Baillie Gifford™

Our Stewardship Principles and Guidelines 2024

Risk factors

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication was produced and approved in December 2023 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

Potential for profit and loss

All investment strategies have the potential for profit and loss. Past performance is not a guide to future returns.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this article are for illustrative purposes only.

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Baillie Gifford's stewardship principles

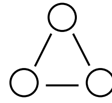
Baillie Gifford's overarching ethos is that we are 'Actual' investors. That means we seek to invest for the long term. Our role as an engaged owner is core to our mission to be effective stewards for our clients. As an active manager, we invest in companies at different stages of their evolution across many industries and geographies, and focus on their unique circumstances and opportunities. Our approach favours a small number of simple principles rather than overly prescriptive policies. This helps shape our interactions with holdings and ensures our investment teams have the freedom and retain the responsibility to act in clients' best interests.

Where possible we consider all asset classes within the framework of our stewardship activities. We seek to apply the most appropriate ownership tools to each holding in delivering our objectives.

For more information about how we live these principles please see our **ESG integration approach**.

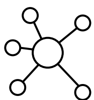
Long-term value creation

We believe that companies that are run for the long term are more likely to be better investments over our clients' time horizons. We encourage our holdings to be ambitious, focusing on long-term value creation and capital deployment for growth. We know events will not always run according to plan. In these instances we expect management to act deliberately and to provide appropriate transparency. We think helping management to resist short-term demands from shareholders often protects returns. We regard it as our responsibility to encourage holdings away from destructive financial engineering towards activities that create genuine value over the long run. Our value will often be in supporting management when others don't.



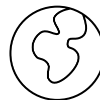
Alignment in vision and practice

Alignment is at the heart of our stewardship approach. We seek the fair and equitable treatment of all shareholders alongside the interests of management. While assessing alignment with management often comes down to intangible factors and an understanding built over time, we look for clear evidence of alignment in everything from capital allocation decisions in moments of stress to the details of executive remuneration plans and committed share ownership. We expect companies to deepen alignment with us, rather than weaken it, where the opportunity presents itself.



Governance fit for purpose

Corporate governance is a combination of structures and behaviours; a careful balance between systems, processes and people. Good governance is the essential foundation for long-term company success. We firmly believe that there is no single governance model that delivers the best long-term outcomes. We therefore strive to push back against one-dimensional global governance principles in favour of a deep understanding of each company we invest in. We look, very simply, for structures, people and processes which we think can maximise the likelihood of long-term success. We expect to trust the boards and management teams of the companies we select, but demand accountability if that trust is broken.



Sustainable business practices

A company's ability to grow and generate value for our clients relies on a network of interdependencies between the company and the economy, society and environment in which it operates. We expect holdings to consider how their actions impact and rely on these relationships. We believe long-term success depends on maintaining a social licence to operate and look for holdings to work within the spirit and not just the letter of the laws and regulations that govern them. Material factors should be addressed at the board level as appropriate.

ESG integration approach

Our Stewardship Principles (long-term value creation, alignment in vision and practice, governance fit for purpose, sustainable business practices) reflect what we expect of the holdings we invest in on behalf of our clients. This document sets out our general approach to integrating these principles into the management and stewardship of client assets, including:

- **The integration of environmental, social and governance (ESG) considerations into our investment research and decision-making activities**
- **The resourcing, governance and oversight of our stewardship activities**
- **Our approach to transparency and reporting, and**
- **How we contribute to well-functioning markets and systems for the ultimate benefit of our clients and their returns.**

Some regulators may impose additional requirements for products sold in their jurisdiction. More information about how we address this can be found in the relevant sections on our website. In addition, as agents for our clients, we may follow instructions for client portfolios which differ from the approach set out in this document.

ESG integration and exercise of stewardship responsibilities

Our long-term, active approach to investment means looking beyond the narrow scope of traditional financial analysis to consider the range of factors that may affect our holdings' ability to thrive over the long term. We aim to add value for clients by broadening our perspective to understand better what the future might bring and which investments stand the best chance of succeeding.

We observe that, over the long run, financial performance and appropriate management of ESG factors are often intertwined. For example, companies that act as sustainable operators are less likely to face regulatory action, which could harm financial returns. Therefore, we integrate analysis of material ESG factors into our investment process because it strengthens our ability to deliver long-term returns.

Our investment strategies operate with a high degree of autonomy. This document sets out the characteristics that are broadly shared across strategies, but differences may exist between strategies and asset classes. In addition, some of our strategies or funds go beyond consideration and integration of ESG factors and make specific sustainability-related commitments.

For the majority of our strategies, the focus is on material ESG factors. We define these factors as those that we believe are likely to affect the financial condition or operating performance of a holding or a portfolio, with a positive or negative impact on long-term investment returns. For strategies which have made explicit sustainability-related commitments, we may adopt a broader materiality definition that goes beyond the strictly financially material. Where this is the case, this is clearly set out in relevant client and product documentation.

