Baillie Gifford™

Stewardship Report
Year ended 31 March 2024

The Scottish American Investment Company P.L.C.

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Highlights of the year

Investment decisions

- We took new holdings in five companies we believe have the ability to compound earnings and dividends over the long term: Diageo, Epiroc, Eurofins, Home Depot and Texas Instruments. Our analysis considered all four to have good environmental, social and governance (ESG) credentials. We exited our positions in four companies.
- **Page 06**

Engagement: outcomes and escalation

- Overall, we engaged with 44 holdings to encourage management to accelerate change and improve governance and sustainability performance. The year saw various engagement outcomes and escalation.
- **Page 15**

Informed and constructive engagement

- The year has seen us further increase our use of diverse information sources as inputs into our ESG research. We believe this helps us better calibrate our understanding of risks and opportunities and better informs our engagement.
- **Page 21**

Furthering our work on climate

- We have continued to press our holdings on climate. The year saw further increase in portfolio alignment with the Paris Agreement's goals, to 53 per cent. We have also increasingly begun to use climate scenario analysis and deepen our research into the area of physical climate risk.
- **Page 33**

Resolutions and voting

- We voted on 1010 resolutions across our portfolio holdings. On 108 occasions, we voted in opposition to management's recommendation, where we felt the company's position fell short of our expectations.
- **Page 38**

Fifty years of dividend growth

This year marked an extraordinary milestone of fifty consecutive years of dividend growth for the Scottish American Investment Company P.L.C (SAINTS). This achievement underscores our aim to deliver consistent income growth to SAINTS shareholders. Our strategy of focusing on income growth rather than starting yield has also been delivered.

In the year ahead, as managers, we will continue our search for steady long-term compounding in earnings and dividends from those great companies all around the world where we can invest on behalf of SAINTS shareholders, aiming to grow their income and capital ahead of inflation.

Introduction

This year's report may look a little different to previous iterations, but little has changed when it comes to the Scottish American Investment Company P.L.C.'s (SAINTS) underlying stewardship philosophy.

We believe there is a strong link between steady compounding and environmental, social and governance (ESG) matters. Companies that do real damage to the environment, treat employees badly, or have narrow and ineffective boards are unlikely to compound earnings and dividends for a decade and more. We believe attending to ESG factors raises the odds of picking 10 per cent-plus steady compounders. Integrating our assessment of a company's ESG profile is, therefore, a foundational part of SAINTS' investment process and fiduciary duty to investors, not a nice little add-on to please regulators or marketing teams.

Looking back on the year, it was hard to escape mention of artificial intelligence (AI) and glucagon-like peptide-1s (GLP-1). Whilst not wishing to add more noise to the general hubbub, it would be remiss to not acknowledge both given we view the two as societally transformative. Given this, it is clearly important that the companies at the wheel, driving these breakthroughs, are behaving responsibly – even more so given that they are equity holdings within SAINTS.

Which brings us to Novo Nordisk, a portfolio holding that has helped pioneer the GLP-1 class of medicine, originally for patients with diabetes but is now being used to treat obesity. The company will likely be subject to a high level of scrutiny in the years ahead, as it brings new drugs to market to treat obesity. Our research into Novo Nordisk, which we continued this year, only serves to increase our conviction that the company operates with high ethical standards, alongside a longstanding commitment to responsible operations. Elsewhere in the portfolio, Microsoft and Apple's use of AI introduces ethical considerations, such as mitigating algorithmic bias. Responsible deployment of AI has therefore been an area of our attention, with us raising the matter with Microsoft, as detailed in last year's report, and this year with Apple – read more on page 39.

The year has also seen many portfolio holdings navigating new ESG legislation, focused on increasing transparency and standardising strategic approaches to sustainability. One of the pleasant outcomes, for us, has been several companies inviting our contribution to their materiality assessments – namely TSMC, Coloplast and Albemarle. Regulators are pushing companies to take a more systematic approach in how they prioritise and manage their impacts on the environment, society and wider stakeholders – and consider how sustainability-related developments present risks and opportunities. We believe being invited to participate in these assessments is testament to our valued place on the shareholder registers of these companies. We also view that invitation as recognition of our long-term investment horizon. We are privileged to have this entrusted to us by clients, since it enables us to support our holdings to improve sustainability performance on investment material matters, not simply demand increased disclosure and tick a box.

Our long-term approach is especially critical, because the positive effect of good ESG performance tends to play out over many years. This is also true when it comes to observing outcomes from our engagement with companies. Over the course of the year, several portfolio companies delivered on our engagement priorities. These priorities are often communicated to companies several years in advance of changes. Successful engagement takes time. The year also saw escalation in our engagement. We are pleased to share more, alongside details of our wider engagement activities on pages 31 – 37.

Our long-term approach is especially critical, because the positive effect of good ESG performance tends to play out over many years

We continue to seek independent, expert insights to inform our research. We believe doing so is differentiated and enhances our relationships with companies. It helps us better understand the challenges faced by management and boards alike. This year, this entailed everything from speaking to former employees as an input into our assessment of company culture to engaging with climate scientists to better understand changing rainfall patterns in Southeast Asia and much more in between.

We have furthered our work on climate, workshopping various internally developed qualitative scenarios and increasingly assessing the portfolio through the lens of physical climate risk. The equity portfolio has seen an increase in the proportion of holdings committing to Paris Agreement aligned decarbonisation targets.

The report concludes with a summary of our voting activities, outlining our approach and highlighting a selection of our votes where we have escalated our positions on various issues or voted against management.

We hope you enjoy this year’s report.

SAINTS' ESG Policy

The Board of SAINTS recognises the importance of considering Environmental, Social and Governance factors when making investments in pursuit of the Company's financial objective. We believe that our shareholders should hold SAINTS to a high standard in this area, and also that it is the Board's responsibility both to set appropriate standards for SAINTS' managers and to monitor activity and progress in areas such as voting and engagement. Although the Company does not have an explicit sustainability objective, we believe that proper consideration of environmental, social and governance factors sits naturally with SAINTS' longstanding aim of providing shareholders with a dependable source of income, together with growth in income and capital that exceeds inflation over time.

The Board expects its equity managers to:

- Consider environmental, social and governance factors as part of their research and stock selection process in pursuit of the Company's objectives.
- Vote all holdings in the best long-term interests of SAINTS and its shareholders.
- Engage with the management of SAINTS' equity holdings, focusing on material environmental, social or governance factors that are likely to affect the financial condition, operating performance and prospects of each holding.
- Avoid investing in companies where their long term prospects are expected to be adversely affected by severe negative impacts of their operations on the environment, climate, society or wider stakeholders.
- Be signatories of and adhere to the UN Principles of Responsible Investment, which aim to better align investors with the broader objectives of society.

The Board recognises the importance of high standards of corporate behaviour and strong governance in protecting shareholders' and society's interests, and of careful consideration of environmental factors including climate change in assessing investments.

The Board recognises that such factors are of significant importance in relation to property. Accordingly, it expects its property manager to consider those factors as part of its process, in relation to both property selection and the ongoing management of SAINTS' property investments.

Our approach to investment: allocating capital responsibly

As investors, we seek companies that can compound their earnings and dividends at attractive growth rates for many years to come. Many of our clients want these investment objectives to be met with a portfolio that excludes certain types of business. Others also expect a high bar for inclusion in terms of ESG factors. We view proper company management of ESG matters as a necessary characteristic of any investment.

Finding sustainable long-term growth

- We have a long and successful track record of identifying companies that can deliver both sustainable real growth and resilient dividends, reflected in the long and successful track record of SAINTS.

Fully integrating ESG considerations

- Sustainability considerations are fully embedded into our investment process through our Impact – Ambition – Trust (IAT) assessments drawing on the input of our dedicated ESG Analyst. Before making the decision to purchase, we write an IAT report for every investment idea and discuss its findings with the whole team. This report ensures that we fully integrate these considerations into our debate about whether the idea is appropriate for the Trust.

Responsible ownership, stewardship and engagement

- We recognise that many sustainability matters are complex, multi-dimensional and challenging for individual companies to overcome alone. Therefore, we engage with our holdings in a constructive, targeted way to help them address material sustainability challenges by supporting them on their journey.

In the past year, we took new holdings in five companies: **Home Depot**, **Diageo, Epiroc**, **Eurofins and Texas Instruments**. As with any prospective new holding, all underwent our IAT analysis. We believe these companies all have solid sustainability credentials and prospects for long-term growth in their earnings and dividends. Our analysis did note areas for improvement and these form engagement priorities with each.

