Baillie Gifford

Global Income Growth Quarterly Update

31 March 2024

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Potential for Profit and Loss

All investment strategies have the potential for profit and loss.

Stock Examples

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Product Overview

Global Income Growth is a long-term global equity strategy that aims to deliver both a dependable income stream which grows at a rate above inflation and real capital growth, together combining to provide a total return ahead of equity markets.

Risk Analysis

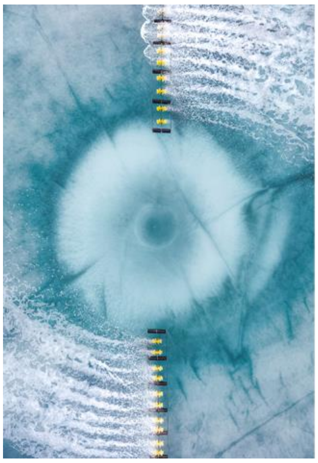
Key Statistics	
Number of Holdings	59
Typical Number of Holdings	50-80
Active Share	86%*
Rolling One Year Turnover	9%

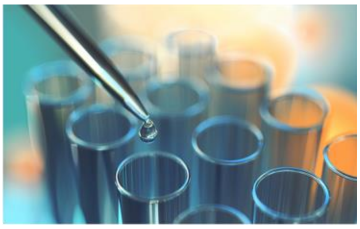
*Relative to MSCI ACWI Index. Source: Baillie Gifford & Co, MSCI.

Global equity markets returns were very strong as investors turned more positive on economic growth

Our portfolio of quality companies delivered positive returns but lagged the benchmark, as is often the case in very strong markets

We are not chasing the rally and remain focused on the long-term prospects of our holdings





Baillie Gifford Key Facts

Assets under management and advice	US$290.9bn
Number of clients	655
Number of employees	1817
Number of investment professionals	393

A spell is broken.

After an impressive recovery in 2023, global equity markets have kept their momentum and delivered strong returns in the first quarter. The Goldilocks scenario anticipated by investors seems to be developing, with inflation slowing whilst economic activity remains robust in the US, stable at reasonable levels in China and improving in Europe.

What is particularly telling this quarter is the impact of rising bond yields on equity markets. Or more specifically, the lack thereof. In the last three months of 2023, falling bond yields had fuelled a strong rally in equity markets. So far this year, the US 10-year Treasury bond yields have risen from 3.75% to 4.3%, which is a big move in bond markets. The impact on equity markets? Unnoticeable.

It points to a big shift in sentiment for equity markets, which are no longer under the spell of bond yields. Investors now seem to be taking the view that higher interest rates no longer risk triggering an economic recession. In fact, they seem to be welcoming a return to normality after a decade-long experiment of ultra-low interest rates.

Nothing could be more symbolic of that return to normality than the Bank of Japan raising its interest rates for the first time in 17 years, reaching positive territory again after 8 years below zero. Arguably, the new target range of 0-0.1% is unlikely to trigger a tsunami of bad debt, but it is a significant move.

We may look back in a few years' time at this period as the quarter when financial markets returned to normality: a world where money has a price and isn't raining down from Central Bank helicopters. And investors have taken that significant shift in their stride.

In terms of economic activity, the picture remains mixed. US economic growth remains solid, boosted by Government spending and full employment. European growth, anaemic in 2023, is showing signs of life, and China's growth is relatively low compared to its history but still at a rate that many countries would love to reach (5%).

2024 is an election year for more than half of the world's population. However, the results for most of the largest countries could be discounted with more certainty than the cashflows of Nestle. In India (1.4bn people), Indonesia (275m), Bangladesh (175m) and Russia (140m), the potential to surprise financial markets was minimal. The odd one out, combining high impact and high drama, is the US election. Expect lots of noise and analysis in the next few months, but whatever the results, a few things are unlikely to change: geopolitical tensions, “Big Government” and the Artificial Intelligence (AI) rush are here to stay.

Welcome to the Old Normal.

Portfolio performance

Year to date, the portfolio has returned around 4% (in GBP), lagging the MSCI ACWI, which has returned 9.1%. In sharp market rallies, our focus on resilient compounders is often a drag on relative performance as investors chase the more cyclical companies or, as in the last few months, the more exciting technology companies. Financially put, a beta below one is a headwind in rapidly-rising markets.

We hold Apple and Microsoft but the lack of exposure to the “Magnificent Seven” continues to be felt, albeit less so than in 2023. Since the beginning of the year, it explains ~28% of the relative underperformance.