Research

As an active manager, we conduct deliberate and thoughtful ESG research. Our ESG research is materiality-led. Each holding is invariably different, but most of our efforts will focus on the one or two critical issues with significant relevance to the investment case. Investment cases for a given holding can differ between strategies, but our research aims to contribute to client returns over the long term. Our ESG research considers both the risks of value-destruction and how the ESG characteristics of a holding might contribute to its growth if our investment case proves to be correct. We also look to identify how a changing physical environment, shifting policy or emerging social expectations will likely impact our holdings' performance (positively and negatively) over our investment horizon. The holding-specific factors that we consider are broadly encapsulated within our **Stewardship principles**.

How do we conduct research?

Our investors undertake fundamental research. They use a variety of information sources, from company reports and meetings to third-party research and insights generated by academic partners and industry experts. Investors also have access to various third-party data tools, including ESG data sources. Many of our investment teams have an embedded ESG analyst who understands specific client mandates and supports the integration of material ESG factors into the relevant stages of the investment process. Regardless of who leads the research (an investor or an ESG analyst), we seek to identify material ESG factors which may inform our portfolio allocations, priority engagements and, where relevant, proxy voting decisions.

Our multi-asset investment processes start by taking a top-down, macroeconomic view to forecast expected asset class return profiles and inform portfolio asset allocation. This includes considering material ESG factors, complemented by bottom-up company, fund and sovereign investment research and stewardship.

The investment teams also work closely with our dedicated Climate Team. The team provides our investors with thematic and company-specific research and supports the firmwide Climate Audit process. More information about this and our approach to climate change can be found in our annual **Climate report**.

Our principles in practice – how we consider ESG opportunities and risks[1]

Our **Stewardship principles** are deliberately broad, not only to accommodate the differing processes and objectives of our investment teams but also to acknowledge the evolving nature of the opportunities and risks that face the investments we make.

The following provides an overview of the issues we may consider in our assessment of ESG factors. Should our research suggest concerns about a holding's practices or opportunities for improvement, we will engage and escalate, including using voting rights, where appropriate.

Governance arrangements

As a long-term growth investor, our interests are largely delegated to the board. The board's purpose is to ensure the company's prosperity. As a minimum, we expect the board to effectively fulfil its responsibilities, which include board composition and succession planning, capital allocation parameters, executive remuneration, and its audit and control function. It should provide support and oversight of the executive management team in implementing the business strategy, bringing different views, perspectives and challenge. At the same time, it should protect the interests and investments of the company's shareholders and ensure a business' sustainability.

Human rights and labour rights

Violation of labour and human rights, in addition to the harm this causes, can damage the reputation and value of our holdings. Consequently, we expect our holdings to respect internationally accepted human and labour rights in line with the United Nations Guiding Principles for Business and Human Rights. At a minimum, this should include maintaining health and safety systems, particularly in high-risk sectors; managing exposure to labour and human rights risks, especially modern slavery; and encouraging positive relationships with local communities.

Compliance with the Principles of the United Nations Global Compact

The principles and standards set out in the United Nations Global Compact (UNGC) are an appropriate framework for considering a business' long-term sustainability. Where we determine that a company's failure to meet the UNGC results in a material risk to the long-term performance of the business, we will take appropriate action.

We have several funds that make a binding commitment not to invest in companies that are non-compliant with the UNGC. Further details of how this and other norms or sector-based exclusions are applied can be found in the **Exclusion policy**.

[1]Material ESG risk is, in some jurisdictions, referred to as Sustainability Risk. As noted, ESG risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. For purposes of this document, we use the term ESG risk to also cover Sustainability Risk.

Diversity and inclusion

We believe that board diversity is an important issue for all businesses, potentially impacting the ability of a company to generate returns over the long term. We consider diversity broadly to include gender and ethnic diversity, diversity of thought, background, skillset, time horizon and risk appetite. We therefore expect our holdings to take steps to understand and, where necessary, improve board-level diversity.

We also expect businesses to manage their organisation's culture to ensure all employees are treated fairly and with respect in the workplace. Suitable policies and procedures should be in place to ensure that inappropriate behaviour and discrimination are identified and addressed accordingly.

Climate change

We believe a successful transition that keeps increases in global temperatures to well below 2C, and ideally to 1.5C, this century offers our clients a better opportunity for strong long-term investment returns than a failed transition. Entities not making enough progress in mitigating climate risks or accessing opportunities are a potential source of risk to our client returns. More information about our approach to climate change and our climate-related expectations of our holdings can be found in our **Statement of climate-related intent and ambition** and our **Climate report**, available on our website.

In response to client demand, we have several funds that limit exposure to fossil fuel holdings. Further details of how this and other norms or sector-based exclusions are applied can be found in the **Exclusion policy**.

Nature and biodiversity

Nature and biodiversity loss pose a significant risk to long-term business functioning and the well-being of economies. Sources of risk may include increased raw material or resource costs, regulation and taxation, resource availability and supply chain disruption. The protection of biodiversity should be a priority for businesses and governments, and entities should take steps to limit the destruction of the natural environment as far as possible. We aim to integrate the assessment of such issues into our fundamental research. Our ability to do so improves as we access more data sources and engage with more holdings on these topics. We are working with initiatives such as the Taskforce on Nature-related Financial Disclosures and exploring the usefulness of structured frameworks for investors and our clients.