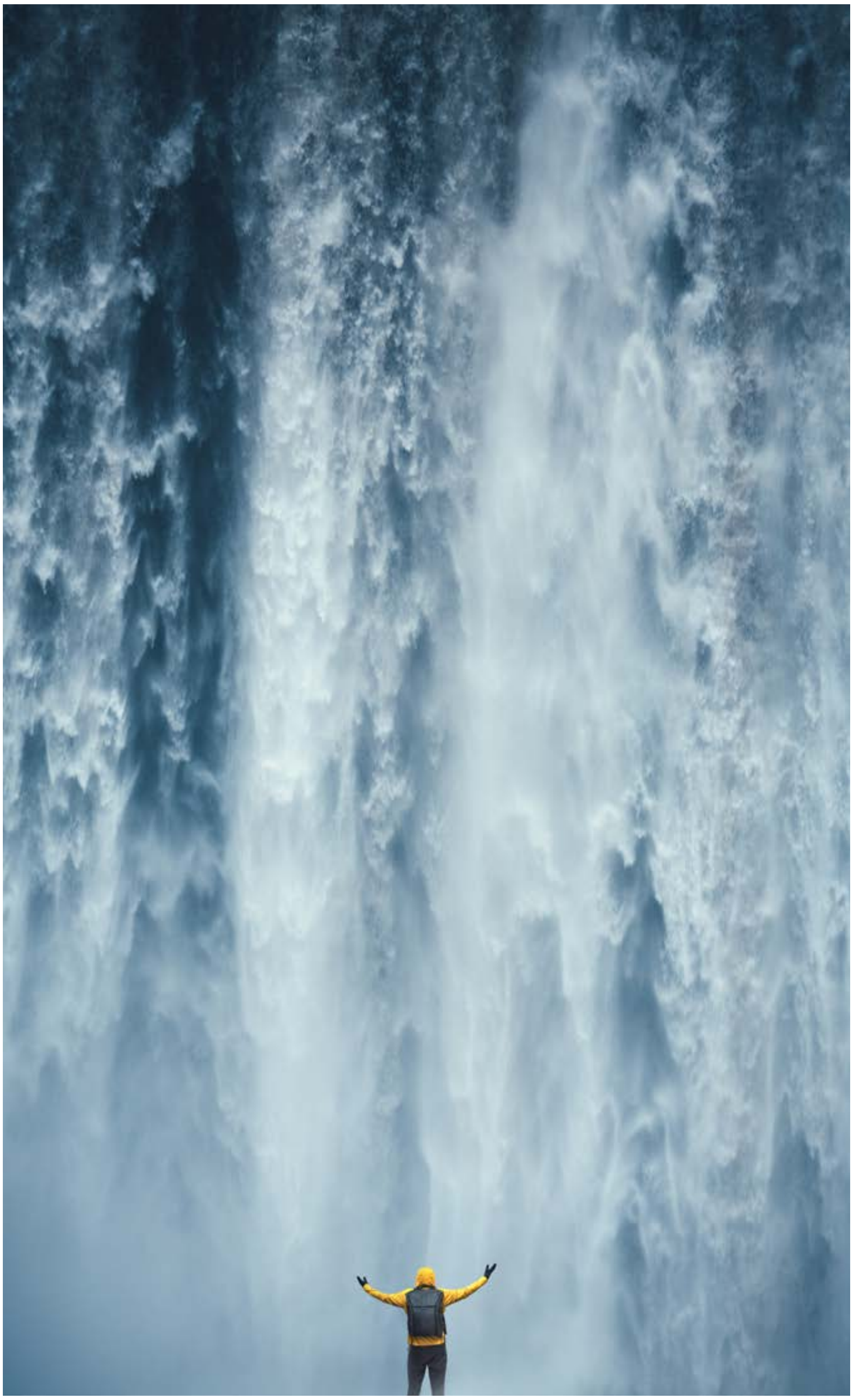
Impact – Ambition – Trust

Our forward-looking sustainability assessment *Impact – Ambition – Trust* is core to our investment process. The purpose of this assessment is to judge the:

- **Impact (operations)**, positive or negative, of a company's operations on the environment, society and wider stakeholders;
- **Impact (products)**, positive or negative, of a company's products on the environment, society and wider stakeholders;
- **Ambition** a company has to either further or address these impacts, and whether this is best-in-class;
- **Trust** we have in the company's management team and the board to deliver on our expectations around sustainability and governance matters.

New investments

As was the case last year, over the following pages we are pleased to share shortened, digestible summaries of our IAT assessments for each new investment. Following these, we also detail other major portfolio changes.



Home Depot

We are long-standing admirers of this well-managed American home improvement retailer, which has an excellent track record of earnings growth together with a progressive dividend. The company has recently started investing in a new area for future growth, serving construction professionals with more complex projects alongside the DIY homeowners and small-scale trade professionals who historically have been its bread-and-butter. We are excited by this new venture, which could significantly grow the company's profits. After studying the careful way in which Home Depot is building this new venture, we think it stands a good chance of paying off attractively. We therefore took a holding in the shares with an eye to the longer-term rewards on offer.

Impact – operations: neutral

We observe on-going risks relating to data security, occupational health and safety, and employee relations. However, we view Home Depot's efforts on all three to be appropriate. On employee relations, for instance, the company spent approximately $2 billion on enhanced worker benefits in 2020 to ease challenges during the pandemic. We believe the company could do more on responsible sourcing, and the company has come under criticism for its timber sourcing, but many of its commitments are as we would hope to see. The company has impressive commitments to renewable energy sourcing, including plans to self-install.

Impact – products: neutral

Various initiatives related to the circular economy. Rental options are available to customers and the company view this as a growth area. Eco Actions product lines support customers in choosing 'greener' products. Perhaps most notable is Home Depot's adoption of reverse logistics – the company sell its own waste back to suppliers; for example, as input material into composite decking. There are also various goals to help customers save $600 million in energy costs, through promoting purchase of energy-saving products. Ultimately, though, we do not view the provision of DIY products as particularly impactful, positively or negatively for the environment, society or wider stakeholders.

Ambition: challenger

Home Depot created its first sustainability strategy at the turn of the millennium. It based this on 'The Natural Step', a Swedish NGO-designed sustainability framework built on the recommendations of the 1987 Brundtland Report. So, plenty of pedigree to its efforts. Today, the retailer has set ambitious targets on energy efficiency, responsible sourcing and managing waste. On climate, Home Depot aim to reduce scope 1 and 2* emissions by 42% and emission associated with the use of products sold by 42% by the end of the decade.

Trust: high

Prior to our investment, our various meetings with the company provided us confidence the company possesses a unique culture; and, in Ted Decker, a CEO who is serious about stewarding the company for many years in a sustainable manner. Its board is of a high calibre; whilst some directors are long-tenured, there has been evidence of refreshment in recent years. Home Depot's audit arrangement exceeds our firmwide twenty-year limit and is an area for future engagement. The company exhibits a deep-rooted culture of service and innovation, both vitally important characteristics for any enduring retailer.

*Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy.

Diageo

UK-listed Diageo is the world's largest spirits maker, with a dominant position in the US market, and a broad portfolio of brands that are recognised and sold globally including Johnnie Walker, Gordon's and Smirnoff. Our research over the years has highlighted its world-leading marketing and brand-building capabilities. We expect global consumption of spirits to grow steadily in the next decade as consumers modify their behaviour to drink 'less but better'. And thanks to Diageo's expertise in marketing and brand-building, we believe the company should be able to capture a large share of this growth. Combined with a clear commitment to pay a resilient and steadily growing dividend, we believe it can deliver many years of steady compound growth.

Impact – operations: neutral

Main impacts are water use, raw material sourcing and GHG emissions. Water management, given climate-driven increasing prevalence of water stress in some geographies of operation, is the key material risk. The company's front-of-foot, with detailed disclosures and well-established mitigating strategies in place. Analyses of physical climate risks are extensive. It is also encouraging to see evidence of cross-industry and landscape level collaboration projects and smallholder training programmes to enhance agricultural resilience. There are externalities (and future risks) associated with operations, but we believe Diageo to be managing these appropriately.

Impact – products: material

For centuries, alcohol has contributed to conviviality but also many alcohol-related health and social harms. If we are to accept alcohol will remain an acceptable social past-time, permitted by law, we view Diageo's main role as responsibly marketing its products so as to not encourage underage consumption and raise awareness of the dangers of dependence and abuse. The company operate initiatives like DRINKiQ and SMASHED, to educate the public and young people on alcohol risks.

Ambition: leader

The company exhibits what we consider leading ambition, demonstrated by well-established sustainability programmes across material issue areas (via its strategy 'Spirit of Progress'). Notably, we view Diageo to be working to embed sustainability considerations across its entire business. For instance, Diageo has formed a partnership with Saïd Business School and created a bespoke leadership training programme on sustainability for 600 senior executives.

