

## Summary

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The financial year ending 30 June 2024 was the second year of proxy voting for Loftus Peak in accordance with the Loftus Peak Proxy Voting Policy. Highlights included:

- Increased number of engagements
- Navigation of ESG matters arising in proxy voting ballots related to the emergence of artificial intelligence (AI)

## Direct Engagement

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During the financial year ending 30 June 2024, Loftus Peak engaged directly with eight companies held in portfolio, including five new engagements and three follow ups. This was an increase from two engagements in the prior year. This increase reflected the Loftus Peak Investment Risk Committee responding to heightened ESG risks for portfolio investments as identified by Sustainalytics, or noted for engagement by the Committee.

The newly engaged companies were:

- Amazon.com (AMZN.US)
- BYD Company (1211.HK) [also followed up]
- Indie Semiconductor (INDI.US) [also followed up]
- Meta Platforms (META.US)
- Trimble (TRMB.US)

In addition, **Wolfspeed** (WOLF.US), one of last year's engagements, was followed up.

Two engagements during the financial year are highlighted below:



Loftus Peak exited BYD in August 2023 after it failed to pass a newly-tightened Loftus Peak negative screen. The company was flagged by the new screen as generating revenue from tobacco or nicotine alternatives production; Loftus Peak introduced a zero revenue threshold for the production of tobacco and nicotine alternatives. BYD subsidiary BYD Electronics, which carries a tobacco licence in China, has a joint venture with a vape manufacturer for the supply of the electronic core of the vape device. While the amount of revenue associated with this activity could not be determined, it was judged that revenue was likely to be greater than zero.

### OUTCOME

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BYD has not responded to Loftus Peak's engagement sent in December 2023. A follow up letter was sent in January 2024. Unless the company can demonstrate how it does not generate revenue from tobacco or nicotine alternatives, it will continue to fail the Loftus Peak negative screening process and will not be included in the investable universe.

*For more information about our negative screen methodology, read our Responsible Investment Policy ([click to view pdf](#))*



Ernest & Young (Trimble’s auditor) determined on 26 February 2024 that Trimble’s internal controls for financial reporting exhibited a material weakness such that there was a reasonable possibility that a material misstatement of financial statements would not be prevented or detected on a timely basis. The issue related to a lack of documents demonstrating Trimble’s internal accounting decision regarding the valuation of intangible assets of Transpereon (a Trimble acquisition). This determination was made before the fourth quarter earnings call but was not raised on the call, although determination was disclosed in the 10-K filing.

This governance issue caused Loftus Peak to exit the stock until the specifics of this oversight were better understood. By engaging with the company, Loftus Peak aimed to obtain this information. Specifically, Loftus Peak sought to know why the determination was not brought up in the Q4 investor communications and if there was a similar lack of documentation relating to other acquisitions that might affect the financials.

## OUTCOME

Trimble responded promptly and explained that only a single shareholder expressed interest in more details regarding the issue at the time of announcement. Based on this, the company decided that the issue did not merit discussion during the investor call.

Trimble advised that the missing documentation was the meeting minutes of the valuation discussions, despite having other forms of documentation to show the monitoring of outside appraisers. Specifically, the auditors found Trimble failed to provide sufficient proof of oversight by external appraisers of acquired intellectual property and customer agreements. The shortfall was attributed to changed Public Company Accounting Oversight Board requirements which demanded more documentation than Trimble recorded. The issue was not a mistake in Trimble’s execution of its own policy, nor is this issue (relating to intangibles) likely to have a material impact on the metrics that drive valuations.

These points gave Loftus Peak the confidence to re-integrate Trimble into the investable universe, with an ESG discount penalty reflecting Loftus Peak’s governance concerns. This decision has been further validated by news that as of May 2024, Trimble received a deficiency notice from Nasdaq because of its failure to timely file its Q1 2024 Form 10-Q. Extension has been granted to November 2024.

## Proxy Voting

During the financial year ending 30 June 2024, Loftus Peak cast a total of 351 ballots across 28 company meetings, accounting for all possible resolutions. In 17 of these meetings, at least one vote did not agree with management. In 2 meetings, at least one vote was not cast in line with the recommendation from Loftus Peak’s proxy voting service, ISS.

