cent removals). In the shorter term as it works towards this longer-term goal, Ryanair targets a 5 per cent cut in scope 1 emissions by 2026 versus 2023. It also targets a 35 per cent cut in scope 2 emissions by 2030 versus 2022 levels, and a 50 per cent cut in scope 3 emissions over the same period.

On a carbon intensity basis, it is targeting a 26 per cent cut in scope 1 and scope 3 emissions by 2031 versus 2022 levels. This goal is considered science-based, 1.5 degree aligned and, at the time of writing, is undergoing validation by Science Based Targets initiative (SBTi). Increasing the use of sustainable aviation fuel (SAF) is an important part of Ryanair's wider transition strategy. The company has set the goal of 12.5 per cent of all fuel used by 2030 to be SAF.

What changed in 2023?

Dialogue with the company has provided reassurance that meaningful steps are being taken to deliver on the company's climate transition strategy. Notably, the company has made progress towards its 12.5 per cent SAF supply target. Discussions have also provided reassurance that managing employee relations remains a key priority for management.

*Scope 1,2 and 3 emissions definitions can be found on page 19.

Engagement snapshot – November 2023

Objective: To learn more about how Ryanair's sustainability initiatives are supporting the business's long-term strategy.

Discussion: We met with the Director of Sustainability and the Chief People Officer. Amongst other issues we focused our engagement on Ryanair's strategic need for sustainable aviation fuel in coming years. Management confirmed that contracts have been agreed with suppliers but that the 12.5 per cent target for all fuel used by 2030 to be SAF remains stretching. We also discussed employee relations. The majority of employees are now under collective bargaining agreements. The Chief People Officer outlined the company's flexibility during the pandemic, protecting jobs and accelerating the restoration of pay.

Outcome: Ryanair's adoption of SAF and its sustainability efforts demonstrate its leadership in the industry. Despite its current strong position, the company must strategically handle future challenges such as succession planning and competition.

Next steps

Ongoing monitoring. We believe the company has set industry-leading targets with clear milestones to achieve its long-term objective of Net Zero. But this relies heavily on future technological improvements and the greater availability of sustainable aviation fuel. To this end, we will actively monitor the company's progress in signing further SAF agreements with suppliers and the progress it makes integrating it into its fuel blend. We will also look for validation of its targets by the SBTi and the ongoing decarbonisation of the business towards its 2026 and 2030 goals.

Ryanair

2010

March
Global Alpha first purchased Ryanair

2014

2014 to 2019
Ongoing engagements with company on governance practices

2019

Opposed the remuneration report due to concerns over the long-term equity award granted to CEO

2020

March
Engaged with newly appointed sustainability director to discuss reducing carbon emissions in the short and longterm

Meeting with incoming Chair

2021

September
Engaged with the Chair, non-executive directors and director of sustainability

2022

April
Attended Ryanair shareholder forum

July
Ryanair commitment letter submitted to SBTi

2023

May
Meeting with management to discuss strategy

Taking stock

While our investors incorporate ESG considerations into our stock-level research, we also conduct regular thematic 'ESG audits'. These audits 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 and 2023), board composition and executive remuneration (both 2022), and audit firm tenure (2023). Most recently, we have been developing our thinking on stock-based compensation within portfolio companies.

Considerations of stock-based compensation, or SBC, often focus on the pay packages used to incentivise senior management teams and to align them with the interests of minority shareholders. These considerations are important. Truly long-term investment cases depend upon sustained operational excellence on the part of the people in charge. Such excellence is rare. It must be nurtured and should be rewarded. Allowing executives to share over time in the value created under their direction via equity ownership in theory achieves both of these aims. When properly structured, SBC packages can be an effective way to promote long-term thinking and an owner-operator mindset in the people on whom investment cases most directly hinge.

A company, though, is more than its management team. Research suggests that stock issuance to rank and file employees comprises up to 80 per cent of aggregate SBC expense across the US market. And to be clear, SBC is predominantly a US phenomenon. The mainstream practice of paying executives with stock options began in the US in the 1950s, in response to the favourable tax treatment of options relative to cash. The use of options for pay more broadly across an organisation began in the 60s. When the founders of Fairchild Semiconductor were denied permission from their East Coast parent company to extend the options packages that had made them millionaires to their broader employee base, the foundations were laid for what would become the future of the tech industry. When all eight Fairchild founders eventually split off to found companies that would be the underpinning of

modern-day Silicon Valley – amongst them Intel, Advanced Micro Devices (a Global Alpha holding) and Kleiner Perkins – the idea of using options to entice talent took root on the West Coast. Today it is standard practice across the Valley and the broader US technology and communications industries.