Trust: high

Diageo's board is impressive and the company has a track-record of historically having taken a long-term view. We are impressed by the level of resource allocated to, and calibre of, Diageo's sustainability team. We harbour some concerns on recent changes to the company's remuneration targets, as well as reputational risk associated with Diageo's lobbying positions, and will continue to monitor both of these matters. Our primary area of work since investment has been the company's CEO transition.

*Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy.

Epiroc

Epiroc is a Swedish industrial company spun off by Atlas Copco in 2018. It sells 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; including an ever-growing need for metals required for the energy transition. Extracting this metal will become more complex as ore grades decline and mining moves underground. Epiroc's innovative products help their customers operate more efficiently and we expect the mega-trends of electrification, digitisation and automation to drive earnings and dividend growth over the next decade.

Impact – operations: neutral

After-market servicing is an important revenue stream for Epiroc. This introduces employee health and safety risks, as mine sites are often remote and dangerous. Recent increases in injury incidence have meant enhanced safety training has been introduced. We harboured some concerns relating to whom Epiroc sold its products, but the company is alert to end industry, user and jurisdictional risks. It employs a 'Responsible Sales Assessment' to mitigate potential risks its products could enable human rights abuses, corruption, or great damage to the environment. Our analysis found no initial areas of concern, here, but we intend to speak to the company to learn more about the assessment's application.

Impact – products: developing

Mining has historically been a dirty and unsafe industry, but Epiroc's products and innovations are helping change that. The company's electrified and autonomous machinery produce less carbon emissions and are safer for mine workers. We note that a low single digit proportion of Epiroc's sales are to coal mining operations, but acknowledge the company has committed to continually reduce this percentage year-on-year.

Ambition: leader

The company seeks to grow revenues from its innovative fossil-free technologies, including battery, hydrogen, and biofuel-based machinery, which will be crucial for the transition to clean energy in the mining sector. Epiroc has set ambitious targets validated by the Science-Based Targets initiative (SBTi), including reducing both scope 1, 2, and substantial scope 3* greenhouse gas emissions by 50% before 2030 from a 2019 baseline. The company emphasises the importance of decarbonising its supply chain, recognizing that over 99.3% of its CO_2e emissions stem from scope 3 sources, and has started engaging with key suppliers to set mutual goals for emissions reduction.

Trust: high

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. Investor AB, serving as a strategic shareholder, enhances our view the company will be run for the long-term. Ronnie Leten, an executive whom we hold in high regard, serves as Chair of the board. Its composition is rather Scandinavian-centric, as is common for the market, and we believe it could benefit from some more diverse global perspectives. Nonetheless, the company exhibits many of the governance and cultural characteristics we believe indicate long-term decision-making.

*Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Eurofins Scientific

Eurofins Scientific is a leading global laboratory business focused on a wide variety of testing related to human health and the environment. The company benefits from the structural growth drivers of more testing resulting from demographic trends and continually increasing regulation. Beyond these favourable drivers, we believe that the distinctive vision of the founder and CEO, Gilles Martin, will lead them to take further market share through maximising their scale advantages. They have invested in an industry-leading, internally developed technology platform and in building out their lab network, which provide strong foundations for growth and improved returns on capital in the future.

Impact – operations: neutral

Eurofins' decentralised structure is one of the business's key strengths. When it comes to ESG, it is also a challenge. It has made emissions-related data collection more challenging and introduces elevated cybersecurity and ethical risks. We believe the company has shown progress in recent years in its management of these risks. Testing and certification is a business where trust and accuracy is paramount. Eurofins has appropriate systems of oversight in place, including whistleblower mechanisms. A cybersecurity incident in 2019 was responded to appropriately but did cause the business significant disruption. The company has subsequently invested in improved systems and process to mitigate future risk.

Impact – products: developing

Testing contributes positively to society by ensuring public health and safety through comprehensive testing of food and pharmaceutical products, identifying potential contaminants and ensuring compliance with safety standards. Environmental testing services, including analyses of water, air, soil, and waste, play a role in monitoring pollution and protecting natural resources. Agricultural testing can help improve crop yields and ensuring the safety of agricultural products, enhancing food security. Eurofins' work in certifying consumer products helps maintain high standards. By assisting in disease control through clinical testing, Eurofins also plays an essential role in public health initiatives.

Ambition: neutral

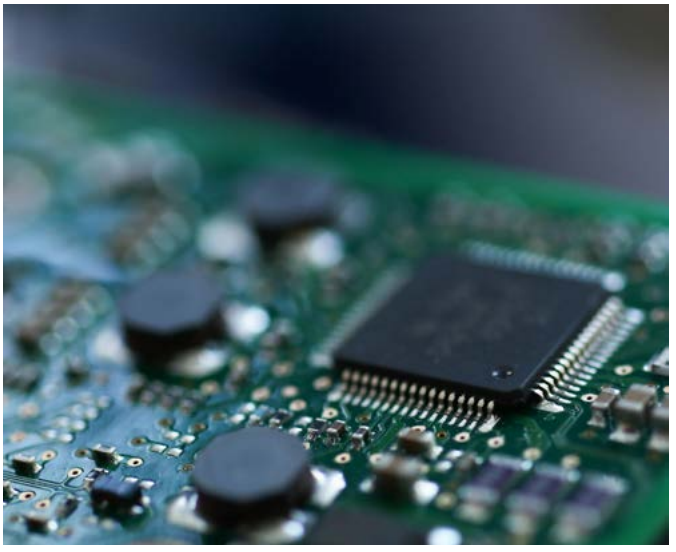
Owing to the decentralised nature of Eurofins business, it has taken some time for the company to gather data on the sustainability impacts of its operations. The company has shown continued year-on-year improvements, though. For instance, at the time of assessment, the company's climate strategy, heavily reliant on offsets, raised questions about its commitment to real emissions reduction. However, it has since committed to SBTi-aligned targets for absolute reductions. Over time, it is likely Eurofins' will be a candidate for an upgraded score.

Trust: neutral

This area of assessment formed the key part of our analysis. Allegations of historically questionable accounting practices raised questions. As did board independence, with ties between board members and CEO Gilles Martin, and plans for CEO succession. Recent improvements include the appointment of a Lead Independent Director, Pascal Rokovsky, but his prior close ties to the company's former auditor warranted scrutiny. The company has changed auditor and improved disclosure on the topic. Eurofins' governance, particularly on succession, remains a point of concern. We have engaged with the company on these matters this year and believe more can be done to enhance the effectiveness of the board.

Texas Instruments

Texas Instruments is the world's number one supplier of 'analog chips': semiconductors that deal with real-world inputs such as sound, temperature and power. Its dominant position is built on its low-cost business model, which allows it to produce these chips at mass scale and price them competitively. Over many years it has built up a huge back-catalogue of designs, and many of these chips are still in production after decades on the market, providing the company with very long-lived and profitable revenue streams. In the decade ahead, we expect to see continued strong volume growth for the company's products, driven by secular trends such as the digitisation of industrial and automotive functions, the ongoing building of data centres, and the electric revolution which is replacing fossil fuels.



Impact – operations: neutral

Semiconductor manufacturing is water and energy intensive. One of our concerns prior to purchase related to Texas' energy grid, given many of TI's fabrication plants are located in the state. In recent years, its grid has come under pressure and suffered blackouts. We spoke with academics and the company about the matter and were reassured that the company was aware of and managing the risk. On water use, many of TI's manufacturing fabrication plants are located next to a major reservoir, providing it resilience of supply. Competition for engineering talent is intense in the industry. TI has various relationships with universities, to prime its talent pipeline in a competitive industry. The company exhibits high employee engagement and a culture of 'acting like owners'.

Impact – products: developing

Its products are small components in a broad array of larger systems and products, leading to marginal improvements in energy efficiency, product safety and performance. Industries served include grid infrastructure, building automation and electric vehicle powertrains. Collectively, products can be considered to have a broad, positive impact for the environment, society and wider stakeholders. TI has vertically integrated, giving the company greater control of its supply chain. This provides a greater degree of control over lifecycle impact of product manufacture, and the company has targets to reduce these impacts.

Ambition: follower

Texas Instruments are committed to being a widely respected company, employer of choice and good corporate citizen. The company does not, however, have a decarbonisation strategy that we would consider to be Net Zero-aligned, despite it committing to near-term emissions reductions. Elsewhere, targets are somewhat limited. TI does, however, view reducing the impact of its environmental footprint as entirely aligned with economic incentives – reducing water and energy usage reduces costs. Climate has been, and remains, an engagement priority for us with the company.