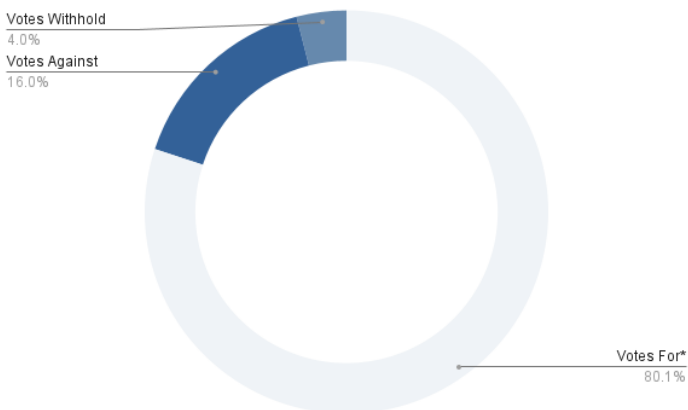


Illustration 1: Loftus Peak Voting Record Summary

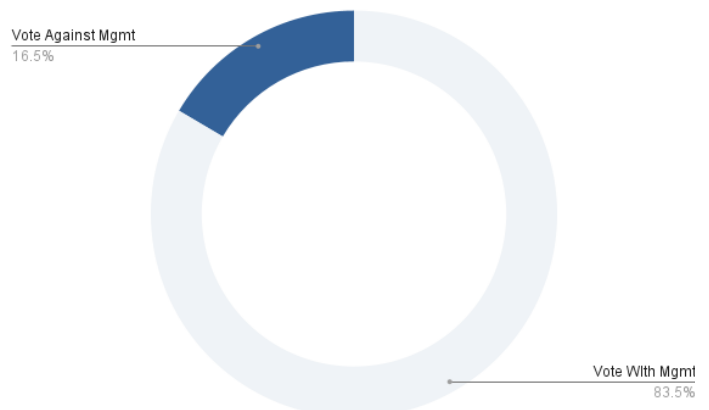


Illustration 2: Resolutions Voted Against Management or Against Instruction

## Voting Rationale around AI

Generally, the Loftus Peak Proxy Voting policy generates similar voting outcomes to the recommendations from ISS. However, growing investor concern about artificial intelligence (AI) reflected in an increase in AI-related ballots where Loftus Peak's voting can be organised into four groups:

### Aligned with ISS & Against Management

Meta Platforms



*Report on Generative AI Misinformation and Disinformation Risks*

**- Management recommendation**  
**- Vote For -**

Meta's Llama model family is open-source, allowing anyone to retrain a Llama model as a foundation model for other uses. Relative to competitors who do not produce open-source models, this means Meta's AI model risk is harder to control and has greater capacity to proliferate across the digital world. These two factors uniquely heighten the models' potential for misinformation and disinformation.

Alphabet



*Report on Risks Related to AI Generated Misinformation and Disinformation*

**- Management recommendation**  
**- Vote For -**

*Publish Human Rights Risk Assessment on the AI-Driven Targeted Ad Policies*

**- Management recommendation**  
**- Vote For -**

The rationale behind these two ballots are interrelated. Alphabet's largest revenue segment is search which generates revenues through advertising. The functionality of search is being enhanced by generative AI features which can tailor advertising text and images in reaction to user specific data. The number of search users is huge, making it arguably the single AI functionality by end-users. The breadth of use magnifies the risk of disinformation and misinformation. The amount of user data being used to personalise the AI generated content is also a potential risk of misinformation, disinformation and the

### Aligned with ISS & Management

Alphabet



*Amend Audit and Compliance Committee Charter to Include Artificial Intelligence Oversight*

**- Management recommendation**  
**- Vote Against -**

Alphabet's current structure seems to be adequate in providing oversight on AI. AI is nothing new to Alphabet, they have been advancing research and integrating various forms of AI for many years, not limited to the transformer model that underpins generative AI. The company published Responsible AI practices on a dedicated web-page. The company has published annual AI Principles Progress Update reports. In its 2023 Update, the company also states that AI risk is evaluated as part of its Enterprise Risk Management framework.

Amazon



*Establish a Board Committee on Artificial Intelligence*

**- Management recommendation**  
**- Vote Against -**

Amazon's current structure seems to be adequate in providing oversight on AI. The company has already published the AWS Responsible AI Policy to outline the standards of its services. The company has agreed to various White House Voluntary AI commitments, participates in the AI Safety Summit in the U.K. and has joined the U.S. Artificial Intelligence Safety Institute Consortium. The company also states that the board reviews the company's AI technologies as it reviews the business: the Nominating and Corporate Governance Committee focuses on the operation and use of the company's technologies; the Leadership Development and Compensation Committee oversees human capital management issues; and the Audit Committee oversees risk assessment and risk management policies. It states that these committees regularly receive updates from management on issues impacting its business, including on AI.

## Voting Rationale around AI (cont.)

### Against Management & ISS

Microsoft



*Report on Risks Related to AI Generated Misinformation and Disinformation*

**- Management recommendation  
- Vote For -**

Microsoft's Copilot models, as well as its closer partnership with OpenAI, expose the company to the most prolific generative AI products currently available for purchase. This means that Microsoft has the largest user base of customers currently employing generative AI models. These models have a meaningful capacity to expedite the generation of misinformation and disinformation. This is the first time these products are being given to customers en masse and the specifics of risk are currently hard to gauge without further reporting.

### Aligned with Management & Against ISS

Netflix

NETFLIX

*Report on Use of Artificial Intelligence*

**- Management recommendation  
- Vote Against -**

AI risk in Netflix has a "discriminative AI" component and a "generative AI" component. The discriminative component, which is integral to the business as far as advertising and content recommendation, is not a controversial use case and has been used for many years. Netflix-produced research on content recommendation is also available online. This resolution appears to be in response to increased public awareness of generative AI. Netflix has minimal exposure to generative AI risks as far as the proliferation of deep fakes, putting content creators out of work or making money from copyright infringing content. Netflix's business is based on the production of high quality content in low volumes. Generally speaking, generative AI models are best suited for making large volumes of lower quality content. This is why AI generated content is a risk for companies like Alphabet and Meta, but not for Netflix.

As far as AI related job losses, the company is a member of the Alliance of Motion Picture and Television Producers (AMPTP) and is subject to the collective bargaining agreements AMPTP has in place, which include provisions regarding the use of AI.

## Voting Summary Reports

2023

[Q4 Report \(click to view pdf\)](#)

2024

[Q1 Report \(click to view pdf\)](#)

[Q2 Report \(click to view pdf\)](#)

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