Respect for legal and regulatory guidelines and consideration of stakeholder perspectives

We expect all our holdings to operate their businesses in a way that takes account of all relevant legal and regulatory guidelines and supports good stakeholder relations. Relevant practice areas include:

- Responsible marketing
- Data privacy and security governance
- Responsible taxation approaches
- How the company manages product and service issues, such as product quality and integrity, complaint handling, safety recalls and compensation.

Engagement

Engaging with the assets we hold on behalf of our clients is core to our role as effective stewards of our clients' capital and is an extension of our research process.

Why do we engage?

01. To learn and to monitor: As investors, our responsibility does not begin and end with the investment decision. Before allocating our clients' capital, we must decide whether a particular investment meets our criteria and will continue to do so over our investment horizons. We may meet with a leadership team many times before we decide to take a position. Once we have invested, we will continue to monitor our holdings to ensure we remain aligned and decide if we need to course-correct.
02. To support: Over our investment time horizons, our holdings will likely encounter challenges. On these occasions, it may be helpful (and even necessary) for us to communicate our support to the leadership of the investments we've made. We may encourage them to remain focused on the long term and occasionally offer the chance to learn from other investments that have faced similar challenges. Sometimes, this will include public support for a holding, eg through pre-declaring voting intentions.
03. To influence: There will be instances when our reason for engaging is to seek change. We have high expectations of the assets we invest in. When they do not live up to these, or where we have identified a specific objective for change, our starting point is to see if the leadership team is willing and able to address the issues we believe may impact the ability to deliver long-term returns for our clients. Sometimes, the influence we seek to have is to encourage a holding to be more ambitious in seizing new opportunities. Where strategies have specific sustainability commitments, engagement may be integral to meeting that commitment.

Engaging to achieve a defined set of outcomes can be a time consuming and resource-intensive exercise. Even though we run relatively concentrated portfolios, we recognise the need to prioritise and, where appropriate, coordinate engagements across our investment teams. We are likely to do this when:

- We consider the issues to be particularly material to a holding's long-term investment performance and of a nature where more concerted engagement is required
- We are a major shareholder or lender
- We believe we can offer particular insight and guidance.

We believe that this approach maximises our chance of success.

There may be instances where engagement will be lighter touch. While our strong preference is always to engage directly, we may occasionally communicate expectations via email.

How do we engage?

Our patient approach, focused on building long-term relationships, means we often occupy a privileged position in terms of our access to leadership. We do not take this privilege lightly. We aim to ensure that our engagements are research-led and, particularly when the intention is to influence, focus on the one or two issues we think are most material to a holding's long-term success.

We generally prefer to engage one-to-one with our holdings. However, we recognise that, at times, working with like-minded investors and broader stakeholder groups has benefits. Collaborative approaches can increase the influence that we bring to bear on our clients' behalf and may, in some instances, be necessary to achieve our engagement objectives. For some asset classes (such as sovereign bonds) collaborative engagements are our primary means of influence.

Voting

Voting is an integral part of our responsibility to act as responsible stewards of our clients' capital. Our voting analysis and decisions are driven by what we consider will promote the company's long-term prospects and, therefore, support the long-term financial outcomes for our clients. In line with our investment philosophy, our voting analysis is bottom-up and led by the investment case. This means we assess every resolution on a case-by-case basis.

For more details about our voting approach, see our **Voting guidelines**.

Escalation

If we fail to see meaningful improvement in what we believe is a material issue, we will escalate through various means. We may take voting action or suggest changes ranging from minor process improvements to a change in senior leadership. Ultimately, we will divest if improvements are not made in areas of material importance.

A pathway for escalation may include some or all of the following:

- Engagement with management, Investor Relations or board members
- No progress – voting action against appropriate AGM resolution
- Escalation to the Chair or Senior Independent Director
- Collaboration with other investors or relevant industry initiatives
- No progress and no reasonable prospect of progress – divest.

There are additional escalation options, such as filing or co-sponsoring shareholder proposals, attending AGMs, or articulating views publicly via different media outlets, which we may use if circumstances require.

Resourcing, monitoring and oversight

Effective ESG integration and stewardship of client assets require appropriate resourcing and oversight. Responsibility for ESG integration sits with the investment teams (supported, in many cases, by an embedded ESG analyst). Dedicated central teams, such as our Voting Team and our Climate Team, provide technical support across the firm and assist us in meeting client and regulatory requirements, including monitoring ESG risk. The diagram following shows how our dedicated ESG resource is structured and its integration and oversight within the firm.

Monitoring of ESG Risk

ESG risk metrics are incorporated into investment risk reports periodically provided to investment managers. These metrics help investment managers identify emerging risks across the portfolio. Additionally, our ESG Assurance Group (ESGAG) monitors ESG risk metrics via exceptions-based reporting. The ESGAG, in consultation with the ESG Oversight Group as appropriate, can escalate concerns to either the Equity or Multi Asset and Fixed Income Investment Risk committees, who will then escalate issues to the Group Risk Committee. A purely quantitative approach does not fully capture the underlying complexities faced by our holdings or provide a complete picture of risks and opportunities across portfolios. Still, it can indicate a need for deeper assessment. Therefore we supplement metrics with bottom-up, qualitative information from our investment research and stewardship activities to provide a richer, more accurate picture.