Should we jump on this AI bandwagon? It would relieve the pressure, but the reality is most of those technology stocks do not fit our investment approach. Some will deliver outstanding returns in the long-term, but the road will be bumpy and at times, unbearably so, for our clients. Exciting new technologies invariably attract attention and generate a cycle of hype and associated volatility.

More importantly, the investment required to grow as fast as possible in a very competitive industry prone to disruption consumes all the cash generated, which is why many technology companies do not pay a dividend.

A few generate enough cash to pay a dividend and invest in future growth, but this is the exception rather than the norm. Microsoft is a good example; it is also one of the best positioned companies for the technological revolution currently underway. Its Cloud services provide the infrastructure enabling the AI revolution and its stake in OpenAI, a leading contender in the new AI-rms race, will allow it to deploy the latest tools to the billion people that interact daily with one of their products.

Beyond the "Magnificent Seven", security selection has been the main driver of relative performance year to date.

It is highly unusual for a single company to influence a country's Gross Domestic Product (GDP) growth forecast, but Novo Nordisk just did. The Danish Central Bank mentioned the diabetes and obesity treatment leader as a driver behind their nearly doubling the 2024 GDP growth forecast. Beyond its contribution to Denmark's GDP growth and tax receipts, Novo Nordisk is also the leading contributor to portfolio performance this quarter. After publishing strong results in January (earnings per share were up 52% in 2023), the company announced at their Capital Markets Day in March some promising, if preliminary, results for a next-generation obesity drug.

For the fourth time in 12 months, we have trimmed our position in the company as its stellar performance pushed it against our internal limit of 6% maximum.

The Taiwanese chip manufacturer TSMC is the second largest contributor to performance as its share price and operations have benefitted from the rush to AI. It produces the Nvidia chips and its most recent sales numbers point to a recovery in demand and mid-teen growth rates after a challenging year for all semiconductor companies.

A few other companies which are more sensitive to the economic cycle, like the US distributor Fastenal and the French power and automation company Schneider Electric, contributed to performance as concerns about a potential recession receded. Schneider Electric is a leading supplier to datacentres and as such, will benefit from the rush to build AI datacenters, which require more power than the traditional ones.

On the other side of the ledger, AI juggernaut Nvidia's share price keeps rising and our lack of exposure keeps hurting; it is the largest detractor to relative performance again this quarter.

The other detractors include the Brazilian stock-exchange B3 as it published underwhelming results, and companies suffering from the rebound effect of a Covid-related boom.

That group includes logistics company Kuehne and Nagel ("K&N"), Australian lab network Sonic Healthcare and Swiss pharmaceutical company Roche. These names saw a large increase in demand for their products in the pandemic (K&N for its logistics prowess in a very disrupted world, Sonic and Roche for their lab testing capacity), which led to sharp price increases and a temporary boost in investment to meet that demand. For example, they recruited more employees or expanded their lab capacity. With excess demand receding, some of these costs linger, weighing on profitability. We expect this is effect to be transitory.

The longer-term view

Taking a longer-term view, over the past three years, the equity portfolio has delivered strong absolute performance of close to 31% but slightly lagged the returns of the MSCI ACWI (in GBP).

Over that period, Novo Nordisk was the top contributor, followed by the more cyclical names in the portfolio as the world economy was recovering from the pandemic: two US distributors (Watsco and Fastenal) but also Schneider Electric and Australian online car-selling platform CAR Group.

Not holding Nvidia was a 3.5% headwind and explains most of the relative underperformance. This is how narrow the market has been. Similarly, an underweight position in US equities was a drag on relative performance, made worse by our overweight positioning in the other regions, which underperformed.

Apart from Nvidia, our Chinese holdings weighed heavily on returns. Shares in Man Wah, Anta Sports and the Hong Kong Stock Exchange have suffered large declines in their valuation multiples as investor sentiment has turned very negative on China.

We believe that sentiment pendulum has gone too far for some stocks. To take but one example of the dislocation: Sportswear company Anta's profits were about 85% higher in 2023 vs. 2019 but its share price ended 2023 at the same level as it was at the end of 2019. It is difficult to forecast when things may change but over the long term, share prices do follow earnings. So, as long as our companies deliver the earnings growth we expect, we see no reason to follow the crowd and sell out of China altogether.