Trust: high

We believe the company's management team is a strong one. The board exhibits individuals with appropriate skills and experience, although some directors are long-tenured and there could be greater expertise from the automotive sector. We considered there to be some key man risk, with founder Rich Templeton recently being replaced as CEO, but his presence on the board provides continuity. As is the case with Home Depot, and many other US companies for that matter, Texas Instruments auditor has been in place more than our twenty-year preference. This, and board succession, form engagement priorities beyond climate-related targets.

Dis-investments

This year, we moved on from four longstanding investments: Want Want China Holdings, Rio Tinto, China Mobile and GSK. Want Want was something of a portfolio laggard when it comes to ESG, scoring poorly in our analysis of the company largely owing to its supply chain sourcing footprint and the nutritional profile of its products. As a consequence of these poor scores, over the course of our holding, we engaged on these matters. Despite observing an improvement in the company's approach to both product nutrition and sustainable sourcing, the company had also become a laggard when it came to operational performance and its growth has disappointed us for some time. We also believe the Board and management seemed to have become too focused on preserving margins, which had made the company slow to recognise changing consumer preferences in China. As a consequence, we decided to exit our position. Pedestrian earnings growth and ongoing downside risks also led us to sell China Mobile. GSK had been a longstanding holding and exhibits leading sustainability practices, including in the emerging area of biodiversity and nature where the company has adopted a leadership position. However, following research into the company, where we interviewed numerous former employees, our conviction in our investment case faltered. Therefore, we moved on from our investment.

Rio Tinto had been a longstanding holding, even by SAINTS' standards, dating back to the days of RTZ in the 1980s. The company has a terrific competitive position in its core business, built around the low-cost iron ore mines of western Australia. But in the past few years we have started to see the outlook deteriorate. Mining companies, including Rio Tinto, are starting to invest huge sums to bring on new mines, while demand risks plateauing. At the same time, the cost of mining is starting to rise sharply. Iron ore is used in steel mills, and the production of steel unfortunately results in huge emissions of carbon dioxide. As steel mills are changing to meet environmental goals, iron ore mines need to follow suit. A prime example is Rio Tinto's investment in a new mine in Guinea, where the output is more suited to low-carbon steel production. Following a series of governance failings over the years, we are concerned about the company's ability to manage this investment, in a country that is fraught with political, environmental and social risks.

Overall, we are of the belief these investment decisions are consistent with the strategy's overarching philosophy. Importantly, from our clients' perspective, we believe to have improved the portfolio's sustainability of earnings and dividend growth.

Constructive engagement: outcomes and escalation

As long-term, active investors, we are in the privileged position of allocating capital, time and support to companies to continually improve responsible business practices. Engaging in the issues that matter and voting thoughtfully are our most effective levers through which we can support management to deliver long-term, sustainable investment performance. Similarly, we recognise a responsibility to, where necessary, challenge those who we believe can do more and escalate our engagement should we not see improvement. Our engagement activities are underpinned by Baillie Gifford's Stewardship Principles, which you can read more about **here**.

Claiming direct causality from our, and only our, engagement would be at risk of overstatement. Nonetheless, encouragingly, this year saw numerous of our conversations with holdings bear fruit and we believe our engagements will have contributed. These outcomes took the form of strengthened commitments, or delivery on prior commitments, in matters relating to topics of our engagement by TSMC, Albemarle and CAR Group. The initiation of these engagements can be traced back several years. Successful engagement, often, takes time. Sometimes, though, things can take too much time. It is in these instances we escalate our position, as we did this year with two holdings: Nestlé and ANTA Sports.

Our Stewardship principles

Long-term value creation

Alignment in vision and practice

Governance fit for purpose

Sustainable business practices

Albemarle

© Getty Images South America.

Principles

- Sustainable business practices
- Prioritisation of long-term value creation

Outcome

We have reported previously about our engagement with Albemarle, but in the last year we have observed several further positive developments. Albemarle became the first lithium producer to publish an Initiative for Responsible Mining Assurance (IRMA) third-party audit and it published a new Scope 3 emissions commitment. Both of these had been topics of our prior engagement, and we are pleased to see the company's continued commitment to assure further sites with the IRMA standard. These outcomes haven't meant we have stopped our conversations with Albemarle. This reporting year, on an investment trip to China in September, we met with the company's Vice-President. We were encouraged to hear of the intention to pursue sustainability certifications for its lithium conversion plants there, alongside its site in Chile that underwent assessment. Albemarle is ramping its use of renewable power in the country, too. Back in 2021, its largest plant sourced 12% of its power from renewable sources, but by the end of 2022 the company had increased this to 40% and a recent change – which recognised hydropower as renewable – has been a further boon. The energy mix at one its key new development sites, in Meishan, is 80% hydropower. In late 2023, we were also invited to contribute to Albemarle's materiality assessment. We were also invited to join an investor working group by IRMA.

2020

October
Engaged with Albemarle about its sustainability ambitions, recommending the company aim for best-in-class practices, namely third-party certification.

Albemarle commits to the IRMA standard, a rigorous, third-party assured mining standard.

2021

June
Call with Chief Executive Officer (CEO) to discuss new sustainability goals, including a net zero 2050 commitment and 'Advancing Sustainability' becoming an operational pillar.

September
Albemarle begins IRMA third-party auditing of its lithium brine extraction site, becoming the first lithium producer to begin the independent assessment.

2022

January
Commissioned external consultancy to review Albemarle's sustainability performance, which highlighted the need for Scope 3 emission disclosures.

March
We shared the review with Albemarle, encouraging it to act on findings.

October
We engaged with Albemarle's Chief Executive Officer (CFO) and Vice President (VP), Sustainability and learned that the company had started IRMA assessments at two further sites.

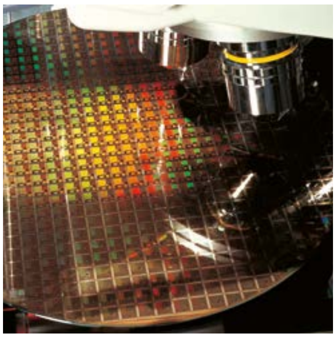
2023

May
Albemarle announce agreement with Ford, to deliver, battery-grade lithium hydroxide, sourced only from mines that have been audited through the IRMA standard.

June
Albemarle publishes its annual sustainability report, introducing a new Scope 3 emissions target.

Albemarle becomes the first lithium producer and only the third mine site globally to complete and have its audit report published by IRMA.

TSMC



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Principles

- Sustainable business practices
- Prioritisation of long-term value creation

Outcome

In last year's report, we spoke about our research into Taiwan's clean energy transition and how this might constrain TSMC's progress towards its decarbonisation goals. In various engagements with the company, we have offered our support for it to incur short-term costs to secure longer-term supplies of clean energy. In September 2023, it was – therefore – an encouraging sign to see the company increase its renewable energy ambitions significantly. The company committed to sourcing 60% of energy from renewable sources by 2030, up from its former target of 40%. Further research this year focused on TSMC's freshwater use. Droughts over the past few years have pitched Taiwan's high-tech industry against other stakeholders. We engaged with climate scientists from one of the island's leading academic institutions, to understand what the drivers for these droughts had been and whether we should anticipate repeat occurrences of the same severity over the next decade. Droughts in 2021 and 2023 were described as unprecedented and unexpected owing to no typhoons (which contribute greatly to the island's annual rainfall) making landfall. Climate models do not suggest future events of the same severity are likely. But that is not to say water scarcity on the island will not increase, as fewer typhoons are expected to hit Taiwan due to warming oceans. At the same time, demand for water is forecast to grow significantly. For its part, TSMC are investing heavily in water reclamation systems. These systems treat municipal wastewater, enabling it to be used as an input into the semiconductor manufacturing process. This should reduce TSMC's reliance on water sourced from local reservoirs, reducing risk of stakeholder conflict. The government are also investing heavily in desalination plants. Decarbonisation, water use and cultural challenges associated with the company's internationalisation form our future engagement priorities with the company.

2022

August
In a meeting with Investor Relations (IR), we expressed our support for the company's investments in renewable power.

September
We posed questions relating to the ambition of TSMC's climate strategy and water use with IR.

November
We met with the company's CFO, where we discussed the company's internationalisation strategy. We expressed our continued support and encouragement for TSMC to establish sustainable water management and decarbonised energy supply in Taiwan.

2023

September
TSMC announced increased ambition to source 60% of energy from renewable sources by 2030, up from 40%.

December
Invited to complete company materiality assessment where we reemphasised our view that sustainable water management, workforce management overseas and securing decarbonised energy in Taiwan were key investment material considerations.