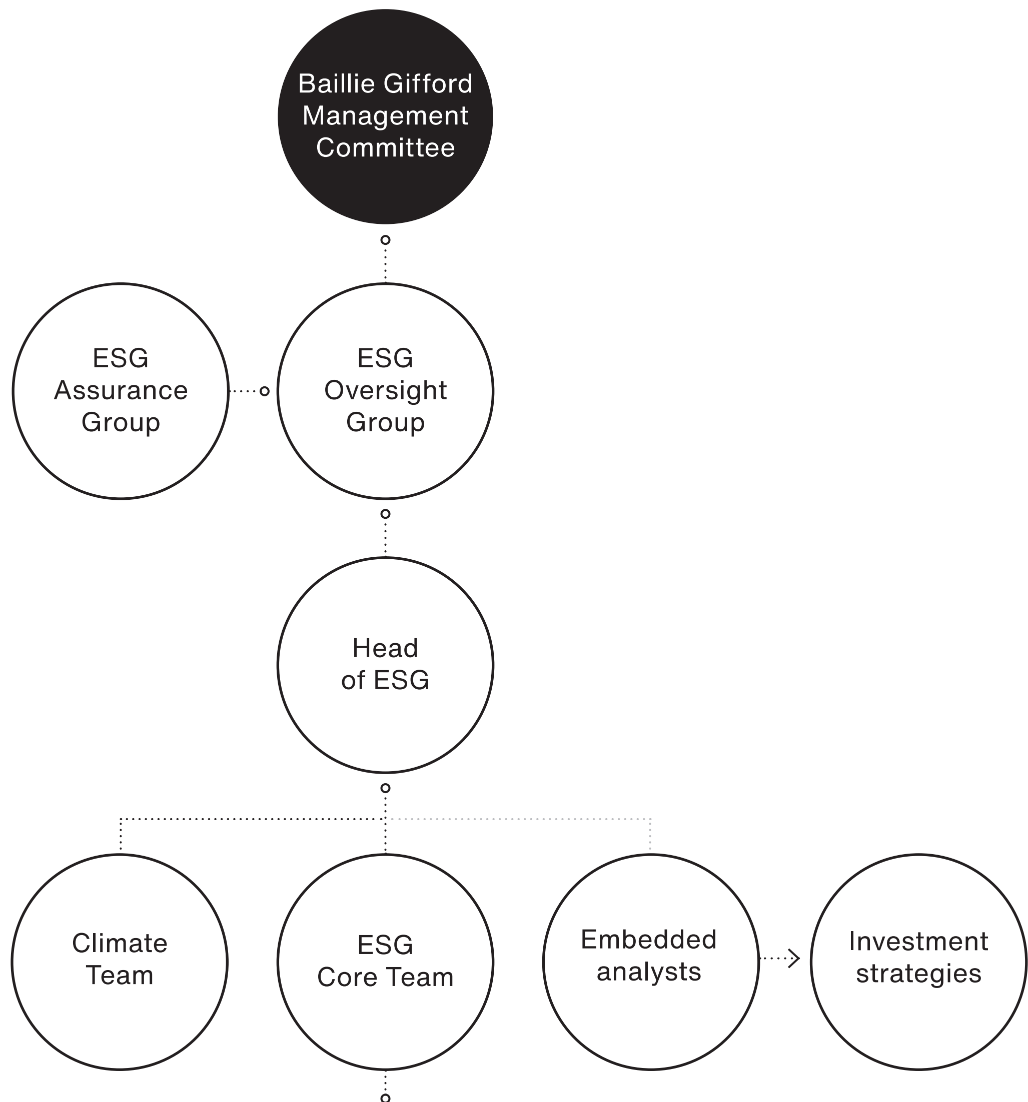
Transparency and reporting

We make detailed voting and engagement reporting available to institutional clients. We also disclose voting and engagement activity on our website and prepare an annual Investment Stewardship Activities Report (as per the UK Stewardship Code) and Climate Report (in line with the recommendations of the Task Force on Climate-Related Financial Disclosures, per Financial Conduct Authority regulation). Additional regulatory reporting is available on our website.

Contributing to well-functioning markets

We aim to uphold and promote the highest standards of service and professional behaviours and to enhance the reputation of the investment industry. This encompasses a responsibility to encourage well-functioning financial markets. To support this, in addition to responding to relevant regulatory and other consultations, we are a member of several groups and industry bodies aimed at supporting well-functioning financial markets and improvements in corporate governance and sustainability. It is important to note, however, that where membership of these groups involves commitments, as agents of our clients, our ability to meet these commitments will always be dependent on client mandates. More information about our memberships and activity can be found in our annual stewardship reporting on our website.