A closer look at our pharmaceutical holdings

Over the past few months, we have looked more closely at our pharmaceutical holdings. Our objective was two-fold: a) reflect on our experience to determine the success factors for investing in a pharmaceutical company and b) revisit our investment thesis for the three stocks held in the portfolio (GSK, Roche and Novo Nordisk).

Pharmaceutical companies are rarely thought of as cyclical businesses. Quite the opposite, in fact. Protected by lengthy patents, sales and profits seem to offer valuable predictability. For example, the sales of cancer treatment drugs do not depend on the economic cycle.

But pharmaceutical companies are cyclical in the long term, a cycle driven by the discovery of new drugs. These are typically patent-protected for 20 years after filing of the application, but since it takes a long time to bring a new drug to market from that application, the companies reap the rewards of innovation for a shorter period. In effect, pharmaceutical companies are on an innovation treadmill.

What have we learned from studying that industry over the past 15 years? Firstly, that innovation is a key success factor, and the most important one. What else matters? Strength in commercial organisation - critical even for the best drugs-, strong manufacturing capability and sufficient portfolio diversification. And just like in many other sectors, the presence of anchor shareholders can help maintain the focus on long-term decisions.

For innovation, there are two possible routes: focus on a specific therapeutic area - like Novo Nordisk with diabetes and obesity – or diversify to spread risks.

As ever, there are risks attached to both strategies. Focusing on an area of strength leads to the risk of becoming too dependent on one drug. For one Novo Nordisk, there are many single-drug companies which have fallen off that discovery treadmill. Spreading risk over several therapeutic areas could lead to a lack of focus in all.

To balance these risks, many pharmaceutical companies have adopted a hybrid model: outsourcing the innovative research to small, focused biotech companies and acquiring them once the odds of success have improved. They can then leverage their commercial organisation to market the drug very effectively. Pfizer, GSK, Astra Zeneca have all followed that route.

What does that mean for our holdings?

Starting with GSK. Back in 2018, our investment case had two main assumptions: that the company would seriously sharpen its commercial focus under new management and that the appointment of well-respected chief scientific officer Hal Barron would lead to a rejuvenation of the company's drug pipeline.

Six years on, the commercial turnaround has indeed happened, which helped drive the share price up by almost 30%. With dividends, this is a solid total return of 9% annualised.

However, the second part of our investment case has failed to materialise. The departure of Hal Barron in 2022 was a concern but it coincided with the appointment of another well-regarded scientist, and we continued to hold.

At the end of last year, our investigative researcher's report painted the picture of an organisation with a weak innovation pipeline and getting "reorganisation fatigue". That report was the proverbial straw and having lost conviction in the long-term growth prospects, we divested from GSK.

How about Roche, which has been one of the most innovative and successful companies in cancer treatment over the past 20 years? In fact, their success in the past explains their biggest challenge today. Their "blockbuster" drugs are no longer protected by patents and Roche needs to replenish its pipeline with new drugs.

We have more conviction in the health of their 'R&D engine' and recognise that Roche ventures where not many pharmaceutical companies go. This comes with higher risk but potentially higher rewards, and we believe that the pipeline still has capacity to surprise on the upside. The company is currently undergoing a commercial reorganisation under a new CEO and we felt it was appropriate to halve our position size to reflect the higher uncertainty in their execution.

It's a different story for Novo Nordisk, which has been by far the largest contributor to performance over the past five years and remains a top holding. For the fourth time in a year, we have trimmed the position this quarter. This reflects our commitment to portfolio diversification discipline rather than any change in conviction levels.

Transactions

It was a quiet quarter in terms of portfolio activity, with one new purchase and one complete sale.

We have purchased a new position in Epiroc, a Swedish industrial company spun off by Atlas Copco in 2018. We believe that many of the attractive cultural features which have contributed to Atlas' fantastic growth since we bought it in 2010 are also present at Epiroc.

Epiroc sells high-value, mission-critical drilling equipment to mining and construction companies. Its expertise in hard-rock drilling and strong track-record of innovation have made Epiroc a global leader in a consolidated industry. There are many structural drivers supporting growing demand for their products: an ever-growing need for metal while extracting this metal becomes more complex as ore grades decline and mining moves underground. Epiroc's innovative products help their customers operate more efficiently and in addition to the above, we expect the mega-trends of electrification, digitisation and automation to drive earnings and dividend growth over the next decade.

A large and growing installed base of equipment supports steadily rising demand for new attachments, spare parts and maintenance, which are provided by a strong network of highly-specialised technicians. Representing close to 70% of revenues, this part of the business helps reduce the inherent cyclicality of its end-markets and provides steady cashflows, allowing Epiroc to reinvest for growth whilst paying an attractive and resilient dividend.