CAR Group

Principles

- Governance fit for purpose
- Alignment in vision and practice

Outcome

CAR Group operates online automotive, motorcycle, and marine classifieds businesses in Australia and other international markets. Around the time of purchase, on review of CAR Group's remuneration practices, we observed an over-complicated structure, with historical evidence of excessive use of discretion. We also viewed what we considered to be a lack of stretch in targets. Taken together, it was our belief that CAR Group's remuneration structures were not designed to effectively incentivise long-term decision making and were not sufficiently ambitious for executive management. After various engagement touchpoints with the company, at 2023's Annual General Meeting (AGM), we were pleased to see that our feedback regarding the stretch of remuneration targets had been taken on board. The company committed to increase threshold vesting on earnings per share targets from three per cent to five per cent compound annual growth rate (CAGR) from financial year 2024 (FY2024). Consequently, we supported remuneration at the meeting. Throughout this year, we have had various conversations with the company and its board chair regarding board composition. Our meetings provided us with insight into a board that appears actively and fully engaged with the business.

2019

October
Abstained on remuneration at AGM, due to concerns with the stretch of targets in the long term incentive plan (LTIP).

2020

April
Meeting with CEO.

October
Supported remuneration at AGM, due to positive improvements. Albeit, specific concern on LTIP remained unaddressed.

2021

October
Supported remuneration at AGM, however revaluated stringency of variable pay targets.

Communicated to the company our view that remuneration targets should be more stretching.

2022

October
Communicated our intention to oppose remuneration, ahead of voting, due to continued concerns with the stretch of LTIP targets. Recommended improvements.

Opposed remuneration at the 2022 AGM.

2023

April
Meeting with Investor Relations.

October

Meeting with board chair.

Supported remuneration at the 2023 AGM due to company committing to increase the stretch of targets reflecting our previous engagement requests.

ANTA Sports

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Principles

- Sustainable business practices

Escalation

Over the course of several years, we have engaged with ANTA to encourage progress in developing a robust supplier audit framework. The company operates under a variety of strong, zero tolerance principles, relating to environmental and social performance, but we believe a strong audit framework is necessary to provide independent assurance these principles are adhered to. Over the course of our engagements, ANTA have repeatedly hit most of the various milestones we had hoped to see and that it has laid out to us. Developments have included: becoming members of the Sustainable Apparel Coalition and rolling-out Higg Index auditing modules; publication of an extensive supplier conduct guide and commencement of third-party, independent audits. However, work on traceability – and associated disclosures – have appeared to lag. Similarly, we had hoped for a more significant proportion of the company's supplier base to undergo independent, third-party audits. As a consequence, this year, we wrote a letter to the board Chair. In the letter, we outlined our expectations to see a significant increase in the frequency and number of audits undertaken by ANTA, and greater supply chain transparency. If we do not observe progress on these two matters, we communicated that it would be likely that we may be compelled to divest our holding.

2019

October
Engagement with ANTA, to fact-find on sustainable manufacturing processes and encourage work on sustainable supply chains.

2022

April
Update call on roll-out of Higg Index and increase in supply chain audits. We encouraged an increase in the use of independent third-party audit firms.

December
Update call on traceability; ANTA had mapped its tier 1 and 2* suppliers to factory names and locations. We encouraged disclosure on traceability.

2023

April
ANTA publish Supplier Sustainability Management Handbook

August
Meeting with management.

November
Update call on sustainable supply chains.

December
Letter sent to company board Chair outlining our expectations for end 2024: supply chain traceability disclosures and an increase in third-party auditing.

*Tier 1 suppliers are those that provide goods and services directly to an organisation; Tier 2 suppliers are those that provide goods and services to Tier 1 suppliers.

Nestlé

© iStockphoto.com/sandramo.

Principles

- Alignment in vision and practice

Escalation

Our engagement priorities with Nestlé relate to climate, nutrition and responsible marketing, and packaging waste. Nonetheless, we keep a keen eye on other matters and have been opposing the company's remuneration structures for some time. Our principal consideration when reviewing executive remuneration is that the structure and outcomes should provide alignment between management, particularly executives, and shareholders. We remain relatively open-minded to unconventional structures, but take strong positions with structures we believe do not align with our priority of outperformance over the long term. One such red line is the payment of incentive awards for below-median performance, as has been the case at Nestlé. This year, we escalated our opposition by voting against the chair of the remuneration committee.

2021

April
Opposed remuneration at AGM owing to LTIP vesting below median.

2022

February
Call with CEO where we raised packaging and responsible marketing.

May
Meeting with Investor Relations, to discuss product safety and company definition of 'essential food'.

June
Meeting with Investor Relations on various ESG matters.

Call with Global Lead, Social Impact on sustainable supply chains.

2023

April
Continued to oppose executive remuneration based on the total shareholder return (TSR) threshold level being below median. Escalated our voting action this year to also oppose the Chair of the remuneration committee.

August
Contacted company, seeking a meeting to outline our rationale for AGM voting.

Meeting with Head of Governance and Compliance to reiterate our rationale on votes relating to remuneration.

September
In-person meeting with CEO where we discussed Nestlé's responsible marketing policy, in relation to health claims.

Constructive engagement: building lasting, positive relationships to strengthen sustainability

Inclusive of our on-going engagement with the companies detailed in the previous section, throughout the year, we engaged with the management or board of 42 companies to encourage an accelerated rate of progress on matters related to the long-term sustainability of the business. Many of these engagements continue to be informed by conversations with subject matter, independent experts and non-governmental organisations (NGOs). Over the following few pages, we are pleased to share stories from various engagement activities undertaken in the reporting year, followed by a long-list of our other interactions with holdings on behalf of our clients.

Novo Nordisk


© Novo Nordisk.

Principles

- Sustainable business practices

Objectives

Following increased media attention around two of Novo Nordisk's medicines, Wegovy and Ozempic, we wanted to speak with the company to understand how it was managing its promotional activities surrounding both. We also wanted to understand what internal action had been taken following the company's suspension from the UK's Association of British Pharmaceutical Industry (ABPI) over an online marketing breach of its Code of Practice relating to an earlier drug in a similar class of medicines. Novo Nordisk's GLP-1 medicines represent a significant growth area for the business and, being relatively new to the market, educating patient organisations, health practitioners and physicians is of real importance. But there exists a fine line between educational activities and promotion. Should Novo Nordisk be found on the wrong side of this line, it could create regulatory and reputational challenges for the business.

Discussion

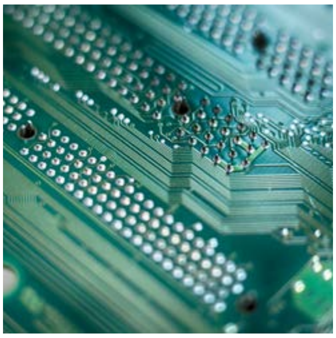
We had a wide-ranging discussion with the Chief Financial Officer (CFO) on these matters. Novo Nordisk was candid in admitting that, in the breach that led to its ABPI suspension, the company should have had a greater degree of control over its third-party partner's promotional materials. The company has since worked to implement additional compliance systems to avoid repeat instances.

The company is also sharing its learnings from the episode across its global operations. Wegovy and Ozempic's popularity has led to the company taking a proactive approach to managing both brands' reputations. This has been made more challenging in the age of social media. The company is working to map risks and has begun proactively working with the patient organisation to take a patient-centric approach to managing these identified risks.

Outcome

Following our meeting with the CFO, we spoke with an independent expert on the ABPI Code of Practice to receive external input into what an appropriate course of action for Novo Nordisk should look like. Many of the expert's suggestions aligned with what Novo Nordisk's CFO told us the company was doing, giving us confidence that the company's response to its suspension has been appropriate. On Wegovy and Ozempic, strong partnerships with relevant patient organisations and strong guidance will be necessary. The expert also agreed with our prior assessment of how serious and genuine Novo Nordisk's commitment to operating ethically is.

Texas Instruments



Principles

- Sustainable business practices

Objectives

Before we invested in Texas Instruments, we engaged with an academic based in Texas to better understand the nature of Texas's electricity grid. A storm in 2021 caused major outages, and the grid itself is unique in America in that it is effectively an island. Many US states have interstate interconnectors, but this is not the case in Texas. The state is also forecast to see rapidly increasing population, the construction of new factories and data centres and likely increasing extremes of weather. All of this will lead to significant demand increases for electricity. Following research into the matter, we arranged a call to speak with the company about its climate strategy and to ask how it is ensuring a resilient supply of electricity, given challenges relating to Texas's energy grid.

Discussion

Texas Instruments confirmed work is underway on a post-2025 decarbonisation target (its current targets are for 2025). Company representatives explained that this area is of interest to their customers, who are thinking about how they will meet their own climate targets. There may be a risk that, without having a suitable decarbonisation plan, some customers will choose to procure analog semiconductors from peers who have stronger climate commitments. From a resilience perspective, Texas Instruments highlighted the multiple mechanisms they have in place to ensure redundancy of their electricity supply, such as positioning fabrication plants at the grid intersection of various power generation facilities.