While the same drivers of incentivisation and alignment exist for employees as they do for executives, there are at least a couple of other reasons to pay junior and mid-level staff in stock. In the early days of a company's growth, it's an effective way to conserve scarce cash. SBC payments usually take the form of options – the right to buy stock at a pre-set price, or 'restricted stock units' (RSUs) – shares which are locked up until certain conditions have been met, usually based on employee tenure and company milestones. Issuing these instruments in place of cash allows the company to divert its resources to investments in growth. Another driver of SBC's prevalence is more prosaic – companies looking to attract top talent have to do it because everyone else does.

While there isn't a direct cash expense to issuing SBC to employees, there's still no such thing as a free lunch. Minority shareholders end up paying the cost of SBC through dilution of their prior shareholding. That is, they cede some of the return on their investment to employees, whose newly issued stock increases the share count. The pie remains the same size, but everyone gets a slightly smaller piece. This on its own is not a cause for concern. In fact, for companies that are growing rapidly, an increasing share price will mean that less stock is required over time to meet the dollar-denominated headline compensation requirements of new talent, and this becomes a beneficial source of internal leverage. In such instances, we should hope that the company will make good use of SBC to add an extra kicker to growth.

Unfortunately, opposite effects also apply when shares move unfavourably. A company overly dependent on SBC for staff retention will find that it has to issue increasingly large blocks of shares to keep headline compensation at an attractive level when share price is declining. There are also tax implications that can add insult to injury – a lower share price means lower non-cash payroll expenses than expected, which artificially increases earnings and thus the effective tax rate. Like anything that provides a seemingly easy boost on the way up, without thoughtful and effective oversight SBC can quickly turn from boon to burden.

There are also companies for whom SBC expenses are high in absolute terms, but where there is no material impact on dilution due to the practice of balancing out new stock issued to employees with repurchases of stock from the market. Such companies are able to aggressively compete for talent and to align their employee base with ongoing growth through SBC issuance, then to put their strong cashflows to work through buybacks and effectively convert payroll expenses back to cash. This allows more mature companies like Meta or Adobe to benefit from the positive impacts of SBC without asking minority shareholders to foot the bill.

All this is to say that, on its own, use of SBC is neither 'good' nor 'bad'. The relevant consideration is of materiality. Having a good understanding of the SBC practices of companies in your portfolio allows us to make informed considerations of their forward-looking financial characteristics, and of how they may change in different market environments. We maintain a dashboard for the portfolio which highlights to us key metrics such as SBC as a percentage of sales and operating expenses, historic rates of annual share count change and dilution, and the potential impact of future dilution on our financial projections for portfolio companies. Doing so allows us to feel confident that we can identify those companies for whom SBC is a particularly material consideration. We can then continue to engage with management to ensure that their thinking is in alignment with the interests of minority shareholders in the long term.

Stock-based compensation can be a powerful tool for alignment and growth. It requires careful oversight. The challenge for management teams is to harness its potential while guarding against its pitfalls. We stand ready as active and engaged shareholders on your behalf to help companies in your portfolio navigate these considerations.

Case study – Twilio

At the start of 2023, the Global Alpha team sold the portfolio's holding in communications software company, Twilio, following growing governance concerns. High levels of executive turnover and excessive levels of stock-based compensation (a factor helping the share count to double over the past five years), were also of particular concern. At the time, the company was also facing headwinds following the COVID-19 pandemic which had seen growth slow and its share price decline. Our concern was that Twilio would need to issue more shares to maintain headline compensation at an attractive level, increasing dilution for shareholders. Our discussions with the board left us underwhelmed and unconvinced by its oversight and leadership of the business. Combined with a deteriorating level of confidence in the management team's ability to execute on Twilio's long-term opportunity in a profitable way, we decided to sell the holding.

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.