To fund this purchase, and as detailed in the pharmaceutical section above, we have sold out of GSK and halved our position in Roche.

The other notable transaction this quarter is the trimming of Novo Nordisk mentioned earlier. Why not sell the whole position after a 335% share price increase over the last three years? Because we believe that:

- We are in the early stages of a long growth runway in obesity. There are about 800m obese people in the world today and that number is unfortunately growing.
- We are early in the lifecycle of GLP1 drugs and future generations will likely lead to more weight loss with less side-effects. As a point of reference, innovation is still happening with insulin, which has been used and refined for more than 100 years.
- Novo Nordisk combines a research with a manufacturing competitive advantage, which is very hard to replicate. We expect many optimistic, headline-grabbing announcements from biotech and other pharma companies in the coming months, but will they have the capacity to manufacture the vast quantity of active ingredient needed? Novo is planning to spend more than $5bn per year in the next few years to ramp up capacity. That pushes an already high barrier to entry higher.
- Whilst the valuation has risen - the stock is trading on 36x forecast 2024 earnings -, we believe that it remains attractive compared to the expected earnings growth (>20% per annum over the next three years).

Outlook

As our clients know, we are reluctant to try to forecast macro-economic factors, so we will not hazard a guess as to how many cuts we expect from the Fed nor where the oil price may be in 6 months' time. It is a fool's game and if hundreds of Fed economists with access to the best data could not forecast the recent spike in inflation, what chance have we got?

We are currently going through the results recently reported to check whether the operational progress made by our holdings still matches our investment thesis. Our impressions thus far are that, in most cases, operational progress is in line with our expectations.

There will always be periods when equity markets rally strongly as investors' appetite for risk increases, and our resilient compounders may lag in those periods. We resist the fear of missing out and remain focused on fundamentals of our business, which we believe is the best way to deliver attractive performance over the long term.

Performance Objective

To achieve a yield higher than the MSCI ACWI Index whilst, over rolling five-year periods, achieving growth in both income and capital by investing in companies anywhere in the world

The performance objective is aspirational and is not guaranteed. We don't use it to compile the portfolio and returns will vary. A single performance objective may not be appropriate across all vehicles and jurisdictions. We may not meet our investment objectives if, for example, our growth investment style is out of favour, or we misjudge the long-term earnings growth of our holdings.

Periodic Performance

GBP	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	4.3	9.3	-5.0
1 Year	10.2	21.2	-11.0
3 Years	9.4	10.7	-1.3
5 Years	11.3	12.1	-0.8
10 Years	11.4	12.3	-0.9
Since Inception	10.7	11.0	-0.4

USD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	3.4	8.3	-4.9
1 Year	12.5	23.8	-11.3
3 Years	6.2	7.5	-1.2
5 Years	10.7	11.5	-0.8
10 Years	8.3	9.2	-0.9
Since Inception	9.2	9.6	-0.4

EUR	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	5.7	10.8	-5.0
1 Year	13.2	24.5	-11.3
3 Years	9.3	10.5	-1.3
5 Years	11.5	12.3	-0.8
10 Years	11.0	11.9	-0.9
Since Inception	11.0	11.4	-0.4

CAD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	6.1	11.2	-5.1
1 Year	12.5	23.8	-11.3
3 Years	8.9	10.1	-1.3
5 Years	10.9	11.7	-0.8
10 Years	10.5	11.5	-0.9
Since Inception	11.5	11.9	-0.4

AUD	Composite Net (%)	Benchmark (%)	Difference (%)
3 Months	8.1	13.3	-5.1
1 Year	15.5	27.1	-11.6
3 Years	11.9	13.2	-1.3
5 Years	12.6	13.4	-0.8
10 Years	12.2	13.1	-0.9
Since Inception	11.9	12.3	-0.4

Annualised periods ended 31 March 2024. 3 Month & 1 Year figures are not annualised.
Inception date: 31 March 2010
Figures may not sum due to rounding.
Benchmark is MSCI ACWI Index. (25% FTSE All Share, 75% FTSE All World ex UK prior to 31 May 2012).
Source: Revolution, MSCI.
Global Income Growth composite is more concentrated than MSCI ACWI Index

Discrete Performance

GBP	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Composite Net (%)	-3.3	35.2	12.8	5.4	10.2
Benchmark (%)	-6.2	39.6	12.9	-0.9	21.2