Outcome

It was positive to hear that Texas Instruments recognise the importance of its own decarbonisation ambitions in relation to its customers' climate targets and that they have a strategy in place to ensure that operations can continue in the event of future grid failure or outage. We encouraged the company to set ambitious post-2025 decarbonisation targets.

Kering

© Kering.

Principles

- Sustainable business practices

Objectives

We engaged with Kering's Chief Sustainability Officer to delve into the company's pioneering work on supply chain traceability, which is the textile industry's most significant area of environmental impact. It is also an issue of reputational and regulatory significance, with reporting requirements in the EU due to increase scrutiny on corporate supply chains.

Discussion

We discussed Kering's target for achieving 100 per cent traceability of key raw materials by country of origin and its aspirations to have oversight eventually down to the farm level. The underpinnings of progress towards this target can be broken down into certification, supplier contract clauses, collaboration and technology – we covered each of these in turn. The company's collaborative efforts, such as the Fashion Pact and the Watch and 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. 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 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. We intend to use our learnings to inform our engagement with other holdings whose practices may be less mature.

Hargreaves Lansdown

Principles

- Governance fit for purpose

Objectives

It has been a year of significant leadership change at Hargreaves Lansdown (HL). We had various meetings with representatives from the company over the course of the year, first in relation to a change in company CEO and latterly in relation to a change in Chair. Our primary objective throughout 2023 was to monitor and assess the board's effectiveness in steering the company through these various changes.

Discussion

Early in the year, attention focused on Dan Olley's move into the CEO position. We had a call with chair Deanna Oppenheimer, whom we had engaged with in the previous December following the announcement that Dan Olley would become CEO. It's a slightly unusual situation as Olley had served as an independent non-executive director on the HL's board since 2019. The transition, while slightly delayed due to previous contractual obligations, was a strategic move aimed at leveraging Olley's digital and technological expertise to drive HL's future growth. Later in the year, Oppenheimer stood down as board chair. Her replacement's, Alison Platt, appointment as Chair brings extensive board experience but she holds several other chair and non-executive director roles. This prompted discussions about her capacity and focus. It was conveyed that HL would be her main focus, with plans in place to gradually reduce her engagements elsewhere.

Outcome

Soon after our call with the company regarding Alison Platt's appointment, we were surprised by an announcement that she would take on a further board position at another company. We continue to monitor the leadership changes and will look to speak to Platt in the coming months.

Coloplast

Principles

- Sustainable business practices
- Prioritisation of long-term value creation

Objectives

Coloplast engages in the development and sale of intimate healthcare products and services in Denmark and internationally. We wanted to understand how Coloplast ensures that their products meet patient needs, as this is core to ensuring that patients remain 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 which 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 – these would be a waste of time if no one wanted to use them. Ensuring insights from various parties 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. Besides the photos of Coloplast's product users in the office, Aleksandra explained that meeting patients was part of an induction process – staff learn about patients' relationships with products and their routines. Other teams, notably the user insight team, spend longer with patients. But it is not only patient feedback that matters – nurses are also 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 strong 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, 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.

Medtronic

Principles
- Sustainable business practices
- Prioritisation of long-term value creation

Objectives

Medtronic develops, manufactures, and sells device-based medical therapies to healthcare systems, physicians, clinicians, and patients worldwide. Our IAT analysis of Medtronic observed what appeared to be an elevated level of its medical device recalls in the US market in the recent past, relative to peers. We wanted to understand what the company was doing to turn this around.

Discussion

Medtronic provided us with an outline of how it was working to make sure its quality, reliability and safety profile are best-in-class. The company acknowledge it had experienced elevated recalls since 2020, and as a consequence initiated quality transformation programs beginning in 2021 to actively address the opportunity to improve its rate of recalls. Root cause analysis found that design, software, manufacturing, and suppliers were the primary drivers for recalls. Further, some recently acquired products have contributed to some recalls. The company informed us improvement initiatives were underway in each of these areas within quality system to improve outcomes and reduce the identified causes of historic recalls. Regarding comparisons to peers, there are inherent challenges given Medtronic's product portfolio size is heavily skewed to life saving therapies.

Outcome

Following Medtronic's response, we sought to sense check whether process improvements outlined to us aligned with what industry experts would expect. We also spoke to numerous former employees to get a feel for whether the company exhibited a patient-centric culture. Industry experts outlined how root cause analysis was an appropriate first step, but that systemic approaches to product development, testing and launch can help further mitigate risk of future product recalls. Former employees we spoke with were complimentary about Medtronic's culture and commitment to product safety. We will continue to monitor year-on-year incidence of recalls. Positively, most recent data showed a downward trend in recalls.

TCI

Principles

- Alignment in vision and practice

Objectives

TCI engages in the research, development, manufacturing, and sales of functional health food, supplements, and personal care products. A visit to TCI's headquarters in May 2023 alerted us to governance concerns relating to levels of remuneration afforded to TCI's CEO. This led to further work, which uncovered further areas of unease relating to the company's governance structures. Over the course of several months, we sought to get to the bottom of these matters. To do so, we spoke to those with deep knowledge of the Taiwanese market to solicit their views on the company's practices, prior to speaking to the company's CEO about our findings.

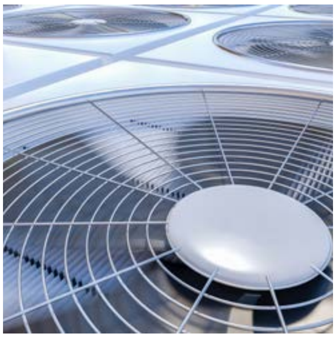
Discussion

TCI's CEO, relative to peers, is well-remunerated. It is well known in Taiwan that the company incentivises and rewards strong sales performance and does so handsomely. Despite high levels of relative remuneration, TCI insisted that its remuneration structures had remained unchanged for many years and all payments are closely tied to company net profits and sales performance, suggesting alignment with shareholders. The company also provided us with further details relating to the spin-out of a subsidiary that assuaged some of our other concerns.

Outcome

Sales and distribution growth are key tenets of our overall investment case in TCI. Consequently, we concluded – as long as we continue to be invested on our clients' behalf – we should monitor reported bonus payments comparative to net income to ensure alignment remains. The company were transparent in sharing data and information. Our detailed examination suggested a need for more transparent and accountable governance practices within TCI, especially concerning executive pay and intra-company transactions.

Watsco



Principles

- Sustainable business practices

Objectives

Watsco engages in the distribution of air conditioning, heating, refrigeration equipment, and related parts and supplies in the United States and internationally. Watsco remains the only portfolio holding that lacks emissions disclosures. The company is, thus, something of a laggard. This is something we have been encouraging Watsco to rectify for several years. There is a climate angle to the Watsco growth case as we believe rising temperatures and demand for more energy efficient air-conditioning units are long-term tailwinds. Watsco have identified the potential for some of its products to help customers avoid emissions, but we believe this should sit on a foundation of more basic reporting that enables us to fully assess the company's positioning.

Discussion

We arranged a call with Watsco's Head of Sustainability, to learn what work was underway on emissions disclosures and target setting. Initial work faced challenges posed by the decentralised nature of Watsco locations, but has been made easier through a new carbon accounting tool for Scope 1 and 2 emissions. The company is focusing on an abatement plan and calculating Scope 3 emissions. The leadership team, including the Chair and CFO, have supported Watsco's work in the area. The company is currently working on its first Sustainability Report and aims to disclose emissions inventories and targets in the next one to two years. Additionally, Watsco is addressing more nascent Scope 3 challenges and improving its influence on customers to choose higher efficiency units through tools like OnCall Air and leveraging tax credits and rebates.

Outcome

We were pleased to hear that work was underway regarding Watsco's sustainability reporting and we can expect disclosures and targets in the not-too-distant future. At a big picture level, we feel satisfied that the company recognises the role and opportunity it has to influence the shift to more efficient installations. In the spirit of sharing best practice, we were encouraged that Watsco asked us to make introductions to companies further along in their sustainability journey. We will facilitate this in the year ahead.

Cognex

Principles

- Governance fit for purpose
- Sustainable business practices

Objectives

Cognex provides machine vision products that capture and analyse visual information to automate manufacturing and distribution tasks worldwide. We arranged a call with Cognex before the company's AGM to understand the company's sustainability focus for the upcoming year. We wanted to encourage the company to adopt more robust climate disclosure and target-setting. We also hoped to clarify the rationale behind the proposed re-election of board member Dianne Parrotte.