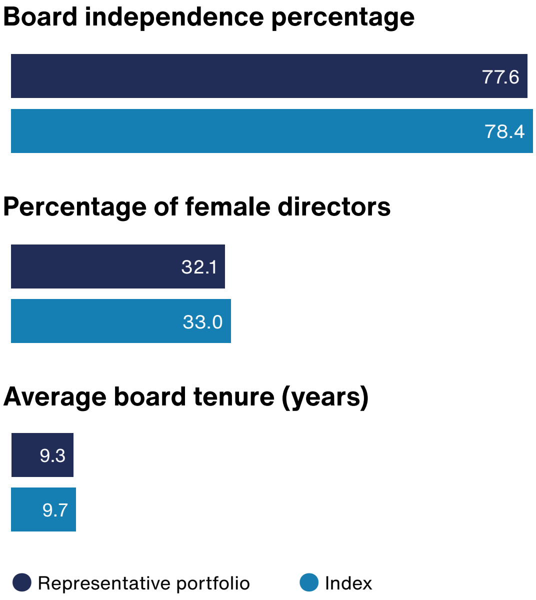
We view data not as a checklist to be mechanically ticked off, but as the starting points for meaningful conversations with companies and stakeholders. We recognise that the intangible nature of corporate character means our approach must be nuanced and qualitative.

The following data points compare the 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 on this page.

What the data tells us: Where the data is available, twenty-one of the companies in the portfolio have at least 40 per cent female representation on the board, with four companies having equal gender balance (ASM International, Sartorius Stedim Biotech, Schibsted and Adevinta). Twenty companies have 20 per cent or less female directors, including one company, Sea Ltd, which has no women on the board. We continue to engage on issues of board diversity including female representation. 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 2023.
Based on a representative portfolio.

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. Five are on the watchlist (Amazon, BHP, Meta, Tesla and Thermo Fisher Scientific). We expect all 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 fundamental analysis.

UN Global Compact Compliance Status	Representative Portfolio %	Index %
Pass	90.6	88.9
Non-Compliant	0.0	1.4
Watchlist	9.4	9.7
No Data	0.0	0.1

Source: Sustainalytics. As at 31 December 2023.
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 35 per cent are founder-led (compared to 22 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 %	Index %
Controlled (≥ 30%)	4.6	5.7
Principal (10–30%)	27.2	17.9
Founder firm (chief executive/chair)	34.6	21.9
Family firm (≥ 10% and board)	6.6	7.0
Widely-held	26.7	47.5

Source: MSCI. As at 31 December 2023.
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.

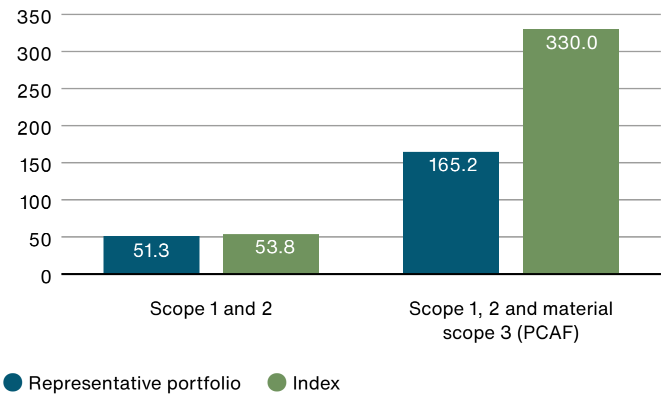
What it is: These metrics allow the comparison of portfolios containing companies of different sizes and across industries. We recognise that climate metrics analysis is imperfect. In addition to concerns about data accuracy and availability, this analysis can only tell us where a company is, not where 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.

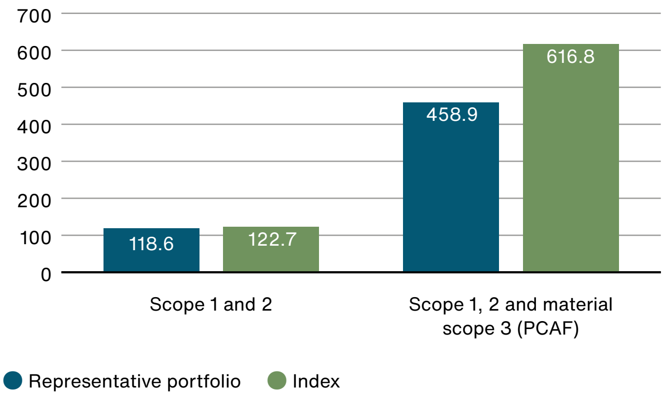
Weighted Average Carbon Intensity (WACI): The WACI of the portfolio represents the aggregated carbon intensities per $m revenue of the companies in a portfolio, scaled by size of holding. The WACI metric therefore helps measure a portfolio's exposure to high carbon intensity companies and can be used for comparisons with other portfolios.