USD	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Composite Net (%)	-8.0	50.4	7.7	-1.1	12.5
Benchmark (%)	-10.8	55.3	7.7	-7.0	23.8

EUR	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Composite Net (%)	-5.9	40.4	13.7	1.3	13.2
Benchmark (%)	-8.7	45.0	13.8	-4.7	24.5

CAD	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Composite Net (%)	-2.0	32.8	7.0	7.2	12.5
Benchmark (%)	-4.9	37.1	7.1	0.8	23.8

AUD	31/03/19-31/03/20	31/03/20-31/03/21	31/03/21-31/03/22	31/03/22-31/03/23	31/03/23-31/03/24
Composite Net (%)	6.8	20.9	9.2	10.9	15.5
Benchmark (%)	3.6	24.8	9.3	4.3	27.1

Benchmark is MSCI ACWI Index. (25% FTSE All Share, 75% FTSE All World ex UK prior to 31 May 2012).
Source: Revolution, MSCI.
Global Income Growth composite is more concentrated than MSCI ACWI Index

Stock Level Attribution

Top and Bottom Ten Contributors to Relative Performance

Quarter to 31 March 2024

Stock Name	Contribution (%)
Novo Nordisk	0.6
TSMC	0.4
Fastenal	0.4
Tesla Inc	0.4
Apple	0.3
SAP	0.2
Schneider Electric	0.1
Coloplast	0.1
UnitedHealth	0.1
Adobe Systems	0.1
NVIDIA	-1.2
B3	-0.4
Sonic Healthcare	-0.4
Kuehne & Nagel	-0.4
Roche	-0.3
Edenred	-0.3
Meta Platforms	-0.3
Partners	-0.3
Atlas Copco	-0.3
UPS	-0.3

One Year to 31 March 2024

Stock Name	Contribution (%)
Novo Nordisk	1.2
Fastenal	0.6
Carsales.com	0.6
Partners	0.6
Watsco	0.4
TSMC	0.4
Admiral Group	0.3
Tesla Inc	0.3
Schneider Electric	0.3
Intuit	0.3
NVIDIA	-1.9
UPS	-1.1
Albemarle	-0.9
ANTA Sports Products	-0.9
Sonic Healthcare	-0.8
Meta Platforms	-0.7
Amazon.com	-0.7
Kering	-0.6
Roche	-0.6
Pepsico	-0.5

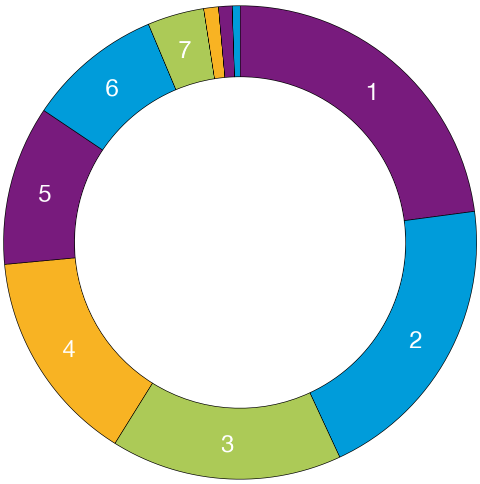
Source: Revolution, MSCI. Global Income Growth composite relative to MSCI ACWI Index.
The holdings identified do not represent all of the securities purchased, sold or held during the measurement period. Past performance does not guarantee future returns. A full list showing all holdings' contributions to the portfolio's performance and a description on how the attribution is calculated is available on request. Some stocks may not have been held for the whole period. All attribution figures are calculated gross of fees, relative to the index from stock level up, based on closing prices. As attribution is shown relative to the benchmark, not all stocks shown are held in the portfolio.

Top Ten Largest Holdings

Stock Name	Description of Business	% of Portfolio
Microsoft	Technology company offering software, hardware and cloud services	4.5
Novo Nordisk	Pharmaceutical company	4.4
Fastenal	Distribution and sales of industrial supplies	4.1
Watsco	Distributes air conditioning, heating and refrigeration equipment	4.0
TSMC	Semiconductor manufacturer	3.7
Procter & Gamble	Household product manufacturer	3.1
Partners	Private markets asset management	3.0
Atlas Copco	Manufacturer of industrial compressors	2.8
Schneider Electric	Electrical power products	2.8
CAR Group	Online marketplace for Australian classified ads	2.6
Total		34.8

Figures may not sum due to rounding.