Baillie Gifford ESG organisational structure



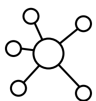
- Corporate governance
- Voting
- Projects, policy, and regulation
- Operations
- Data
- Client communication

Proxy voting guidelines

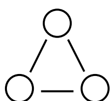
Voting is integral to our role as responsible stewards of our clients' capital. Our voting analysis and decisions are driven by what we consider will promote the long-term prospects of the company, thereby supporting the outcomes we aim to deliver to our clients. In line with our investment philosophy, our voting analysis is bottom-up and led by each investment case. Rather than applying prescriptive policies, we assess every resolution on a case-by-case basis. We believe that a prescriptive approach can lead to unwarranted and, in some cases, perverse outcomes which may not be in the best interests of a particular company, given its stage of development and the wider geographical and industrial context.

These guidelines are aligned with our **Stewardship principles**. They provide some insight into our voting process and approach to matters routinely presented for a vote at shareholder meetings. They do not indicate how we will vote on specific topics.

Our Stewardship principles

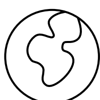


Governance fit for purpose



Alignment in vision and practice

Long-term value creation



Sustainable business practices

How we exercise voting rights

We prefer to take direct voting responsibility for our clients to strengthen our stewardship effectiveness. We do not outsource voting analysis or recommendations, using proxy advisors for information only. Instead, voting analysis and execution is carried out in-house by our central Voting Team in conjunction with investment teams. This allows us to improve the integration of voting into our investment process. Most votes are submitted electronically using our proprietary in-house system, which enhances efficiency and accuracy.

Reporting

Being transparent about how we vote on behalf of our clients is a vital aspect of our stewardship responsibility. Each quarter, we provide all institutional clients with reports detailing voting activity. We also publish high-level voting information on our website.

Split voting

Occasionally, our investment teams will vote differently on the same general meeting resolution. This aligns with our decentralised and autonomous investment culture: investment teams make decisions in clients' best interests, according to the aims of their investment strategy. Split votes are reported accordingly in the proxy voting disclosure on our website. They are clearly communicated to the company, along with the rationale for the different voting decisions.

Refraining from voting

We endeavour to vote all our clients' holdings in every market. However, this may occasionally be impossible for regulatory reasons or operational constraints:

01. Share blocking – in certain markets, voting shares can prevent us from trading for a period of time, which may not always be in our clients' best interests
02. Share lending – we cannot vote on a client's shares if they have lent the shares. If we deem a meeting significant or contentious, we may request that the client recalls any stock on loan so we can vote
03. Conflicts of interest – we have processes in place to identify, prevent and manage potential proxy voting-related conflicts of interest to ensure that the firm always acts in clients' best interests. In some cases, the appropriate resolution is not to vote. Baillie Gifford's firmwide conflict of interest disclosure is on our website.

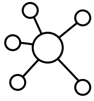
Significant votes

In response to disclosure requirements for UK and European pension scheme clients under the Shareholders' Rights Directive II, we have created our Significant Vote framework. Whether a vote is considered significant is necessarily subjective. Here is a non-exhaustive list of potentially significant voting situations:

- Baillie Gifford's voting decision had a material impact on the outcome of the meeting
- Management resolutions that receive 20 per cent or more opposition
- Misaligned remuneration
- Contentious equity issuance
- Shareholder resolutions that received 20 per cent or more support from shareholders
- Where there has been a significant reported audit failing
- Mergers and acquisitions
- Where we have opposed the financial statements/annual report
- Where we have opposed the ratification or election of directors
- Where we identify material[2] environmental, social or governance (ESG) factors that result in Baillie Gifford opposing management.

[2]Per our **ESG Integration Approach**, we define material ESG factors as those that we believe are likely to affect the financial condition or operating performance of a holding, with a consequent positive or negative impact on long-term investment returns.

Voting guidance



Governance fit for purpose

Board

A board which is fit for purpose is fundamental to long-term value creation. As long-term growth investors, we have a responsibility to play an active role, via our stewardship activities, in the proper functioning of boards.

We seek unique leadership styles and are open to unconventional governance structures. There is no global standard for the size or structure of a board of directors. Each board must consider the needs of the business, which will be influenced by the industry and region it operates in, its scale and level of maturity, its ownership structure and the expectations of its shareholders.

Board composition

We expect board composition to underpin the board's effectiveness. Our key expectations of board members relate to independence, qualification and diversity.

Independent

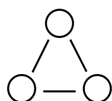
We expect a meaningful proportion of the board to be independent, which varies by market practice. We discourage non-executive directors from receiving performance-based remuneration, but support them having some share ownership to align with shareholders' interests. We expect disclosure of how the directors are paid and whether there are any material related party transactions. We also expect other demonstrations of independence, including considerations such as tenure and other affiliations of non-executive directors.

Qualified

We expect directors to be qualified to set a credible, purposeful strategy while providing appropriate oversight and constructive challenge to management. Different sectors, geographies, and stages of growth all require different skills and backgrounds. We expect comprehensive director biographies to be disclosed, so we can consider whether the board has the necessary range of skills and industry expertise. We also expect directors to have sufficient time to dedicate to their role at the company, considering their other commitments.