What the data tells us: The portfolio's carbon footprint and WACI is roughly in line with the Index on a scope 1 and 2 emissions basis. However, it has a lower relative carbon footprint and WACI than the Index when comparing scope 1, 2, and material scope 3 emissions. Five companies account for over 75 per cent of the total relative carbon footprint of the portfolio, namely BHP, CRH, Ryanair, Martin Marietta Materials, and Reliance Industries. As at the end of December 2023, the total weighting of those five companies was around 13 per cent versus the MSCI ACWI weighting of around 0.5 per cent.

Carbon footprint tCO_2e/USD million



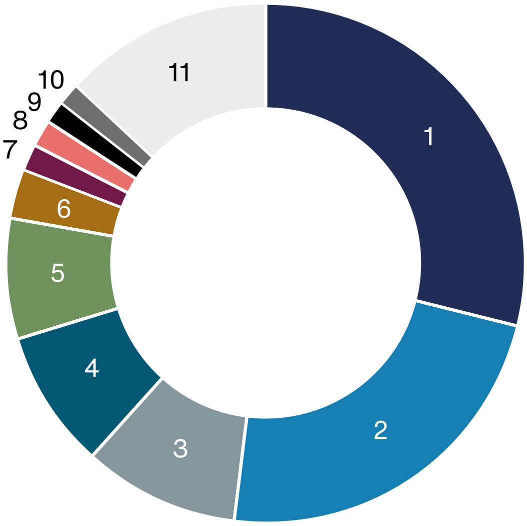
Weighted average carbon intensity tCO_2e/USD million revenue



Source: MSCI. As at 31 December 2023. Based on a representative portfolio. Scope 1,2 and 3 emissions definitions can be found on page 19.

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	**28.9**
2	CRH	**23.2**
3	Ryanair	**9.6**
4	Martin Marietta Materials	**8.6**
5	Reliance Industries	**7.5**
6	CBRE Group	**3.1**
7	Advanced Drainage Systems	**1.8**
8	Samsung Electronics	**1.5**
9	Comfort Systems USA	**1.4**
10	Albemarle	**1.4**
11	Rest of portfolio	**13.0**

Source for charts: Baillie Gifford, FactSet, MSCI ESG Research. As at 31 December 2023.

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Portfolio climate progress

In 2023, we completed a climate audit of the portfolio, scoring each company on disclosure, targets and its reporting of its scope 1, 2 and 3 emissions. Although the portfolio does not have a Net Zero commitment, we are working with companies to encourage and, in some instances, apply pressure to reduce these emissions. This is based on our belief that corporate success will only be sustained if a business's long-run impact on society and the environment is incorporated into decision-making.

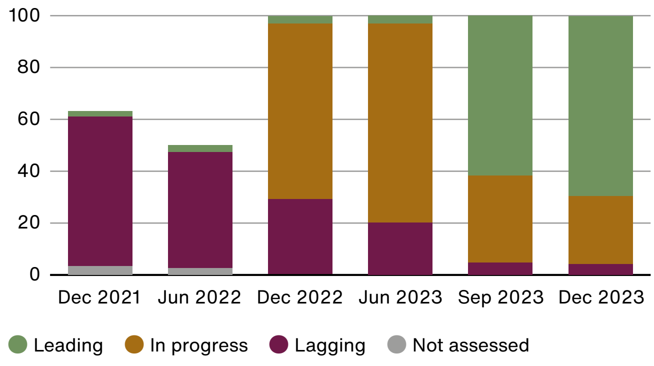
As such, the Global Alpha team aims to assess all holdings in the portfolio at least annually as part of Baillie Gifford's 'climate audit' process. This helps inform our view of climate-related risks and opportunities across the portfolio. Holdings are assessed on two main criteria:

- **Emissions reduction goals and performance**: Holdings are categorised as 'leading', 'preparing', or 'lagging' based on an assessment of their ambition and related strategies to reach net zero emissions by 2050 or before.
- **Potential transition role**: Holdings are categorised as 'solutions innovators', 'carbon-light potential influencers', 'potential evolvers' or 'materially challenged' based on an assessment of their strategic positioning relative to the net zero transition.