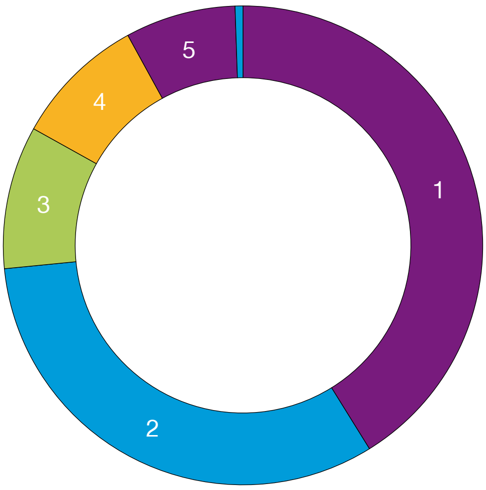
Sector Weights



		%
1	Industrials	22.9
2	Information Technology	20.2
3	Financials	15.8
4	Consumer Staples	14.6
5	Health Care	10.9
6	Consumer Discretionary	9.3
7	Communication Services	3.9
8	Utilities	1.0
9	Materials	0.9
10	Cash	0.5

Figures may not sum due to rounding.

Regional Weights



		%
1	North America	41.2
2	Europe (ex UK)	32.3
3	Developed Asia Pacific	9.7
4	Emerging Markets	8.9
5	UK	7.4
6	Cash	0.5

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	8	Companies	6	Companies	2
Resolutions	94	Resolutions	16	Resolutions	2

We had a session with the Baillie Gifford climate team to talk through three possible climate transition scenarios and their likely implications for the portfolio

Research and engagement included meeting with Apple on ethical Artifical Intelligence (AI), speaking to former Medtronic employees about company culture and product safety and discussing climate targets with Watsco

Baillie Gifford will publish its 2023 Investment Activities Stewardship Report in April 2024

Company Engagement

Engagement Type	Company
Environmental	Analog Devices, Inc., Apple Inc., Dolby Laboratories, Inc., Eurofins Scientific SE, Kering SA, Nestle S.A., PepsiCo, Inc., Pernod Ricard SA, United Parcel Service, Inc., Watsco, Inc.
Social	Apple Inc., Coloplast A/S, Kering SA, PepsiCo, Inc.
Governance	ANTA Sports Products Limited, Analog Devices, Inc., Apple Inc., Cisco Systems, Inc., Coloplast A/S, Dolby Laboratories, Inc., Edenred SE, Eurofins Scientific SE, Intuit Inc., Kering SA, L'Oreal S.A., Microsoft Corporation, Novo Nordisk A/S, Pernod Ricard SA, Sonic Healthcare Limited, United Parcel Service, Inc., Valmet Oyj
Strategy	Pernod Ricard SA, United Parcel Service, Inc.

Company	Engagement Report
Coloplast	Objective: We wanted to understand Coloplast's approach to meeting patient needs, as this is core to retaining patients as long-term dedicated users. To do this, we met with Aleksandra Dimovska from the Investor Relations team at Coloplast's HQ. We also touched on governance and succession in this family-founded business. Discussion: The problems that Coloplast addresses are highly intimate and personal; patients are likely to rely on Coloplast's products (notably continence and ostomy products) for many years. However, Coloplast is also an innovative company that regularly brings out new generations of products. Ensuring insights from various parties including patients, nurses, and the user insight team are part of the final design is an essential competency for Coloplast. Patient centricity starts at the beginning of an employee's career at Coloplast with staff meeting patients and learning about their relationships with products and routines as part of the induction process. Nurses are key stakeholders as they have a more holistic view of patient challenges. This helps Coloplast design products that meet patient needs and address health complications. We also took the opportunity to discuss governance - Deputy Chair Niels Peter Louis-Hansen (son of the founder) is now in his mid-70s and is a dominant force on the Board and a main shareholder. Succession planning is an absolute priority in Coloplast as a whole - and each senior staff member has to provide the names of two potential successors in case they are needed - the Board is no exception and has succession plans in place. However, particular consideration has been given to Niels Peter Louis-Hansen given his shareholding; a new holding company has been established to ensure stability during a potential period of generational change. Outcome: Coloplast's focus on patient centricity is clear - helping to ensure the relevance of new products. Succession planning seems to be a key element of Coloplast's culture, alleviating concerns over instability during potential generation change.
Kering	Objective: Kering is a luxury group that consists of brands that span the areas of fashion, leather goods and jewellery. Our engagement with Kering's Chief Sustainability Officer focused on the company's pioneering work on supply chain traceability. Supply chains are the textile industry's most significant area of environmental impact and increasingly a topic with reputational and regulatory significance, due to evolving regulatory requirements in the EU. Discussion: We discussed Kering's target for achieving 100 per cent traceability of key raw materials by country of origin and its aspirations to eventually have visibility down to the farm level. The company sets out the components of progress towards this target into certification, supplier contract clauses, collaboration and technology each of which we covered in turn. The company's collaborative efforts, such as the Fashion Pact and the Watch & Jewellery Initiative, highlight its crucial role in driving industry-wide shifts towards sustainable practices. Leveraging collective purchasing power in the supply chain amplifies influence, which is essential given that Kering is often one of many buyers of its raw materials. The company also highlighted that technological solutions, such as forensic science to verify organic cotton, can be used as an additional overlay for its traceability work and illustrate its innovative approach to securing supply chain oversight. Outcome: Our in-depth discussion helped us to better understand the components of Kering's traceability practices. We believe the company is well placed to navigate increasingly stringent supply chain regulations and that it plays a critical convening role in adopting more sustainable practices across the wider industry. The learnings can inform our engagement with other holdings whose practices may be less mature.