Diverse

We believe a diverse board is less likely to fall into the trap of groupthink. We expect a balance of experience, backgrounds and points of view that give the best chance for the company to succeed in the long term.



Alignment in vision and practice

Remuneration

We recognise that effective remuneration plans help to recruit, retain and motivate employees. Our principal consideration when reviewing executive remuneration is that the structure and outcomes should provide alignment between management, particularly executives, and shareholders. For this reason, we favour simple, transparent remuneration structures with a long-term focus. We are prepared to support structures which do not necessarily fit within conventional practices when they are appropriate for a company's circumstances and underpin the delivery of long-term shareholder value.

The appropriate remuneration structure will depend on factors including the company's size, stage of development, market and industry. As well as this, we consider matters such as the proportion of fixed to variable remuneration, the use of equity awards, the relevance and ambition of performance conditions, and alignment with the wider workforce.

Companies should not implement certain pay practices that do not align with our priority of outperformance over the long term, such as:

- Repricing of equity awards
- Retesting of performance conditions
- Vesting of incentive awards for below-median performance
- Severance agreements that (i) are excessive relative to market practice and/or (ii) allow accelerated vesting of variable pay awards without pro-rating for time and performance
- Frequent changes to performance metrics or adjustment of in-flight performance targets
- Unjustified or inappropriate use of discretion, such as one-off awards.

Long-term value creation

Anti-takeover devices

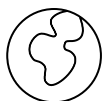
Anti-takeover devices are designed to defend companies from a hostile takeover. These devices can potentially entrench management, so we generally prefer that companies do not create them. However, we recognise that there may be certain growth-oriented companies and sectors where some protection from short-term market priorities can support long-term shareholder value creation.

Multi-class share structures

There is no optimum ownership structure. While the one share, one vote principle aligns voting rights and economic rights for all holders, multiple share structures and differential voting rights can also be a strength. Different voting rights can enhance long-termism, protect the culture and offer greater strategic certainty for some organisations. Our primary consideration when reviewing a company with a multi-class structure is whether it has worked to the long-term benefit of all shareholders and is likely to continue to do so over time.

Equity issuances/repurchases, mergers and acquisitions

Matters relating to equity and corporate restructurings, such as additional equity issuances and mergers or acquisitions, can significantly impact shareholder value. When executed appropriately and successfully, they can accelerate a company's growth prospects. However, they can also be destructive to long-term value creation. When reviewing these matters, we consider whether the request is aligned with the company's long-term strategy and offers shareholders fairness.



Sustainable business practices

We consider ESG risks and opportunities in the context of our overall focus on long-term investment performance (see our **ESG integration approach** for more information). Where we think a company is not adequately managing material ESG factors, we may use voting action to escalate matters. On climate, we exercise our voting rights in support of the commitments and expectations set out in our **Statement of climate-related intent and ambition** and **Task force on Climate-related Financial disclosures** report.

Shareholder proposals

Shareholder proposals are a mechanism permitted in some markets which enable shareholders to submit resolutions at company general meetings. They can be a valuable tool to highlight companies' wider impact on stakeholders. When reviewing shareholder proposals we consider:

- Whether we believe implementation of the requested action would further strengthen the long-term prospects of the business
- Relevance and materiality of the issue to the investment case
- How impactful the requested action would be, if passed, in making progress on the issue
- Whether we believe that the proponent's intention in submitting the proposal is aligned with our priority to promote the company's long-term prospects.

We do not support proposals designed to frustrate or distract a company.

Routine shareholder matters

At a minimum, we expect companies to comply with applicable local laws and regulations about routine matters such as timely publication of shareholder reports. More than this, we consider whether companies are acting in the best long-term interests of shareholders, even where this may mean going further than local market practice. For example, in some markets, companies may not be required to disclose the fees paid to the external auditor. We nonetheless expect that they should, as this best serves the long-term interests of shareholders.

External auditors

The external audit is integral to well-functioning financial markets and the corporate governance framework. We expect external auditors to be independent and avoid conflicts of interest such as the provision of, and payment for, corporate services other than the audit, and length of tenure.

Political donations

We do not expect our holdings to make political donations or contributions to 'politically exposed' charitable organisations.

Exclusion policy

This policy sets out Baillie Gifford's approach to key exclusions at a firmwide, strategy and fund level. Full details of strategy- and fund-level restrictions can be found in relevant strategy and fund-level materials on Baillie Gifford's website.

Firmwide exclusions

Controversial weapons

Certain types of military weapons are considered controversial because of their potentially disproportionate or indiscriminate effects. International treaties and conventions exist to limit their production and use, though this is an inherently complex area that continues to evolve.

Baillie Gifford seeks to avoid investment in companies with direct involvement in producing controversial weapons, or the components or services that are essential to and tailor-made for them. This policy applies specifically to the following types of weapons:

- Anti-personnel mines
- Biological and chemical weapons
- Cluster munitions
- Depleted uranium weapons
- White phosphorus incendiary weapons
- Nuclear weapons (where such weapons are likely to be in breach of the objectives of the Treaty on the Non-Proliferation of Nuclear Weapons).