Discussion

Conversation highlighted the recent efforts by Cognex to align with more conventional practices of sustainability reporting, prompted by significant changes in the company's leadership and board composition. These changes were part of a broader push to professionalise the business's operations. This shift was also motivated by increasing pressure from shareholders and customers, driving the company to address emissions reporting comprehensively, including expanding the coverage of Scope 1 & 2 data. The company recognised direction of travel, and noted it was working on Scope 3 emissions estimates, too. There was a clear intent to set reduction targets in the near future, recognising the necessity prompted by the sustainability targets of major partners like Apple and Amazon. We made suggestions for further enhancements, including adopting Sustainability Accounting Standards Board (SASB) aligned* reporting, setting more concrete climate targets, adopting Task Force on Climate-Related Financial Disclosures (TCFD) aligned language in annual and sustainability reports, and presenting case studies that quantify product benefits in terms of resource efficiency. Efforts were also planned on diversity, equity, and inclusion programs. On discussing the board, Dianne Parrotte was noted for her lack of recent relevant commercial or industry experience, though her re-election was justified given her long-standing knowledge of the company's culture.

Outcome

The engagement led to an abstention on the re-election of Dianne Parrotte. We acknowledged an understanding of the board's argument for continuity, but communicated our hope that future director appointments would bring relevant experience to the table in support of the company's growth ambitions. Late 2023 saw Cognex publish its most detailed Sustainability Report yet and complete its first ever Carbon Disclosure Project questionnaire.

*SASB is a standards-setting organisation that develops industry-specific standards for disclosing sustainability risks and opportunities.

Further engagements undertaken through the year

A list of the other engagements undertaken during the year, with corresponding stewardship principles, is below:

Admiral Group	Sustainable business practices; Alignment in vision and practice; Governance fit for purpose
Apple	Sustainable business practices; Alignment in vision and practice; Governance fit for purpose
Amadeus	Sustainable business practices; Alignment in vision and practice
Analog Devices	Sustainable business practices; Alignment in vision and practice; Governance fit for purpose
B3 S.A.	Long-term value creation
Cisco Systems	Alignment in vision and practice
Diageo	Governance fit for purpose; Alignment in vision and practice
Dolby Laboratories	Alignment in vision and practice; Governance fit for purpose; Sustainable business practices
Edenred	Governance fit for purpose; Alignment in vision and practice
Eurofins Scientific	Governance fit for purpose; Alignment in vision and practice
Fastenal	Sustainable business practices
Intuit	Alignment in vision and practice
Kuehne + Nagel	Alignment in vision and practice
L'Oréal	Alignment in vision and practice; Governance fit for purpose
Man Wah Holdings	Governance fit for purpose
Microsoft	Alignment in vision and practice
Midea	Governance fit for purpose
Partners Group	Alignment in vision and practice
PepsiCo	Sustainable business practices
Pernod Ricard	Governance fit for purpose; Sustainable business practices
Schneider Electric	Alignment in vision and practice
Sonic Healthcare	Alignment in vision and practice
Starbucks Corporation	Sustainable business practices; Alignment in vision and practice
The Coca-Cola Company	Governance fit for purpose
T. Rowe Price	Alignment in vision and practice
United Parcel Service	Sustainable business practices; Long-term value creation
USS Co.	Governance fit for purpose
Procter & Gamble	Sustainable business practices
Valmet	Governance fit for purpose; Alignment in vision and practice
Wolters Kluwer	Governance fit for purpose; Alignment in vision and practice; Sustainable business practices

SAINTS' managers: in the field

On the day, the team's activities included picking up a substantial number of plastic earbud stems, toy soldiers and other plastic detritus. Research undertaken this year into plastic pollution showed that, unfortunately, ocean plastic pollution isn't a problem that's going away any time soon. The work refreshed our view of portfolio holding progress towards plastic pollution reduction targets and also provided a snapshot on portfolio exposure to plastic packaging-related legislative risks. This led to us engaging with Nestlé and PepsiCo.

The day was organised by Keep Scotland Beautiful, an environmental charity with a vision for a clean, green, sustainable Scotland. It took place nearby to the Scottish Seabird Centre, a local charity Baillie Gifford has supported philanthropically.

This year, the team made its way out to East Lothian, volunteering at a beach clean on a blustery, cold and wet day at North Berwick.

Climate change: an update on portfolio progress

It would appear each passing year brings with it yet more record temperatures. This was a year when sea surface temperature set uninterrupted record daily temperatures; average temperatures were higher than on any other corresponding day in any previous year on record.

The year ended with the controversial COP28 in Dubai, the largest ever, ending with a declaration that, for the first time, referenced fossil fuels and the need to transition away from them. The year also saw further work in the way SAINTS considers climate change in its investment process and portfolio management.

This year's highlights include:

- Workshopping various internally developed qualitative climate scenarios to test portfolio resilience and adaptability.
- An updated climate audit of SAINTS' equity holdings, showing increased portfolio alignment with net zero year-over-year.
- Continued engagement with some of the Trust's largest contributors to its carbon footprint.

Climate scenarios

The climate and energy transitions promise huge opportunity, but also introduce great uncertainty, complexity, and volatility. These characteristics do not lend themselves well to quantitative modelling. As a consequence, internally, Baillie Gifford has developed three qualitative scenarios as an input into investment decisions and to help communicate climate-related risks to clients and regulators. This year, we undertook a session with Baillie Gifford's in-house climate team to talk through these climate scenarios and their possible implications for the portfolio. A common theme from our discussions was the importance of our companies being able to adapt to their environment, be that regulatory or physical, and striving for continuous improvement when it comes to decarbonisation. You can read more about our work in this area in our **TCFD-aligned Climate Report**.

Net zero alignment

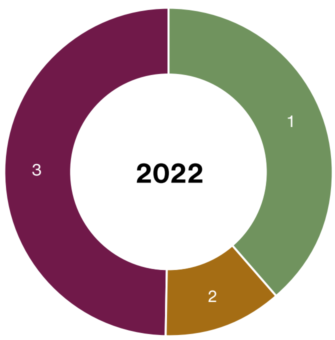
Our firmwide climate audit records Baillie Gifford's assessment of company alignment with limiting global warming to less than 1.5C this century. Its framework, we believe, sets a high bar. The minimum standard to be considered 'Leading' requires not just a target to net zero by 2050 but comprehensive disclosures and targets for net zero by 2050 across all material scopes of the Greenhouse Gas Protocol, with appropriate interim targets. We also look for strategic alignment, increasingly expressed through capital allocation, decision-making, the company's wider narrative and use of its position of influence within its value chain. Our assessment currently has seven assessment categories ranging from no disclosure, through to targets that demonstrate well-above average ambition. We organise these seven categories into three groups to provide an indication of company preparedness: Leading, Preparing and Lagging. We update assessments periodically and as and when holdings make strengthened commitments. Before any purchase, every new holding also undergoes a climate audit assessment as part of our *Impact – Ambition – Trust* assessment.

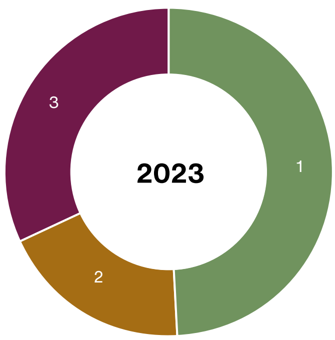
Findings from the audit last year showed that approximately 49 per cent of the SAINTS' equity portfolio, by capital weight, was 1.5C scenario aligned. This year, the portfolio's climate audit shows that 53.1 per cent by capital weight is aligned with a 1.5C scenario. This has been a consequence of portfolio activity and company progress. For instance, in the reporting year, Dolby Laboratories improved its climate targets.

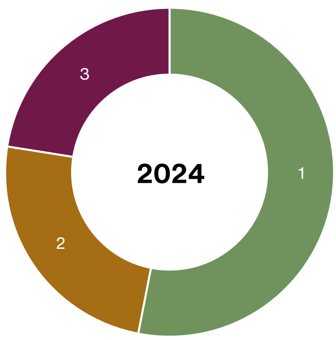
Leading	Companies committed to reductions in line with their fair share of a science-based 1.5C-aligned pathway, with appropriate demonstrations of targets, intent and strategic coherence.
Preparing	Companies with disclosure and narrative that suggests they are preparing to set 1.5C-aligned targets in the near future.
Lagging	Companies lacking sufficient disclosure or suitability robust targets, where the pathway to improvement is currently uncertain.