Company	Engagement Report
Pernod Ricard	Objective: We took up Pernod Ricard's annual offer of a meeting with the lead independent director. In late 2023, the company announced a leadership change in its US operations, a market that contributes twenty per cent of sales. Given this and the company's view of the US as a 'must-win' market, we wanted to hear the board's perspective on the reasons for the change. Discussion: Pernod Ricard's explanation for the leadership changes initially lacked clarity, but it appears that the company has identified several technical challenges that impinge on the successful implementation of its US strategy. Consequently, the company brought in Conor McQuaid to replace the former US CEO. McQuaid has a wealth of experience, having worked for Pernod Ricard for over twenty-five years. His primary task is to ensure the company executes its US strategy. The board considered that the former CEO did well, but the change was necessary. Additionally, the board has welcomed Max Koeune to strengthen US business expertise, having recognised a skills gap. Course correcting in the US will be a focus for the board in its meetings this year; indeed, the board will come together to have a whole day focused on the matter in a few months. Outcomes: We were disappointed to learn that the successful implementation of the company's US strategy appears to have been a blind spot at the board level. On the positive side, the board has taken action to fill an identified skills gap by adding Max Koeune. It was encouraging to hear of various touchpoints throughout 2024 where this matter will be top of the agenda for the board. We will look to follow up with the company later in the year.

Votes Cast in Favour

Company	Meeting Details	Resolution(s)	Voting Rationale
Analog Devices	Annual 13/03/24	4	We supported the shareholder proposal on simple majority voting. We believe that supermajority voting requirements can lead to entrenchment and make it difficult to implement positive corporate government reforms.
Apple	Annual 28/02/24	6	We supported the shareholder proposal on median pay gap reporting, as this would allow for effective measurement of the company's progress on its diversity and inclusion efforts.

Companies	Voting Rationale
Analog Devices, Apple, Dolby Laboratories, Intuit, Midea Group 'A', Novo Nordisk, Starbucks Corp, Valmet Oyj	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Analog Devices	Annual 13/03/24	2	We opposed executive compensation because we do not believe the performance conditions for the long-term incentive plan are sufficiently stretching. We generally believe when performance is assessed relative to a benchmark that vesting of awards should only begin when performance is equal to, or above that, of the chosen benchmark.
Analog Devices	Annual 13/03/24	3	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.
Apple	Annual 28/02/24	4	We opposed the shareholder resolution requesting for a report on risks related to omitting viewpoint and ideology from the company's EEO policy, as we are satisfied with the current level of transparency around the company's diversity and inclusion efforts, non-discrimination policies and alignment with the industry standards.
Apple	Annual 28/02/24	5	We opposed the shareholder resolution asking for a report on standards and procedures to curate app content as we are satisfied with the current disclosure around the company's management of government information requests.
Apple	Annual 28/02/24	8	We opposed the shareholder proposal requesting for an analysis of the congruency of Apple's privacy and human rights policy positions with its actions as we are satisfied with the current level of corporate disclosure.
Dolby Laboratories	Annual 06/02/24	2	We opposed the executive compensation policy as we do not believe the performance conditions are sufficiently stretching.
Dolby Laboratories	Annual 06/02/24	5	We opposed the ratification of the auditor because of the length of tenure. We will encourage the company to rotate the auditor as we strongly believe it is best practice as it helps to ensure independent oversight of the company's audit process and internal financial controls.