We aim to apply these exclusions on a firm-wide basis to all direct investments we make in companies on behalf of our clients. We use external research providers to help us identify excluded companies and, where appropriate, supplement this with our own research to determine our position on individual companies.

Cannabis

As cannabis products are increasingly legalised worldwide, there is a growing number of investable opportunities in the sector. UK authorised investment management firms may not receive benefits from the sale of recreational cannabis (for example, from the receipt of dividends) due to the Proceeds of Crime Act, regardless of legality in the jurisdiction where the cannabis product is being sold. As a UK-domiciled, Financial Conduct Authority-regulated investment manager, we may be restricted from investing in companies operating in the cannabis sector due to the potential illegality of benefits derived in the UK.

Strategy and/or fund-specific exclusions

Some of our investment strategies and funds apply an exclusionary approach to specific sectors or business practices. High-level details are provided in the section below, with full details available in relevant strategy and fund-level materials on Baillie Gifford's website.

United Nations Global Compact

We have several strategies and funds which have made a binding commitment not to invest in companies that are determined to be non-compliant with the United Nations Global Compact Principles (UNGC) and related standards, including the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights.

Where this commitment has been made:

- With new purchases, if a company is identified as non-compliant with the principles based on our judgement, which is informed by our internal research alongside data feeds from third-party sources, then we will not proceed with the purchase. If we determine there are prospects for improvement, the company may be purchased, but a formal engagement and monitoring process will be implemented.
- For existing holdings, a formal engagement and monitoring process will be implemented if we believe a company has breached the principles, based on our internal research alongside data feeds from third-party sources.

We expect to see material improvement within a reasonable timeframe (a maximum of three years). Should a company fail to demonstrate progress, we will divest.

UN Global Compact Principles

Human rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

Principle 10: Businesses should work against corruption in all forms, including extortion and bribery.

Controversial business activities

We have several strategies and funds which have a binding commitment not to invest in companies that generate revenues from certain business activities that may be considered controversial.

The restricted revenue type and the amount depends on the strategy or fund approach. The relevant strategy- and fund-level materials on the Baillie Gifford website contain full details of the restrictions. Upon request and agreement, segregated clients may place additional mandate restrictions.

Divestment approach – Baillie Gifford funds

Baillie Gifford's long-term investment approach means that environmental, social and governance (ESG) considerations are integrated throughout the investment process. This policy outlines our divestment approach should an existing holding breach our sector-based exclusions and norms-based evaluations.

This policy applies to those funds within the Irish UCITS, UK OEICs, US Mutual Funds, Collective Investment Trusts, Canadian Pooled Funds and Investment Trusts (together the 'Baillie Gifford Funds'), which apply specific sector-based exclusions and norms-based evaluations, at the time of purchasing an investment. This policy applies to the Baillie Gifford Funds only and does not relate to segregated mandates.

Should there be any conflict with the rules of a particular jurisdiction in which a Baillie Gifford Fund is established and this policy, the rules of that specific jurisdiction will prevail.

To ensure that we adhere to the sector-based exclusions and norms-based evaluations set for our portfolios via the various governing documents (eg prospectuses, offering memorandums, etc.) of the Baillie Gifford Funds, while remaining responsible stewards of our clients' capital, we follow several guidelines. These guidelines ensure compliance and detail the actions we will take if an existing holding is found to be in breach of our sector-based exclusions and norms-based evaluations.

Monitoring compliance through research and third-party sources

We periodically monitor third-party data sources (eg Sustainalytics, MSCI) for (i) any flags against our various sector-based exclusions, which are limits on companies that derive percentage levels of revenue from certain activities as detailed in the relevant Baillie Gifford Fund governing documents (the 'Threshold') and (ii) compliance with the UNGC Principles and related standards (the 'Principles'). Our Mandate Compliance Team does daily post-trade compliance checks to ensure that market movements or data changes do not move portfolios near to or beyond restriction guidelines. Breaches to ESG fund restrictions are monitored by the relevant groups internally.

We think it is important not to rely solely on third-party data. If a third-party data source has flagged an issue, we may conduct further analysis to ensure that we have a detailed understanding of both the company's current position and the likely future trajectory. We may also engage with said company to seek clarification.

As a result, the decision to divest from a company due to the breach of a threshold and/or the Principles will be determined based on a combination of third-party data, our internal research and potential company engagement.

Threshold breaches

If the percentage levels of revenue are approaching the threshold, we will engage with the company where appropriate to discuss the reason for the change and the likely direction of travel over time.

If, using our internal research as described above, we conclude that there is a breach of the threshold, and no clear change is anticipated, we will divest from the company:

- At the first opportunity where it is possible to do so without material financial detriment to clients and taking due account of their interests.
- At a maximum within one month from the date upon which we identified the threshold as being breached, based on our internal research.