Target assessment

Companies' ambition and targets to reduce their direct and value chain emissions in line with the Paris Agreement







		Percentage of portfolio
1	Leading	38.7%
2	Preparing	11.8%
3	Lagging	49.5%

		Percentage of portfolio
1	Leading	49.3%
2	Preparing	19.0%
3	Lagging	31.7%

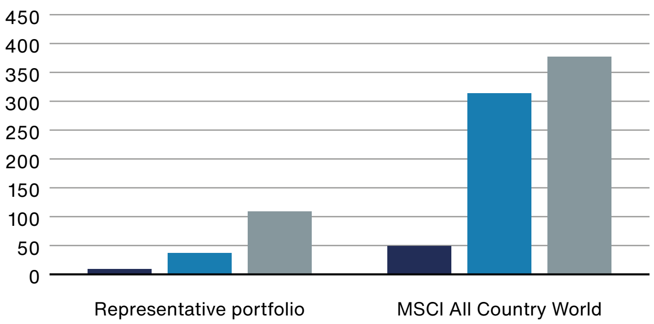
		Percentage of portfolio
1	Leading	53.1%
2	Preparing	24.6%
3	Lagging	22.3%

Source: Baillie Gifford and Co.
Based on SAINTS' equity portfolio.
As at 31 March each year.

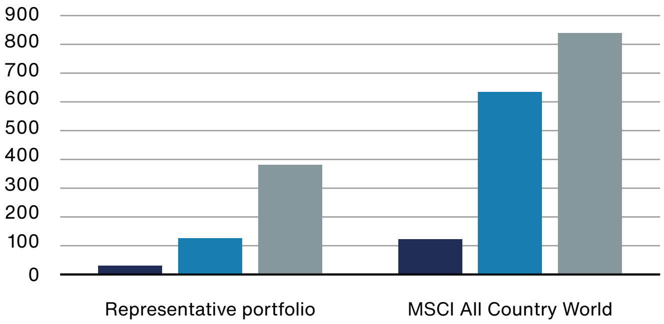
Emissions at the portfolio level

We recognise that carbon footprinting and emissions intensity analysis is imperfect – indeed, it is only telling us where the portfolio is, not where it is going – this is one of the reasons behind our climate audit. Nonetheless, below we disclose a carbon footprint analysis of the portfolio. Financed emissions data compares the total carbon emissions of the portfolio with its benchmark, the MSCI All Countries World Index (ACWI), per $1m invested. Calculating the weighted-average carbon intensity (WACI) involves multiplying portfolio weights by the carbon intensity (the company's total emissions per USD1mn sales). These intensity measures allow comparison of emissions across companies of different sizes and other industries.

Portfolio carbon footprint (financed emissions tonnes of carbon dioxide equivalent (tCO_2e) per $m)



Portfolio emissions intensity WACI/Revenue ($m)

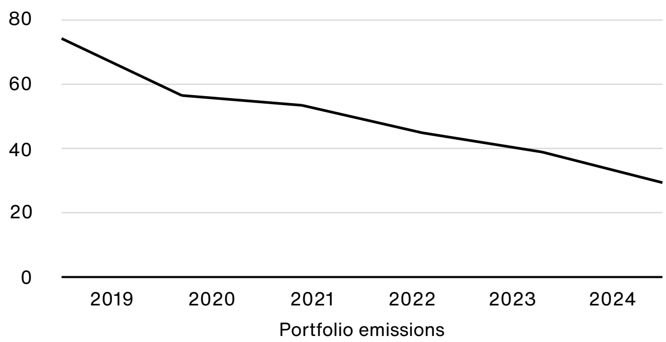


● Scope 1 and 2 ● Scope 1, 2 and est. Material 3 ● Scope 1, 2 and 3 est. All

Source: Baillie Gifford and MSCI. As at 31 March each year.
Based on SAINTS' equity portfolio. All data is pulled from MSCI, Sustainalytics, ISS and BoardEx, via the FactSet platform.
It is fact checked by our ESG analysts and is considered correct at the time of publishing.

Portfolio carbon intensity trend

Portfolio emissions (WACI = tCO_2e/$m revenues)



Weighted Average Carbon Intensity (WACI).
Source: Baillie Gifford and Co, MSCI, FactSet. As at 31 March each year.

Climate solutions providers: the other half of the story

The climate audit proved useful in evaluating how company carbon goals and strategies measure up to a 1.5C scenario, but that's just part of the picture. We also see a significant opportunity in supporting companies offering climate change solutions. As long-term investors, we're enthusiastic about the impact these solution providers can have in speeding up the energy transition through their growth, which can have a broader effect than companies only concentrating on reducing their emissions.

Schneider Electric

Schneider produces electrical transmission and distribution equipment, as well as software for energy efficiency management and automation. This ranges from switch boards for distribution within building energy systems, to transformers for grid level distribution. By the company's own estimates, which our in-house climate team who work on avoided emissions considered to be robust calculation, in 2021 its products delivered a saving of over 50 million tonnes of greenhouse gases and avoided over 40 million tonnes. To put this into context, combined, that number is roughly a quarter of the UK's territorial emissions in the same year. Not only that, but the company targets to avoid/save a total 800 million tonnes of CO_2e between 2018 and 2025. Finally, the company estimate that more (or greater) than seventy-five percent of its revenues are derived from uses in clean tech and clean energy applications.

Engagement with climate material holdings over the year

Detailed engagement updates on Albemarle, TSMC and Watsco can be found across pages 16,17 and 29. Elsewhere, we continued longstanding engagement with United Parcel Service, speaking to the CFO on plans to decarbonise its ground-fleet, querying the progress of the company's plans on electrification. In a second engagement with the company we queried what the company's plans were to decarbonise its aviation fleet. Positively, there appears to have been some progress here with the company working with a local university to map sustainable aviation fuel feedstocks. On the call, we were joined by other investors who joined us in encouraging UPS to set more stretching decarbonisation targets.

Voting: our approach

This year has been another busy one when it comes to voting. We take our responsibility in exercising our clients' voting rights seriously. It is a key lever in our overall stewardship strategy of aiming to support long-term sustainability and shareholder returns. We critically assess each voting opportunity with a focus on the future sustainability of the company's earnings and returns. We're inclined to support shareholder resolutions that, despite incurring short-term costs, promise to enhance long-term sustainability. Conversely, we steer clear of resolutions that bear costs without clear long-term benefits.

Our approach is ably supported by Baillie Gifford's in-house voting team, which provides essential insight for our voting decisions. Unlike typical industry practices, we don't outsource our voting activities. Each decision is made on a case-by-case basis, leveraging the expertise of our investment team, ESG analysts, and the voting team.

We often vote in favour of management teams that align with our high standards of ambition and trust, reflecting our investment in companies whose leadership and vision we respect. However, supporting management is not a given. In instances where we disagree with management or the board, we first seek to engage to obtain additional information, aiming for more informed voting decisions. These engagements also often open doors for ongoing dialogue, especially when we vote against a company's management. Our voting extends to resolutions proposed by shareholders, applying the same level of rigorous analysis. We vote against shareholder resolutions only if we are convinced that the company is already adequately addressing the issue at hand or believe their proposals to be overly onerous and overreaching.

Our voting decisions are concentrated on what we believe is ultimately in our clients' best interests. Whenever voting, we ask the motivating question: 'In the long term, is this likely to strengthen or weaken the sustainability of the company's future earnings and returns to shareholders?'. We are delighted to support shareholder resolutions that incur short-term costs if we believe they are likely to strengthen a company's sustainability in the long term. We have little interest in resolutions that will incur short-term costs with potentially no tangible long-term gain.

Given that we voted on 1010 resolutions, including voting against 108, we summarise some of the more notable votes cast during the past year below.

Voting	Number	Percentage (%)
For	885	87.6
Against	108	10.7
Abstain, withhold or no vote	17	1.7
Total number of ballots	**1010**	**100**

Based on a representative account of SAINTS' equity portfolio. Data from 1 April 2023 to 31 March 2024.

Notable votes cast against management proposals

ANTA Sports

We opposed four resolutions related to share option schemes due to concerns regarding the wide ranging eligibility of participants which we do not believe to be in the best interests of shareholders.

AVI

We opposed eight proposals to approve the new non-executive remuneration structure as we find some features of the policy problematic, particularly the metrics to assess individual director performance and potential conflict of interest surrounding the performance assessment.

Kering

We opposed three resolutions on executive remuneration reports due to concerns with the stretch of ESG performance targets, and lack of downward discretion to reflect the Balenciaga scandal.

Notable votes cast in favour of shareholder proposals

Analog Devices

We supported a shareholder proposal on simple majority voting. We believe that supermajority voting requirements can lead to entrenchment and make it difficult to implement positive corporate governance reforms.

United Parcel Service

We supported a shareholder resolution calling on the company to prepare a report on integrating GHG emissions reductions targets into executive compensation.

Notable abstention of shareholder proposal

Apple

We abstained on an 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 that 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. Subsequent to the vote, we engaged with the company to communicate our position.

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