Company	Meeting Details	Resolution(s)	Voting Rationale
Intuit	Annual 18/01/24	4	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.
Intuit	Annual 18/01/24	6	We opposed a shareholder resolution requesting a retirement plan investment report. The board is not responsible for the management of the company's retirement plan options and the company's current offering provides employees with diversified investment options.
Starbucks Corp	AGM 13/03/24	3	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.
Starbucks Corp	AGM 13/03/24	4	We opposed a shareholder proposal calling for a report on plant-based milk pricing. We consider that the current level of disclosure is sufficient for shareholders to evaluate any risks associated with the Company's offering of plant-based milks.
Starbucks Corp	AGM 13/03/24	5	We opposed a shareholder proposal calling for an audit and report on systemic discrimination. We are comfortable with the company's current policies and procedures in place to address this issue.
Starbucks Corp	AGM 13/03/24	6	We opposed a shareholder proposal calling for a report on the congruency of the company's human rights policies and with its actions. We consider the extent of the Company's operations are disclosed appropriately.
Valmet Oyj	AGM 21/03/24	11	We opposed the remuneration report due to ongoing concerns with a lack of disclosure of performance targets for incentive plans.

Companies	Voting Rationale
Apple, Intuit	We opposed the executive compensation as we do not believe the performance conditions are sufficiently stretching.

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
Apple	Annual 28/02/24	7	We abstained on the AI-related shareholder proposal as we believe that the request for a Transparency Report on the company's use of AI could be harmful to its competitive position and represent an unnecessary bureaucratic cost. Further, we do not see the value of the Report would bring to shareholders. However, we see benefit for Apple to develop and disclose ethical AI principles, since we recognise there to be potential risks and opportunities associated with AI and believe principles can provide guardrails for its responsible development and deployment. We will engage with the company to communicate our position.

Votes Withheld

Company	Meeting Details	Resolution(s)	Voting Rationale
Dolby Laboratories	Annual 06/02/24	1.8	We withheld support for the election of the Compensation Committee Chair due to unaddressed concerns regarding the company's approach to executive compensation.

New Purchases

Stock Name	Transaction Rationale
Epiroc	We have purchased a new position in Epiroc, a Swedish industrial company spun off by Atlas Copco in 2018. We believe that many of the attractive cultural features which have contributed to Atlas' fantastic growth since we bought it in 2010 are also present at Epiroc. Epiroc sells high-value, mission-critical drilling equipment to mining and construction companies. Its expertise in hard-rock drilling and strong track-record of innovation have made Epiroc a global leader in a consolidated industry. There are many structural drivers supporting growing demand for their products; an ever-growing need for metal while extracting this metal becomes more complex as ore grades decline and mining moves underground. Epiroc's innovative products help their customers operate more efficiently and in addition to the above we expect the mega-trends of electrification, digitisation and automation to drive earnings and dividend growth over the next decade. A large and growing installed base of equipment supports steadily-rising demand for new attachments, spare parts and maintenance, which are provided by a strong network of highly-specialised technicians. Representing close to 70% of revenues, this part of the business helps reduce the inherent cyclicality of its end-markets and provides steady cash-flows, allowing Epiroc to reinvest for growth whilst paying an attractive and resilient dividend.

Complete Sales

Stock Name	Transaction Rationale
GlaxoSmithKline (GSK)	Our investment case for this pharmaceutical and vaccines company had two strings to it when we invested in early 2018. First, the company would seriously sharpen its commercial focus under new management, something which had been clearly lacking for several years. Second, the appointment of highly-regarded scientist Hal Barron would likely lead to a rejuvenation of the company's drug pipeline, and a revaluation of the shares. Our expectation when we invested was that the commercial turnaround would happen during the first five or so years, and the pipeline re-build would then come through in years five to ten (pharmaceutical portfolios operate on very long cycles). Six years on from our purchase of the shares, the commercial turnaround has indeed happened, and this has helped drive the share price up by almost 30%. Together with dividends this has produced a solid total return of more than 9% annualised. However, the second part of our investment case has failed to materialise. Indeed, Hal Barron has stepped back from the company to a more advisory role, and the improvement that we hoped to see appear by now in the pipeline has not come through. Recognising this outcome, and with limited conviction in the future earnings growth of the company, we decided to divest from the holding.

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