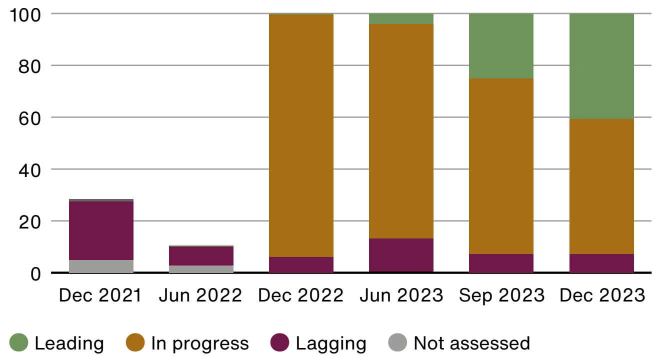
Between December 2022 and December 2023, there has been a significant improvement in the proportion of the portfolio classified as Paris Aligned (Leading) according to scope 1 & 2 (2.8 per cent to 69.4 per cent) and scopes 1, 2, 3 material (0.3 per cent to 40.6 per cent) carbon footprints.

As shown earlier in this report, the majority of portfolio emissions can be attributed to a small number of holdings. Accordingly, if we can successfully encourage these holdings to improve their climate strategies, it can have a material impact on the portfolio's carbon footprint metrics. Since December 2021, we have seen progress in the climate assessments of twenty-two companies, representing around 26 per cent of assets under management (AUM).

Global Alpha (% S1,2 carbon footprint)



Global Alpha (% S1,2,3m carbon footprint)



Source: MSCI. As at 31 December 2023. Based on a representative portfolio.

In particular, one of the top emitters CRH has strengthened its 2030 targets, had them validated by the Science-Based Targets initiative (SBTi) as aligned with a 1.5-degree pathway and the company has set a 2050 net zero goal. As a result, the company's climate audit assessment moved from 'In Progress' to 'Leading'. Similarly, Ryanair has improved from a 'Laggard' to a 'Leader' after setting new, more ambitious emission targets and outlining a coherent long-term strategy to decarbonise its business, including industry leading goals to increase the use of Sustainable Aviation Fuel (SAF). These two holdings represent nearly a third of the portfolio's carbon footprint and successful execution of their respective climate strategies will make a material contribution to decarbonising the overall portfolio.

The direction of travel is certainly positive, and we have an ongoing programme of engagement with the biggest emitters in the portfolio.

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 scope 3 emissions from certain material sectors, in accordance with guidance from the Portfolio Carbon Accounting Framework (PCAF). As of the end of Q2 2023, material scope 3 emissions include those from the oil & gas and mining sectors as well as other industrial sectors as listed in the PCAF standards. From 2025 onwards, all sectors will be considered 'material' and included in scope 3 emissions.

The data

Total emissions represent the absolute greenhouse gas emissions (scope 1, 2 and material 3) from assets held, allocated on an ownership basis. This means a portfolio holding 1% of a company's stock would be attributed 1% 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.

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Proxy voting report

Exercising the voting rights attached to portfolio holdings is an integral part of our stewardship activities. Co-ordinated 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.

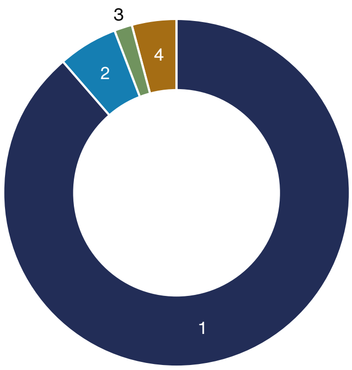
We invest in high-quality companies where we believe the governance structure supports the long-term investment opportunity. We seek to avoid investments where corrective action is required to generate value. Accordingly, we support most resolutions put forward by investee companies, voting against proposals 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

1,232

Global Alpha proxy voting record



1	For	88.7%
2	Against	5.6%
3	Abstain	1.5%
4	No vote	4.1%

Source: Baillie Gifford. Data from 1 January 2023 to 31 December 2023.
Figures may not sum due to rounding.
Based on a representative portfolio.

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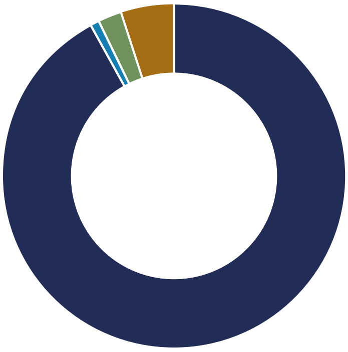
Management resolutions: breakdown of voting activity

Director elections



●	For	92.1%
●	Against	0.8%
●	Abstain	2.2%
●	No vote	4.9%

Example – Estée Lauder

We withheld support from the re-election of the Lead Independent Director and member of the compensation committee due to unaddressed concerns over the company's executive compensation practices. We have consistently voted against the executive pay resolution since 2016 due to the committee's decision to routinely make off-cycle grants to management in addition to their regular equity awards. We do not consider these special awards to be an appropriate method of incentivising senior management and believe they undermine the pay-for-performance characteristics of the regular incentives. We have communicated these concerns and our voting rationale to the board.

Voting result: For 94.1%; Against 5.9%; Abstain 0%

Remuneration

●	For	86.4%
●	Against	7.1%
●	Abstain	2.1%
●	No vote	4.3%

Example – Cloudflare

We opposed the executive compensation resolution due to the compensation committee's decision to amend the exercise price and share price targets attached to outstanding option awards. As long-term shareholders in Cloudflare, the repricing of options does not align with our clients' experience. This is the second year in a row we have had issues with the company's compensation policy. We engaged with the compensation committee and wrote to the board to express our concerns, as well as outlining our expectations for future pay awards and our willingness to develop a dialogue on this and other material ESG topics.

For 73.7% Against 26.2% Abstain 0.1%

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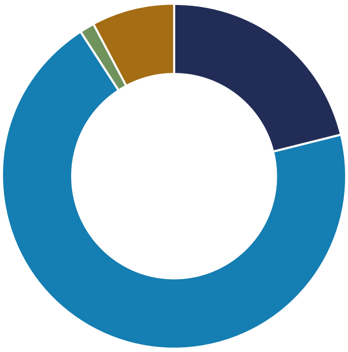
Shareholder proposals



For	21.2%
Against	69.7%
Abstain	1.5%
No vote	7.6%

Source: Baillie Gifford. Data from 1 January 2023 to 31 December 2023.
Figures may not sum due to rounding.
Based on a representative portfolio.

Example – Amazon

At Amazon's 2023 AGM we voted in favour of six shareholder resolutions, including a proposal requesting additional reporting on freedom of association. In light of ongoing allegations regarding the company's labour practices, we believed shareholders would benefit from an independent review of its stated commitment to workers' freedom of association and collective bargaining rights as outlined in Amazon's Global Human Rights Principles. 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.

For 34.6% Against 64.6% Abstain 0.8%

Looking to the future

Our aim in this report was to bring to life our approach to stewardship and the integration of ESG considerations into our investment process using case studies and examples from 2023.

The consideration of ESG issues chimes emphatically with Global Alpha's investment philosophy and long-term investment horizons. It is also deeply embedded in our investment process, as exemplified at the beginning of this report, where we outlined how we consider all portfolio holdings by answering the question 'Is it sustainable?'.

Given the intangible – and therefore often difficult to quantify – nature of ESG issues, our in-depth research and analysis of portfolio holdings 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 these issues, without the bias of disclosure and/or tick-box approaches.

That is not to say, however, that we have all the answers.

In everything we do, we humbly recognise how much more there is to learn. We will continue our efforts to enhance our thinking in this sphere and respond to the continually evolving landscape of changing environmental challenges, regulation, and societal attitudes.

In the same way that we can have candid conversations with company management teams thanks to our longstanding investments, we welcome the same candour in our longstanding client relationships. We invite you to continue asking questions of us. Highlight to us what you believe we are doing well. Challenge us on where you believe we can improve.

Further reading:

Our principles and guidelines 2024 | Baillie Gifford

Baillie Gifford & Co TCFD-aligned Climate Report

Global Alpha TCFD report

Global Alpha | Investment Strategy | Baillie Gifford

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