Principles breaches

Funds that apply a norms-based evaluation process will not invest in securities (equities and/or corporate bonds) that, in the investment manager's judgment, severely breach the Principles and/or do not have a positive trajectory following identification of a historical issue (ie not showing clear time-bound intent and evidence to improve behaviour against such breach). If we determine a holding has breached the Principles (which is informed by our internal research alongside data feeds from third-party sources) we implement a formal engagement and monitoring process. We would expect to see material improvement within a reasonable timeframe (a maximum of three years), and should a company fail to demonstrate progress, then we would divest. Where we are required to sell, we will divest from the company:

- At the first opportunity where it is possible to do so without material financial detriment to clients and taking due account of their interests.
- At the maximum, within one month from the date the formal engagement process is deemed to have failed based on our internal research.

Sustainable Finance Disclosure Regulation (SFDR) approach

SFDR requires asset managers to disclose how they integrate and measure sustainability risk in the investment process for products sold in the European Union. Our **ESG integration approach** sets out how we consider and manage sustainability risks, and opportunities, as part of our investment process. That document serves as our Sustainability Risk Policy. Under SFDR, investment products can disclose under:

- Article 6 (mainstream products which may or may not integrate environmental, social and governance (ESG) criteria)
- Article 8 (products that promote environmental or social characteristics)
- Or Article 9 (products with sustainable investments as an objective).

Baillie Gifford has a range of funds disclosing pursuant to Articles 6, 8 and 9 of SFDR. Please see the fund selector on the Baillie Gifford website for more details.

Good Governance Indicator	SFDR element	Minimum standard
Accurate Financial Statement Reporting	Sound Management Structures	We will not own companies that have been found guilty of fraudulent financial statement reporting unless the company has taken appropriate steps to rectify an issue where it has occurred.
Corruption	Sound Management Structures	Compliance with Principle 10 of the UN Global Compact in line with the Baillie Gifford UN Global Compact approach outlined in the Exclusion Policy.
Employee Relations	Employee Relations	Compliance with Principle 3 of the UN Global Compact in line with the Baillie Gifford UN Global Compact approach outlined in the Exclusion Policy.
Remuneration Concerns	Remuneration	The company does not have ongoing remuneration concerns that Baillie Gifford believes undermine the investment case.
Tax Behaviour	Tax Compliance	The company has not been found guilty of tax evasion, or has taken appropriate action to rectify concerns and prevent these convictions.

Good Governance for the purposes of SFDR

SFDR requires that Article 8 or Article 9 products do not invest in companies that do not follow good governance practices. This policy describes how we determine good governance in the context of SFDR and for those funds and segregated accounts that fall under the scope of the regulation. The policy covers the areas of sound management structures, employee relations, remuneration of staff and tax compliance.

In assessing investee companies against this definition, both third-party and internal research are used. Companies are monitored periodically to ensure ongoing compliance. The table above sets out the minimum expectations of good governance as required under SFDR; however, all holdings are subject to other governance and stewardship elements set out in other Baillie Gifford policies.

Defining sustainable investments within Baillie Gifford

For SFDR purposes, this section outlines our approach to determining whether a holding can be classified as 'sustainable' under Article 2 (17) of SFDR. This definition is relevant for both our Article 9 products and those Article 8 products which commit to investing a proportion of assets in sustainable investments.

A sustainable investment is defined under SFDR as:

> An investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

To arrive at a firmwide definition, the above definition is broken down into various elements, outlined below:

- Investment in economic activity that contributes to an environmental objective or a social objective
- Do not significantly harm any of those objectives
- Investee companies follow good governance practices.

The proportion of sustainable investments, including the level of taxonomy alignment, will be disclosed in annual reports.

Investment in economic activity that contributes to an environmental objective or a social objective

We define this as one, or a combination, of the following activities which, in our opinion:

- Are aligned with the broader sustainable objectives of society as currently best defined by the UN Sustainable Development Goals, evidenced through third-party data or internal research frameworks; and/or,
- Are aligned with the EU Taxonomy[3] or other regional taxonomies as appropriate; and/or,
- Contributes to reducing absolute greenhouse gas emissions with a view to achieving the long-term global warming objectives of the Paris Agreement as evidenced through internal research frameworks.

[3]The EU Taxonomy is a classification system that helps companies and investors identify "environmentally sustainable" economic activities to make sustainable investment decisions.

Do not significantly harm any of those objectives

Of the investments that meet the environmental or social objective, these holdings do not significantly harm either objective. Demonstrated as follows:

- Alignment with responsible business codes and internationally recognised standards, including the United Nations Global Compact principles and related standards, including the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights; and
- Principal adverse impacts on sustainability factors taken into account through:

  a. Revenue-based exclusions associated with certain activities that can materially cause principal adverse impacts at the issuer level[4], which may be assessed through set thresholds against relevant third-party indicators or through proprietary research frameworks

  b. Communication with the management and other key representatives of investee companies in person, virtually or in written format addressing adverse impacts

  c. Setting up engagement in actions or shareholder dialogue with specific sustainability objectives (eg, reducing or mitigating adverse impacts)

  d. Exercising voting rights as a shareholder

  e. Controversies monitoring

  f. Documented escalation measures should those objectives not be achieved.

Investee companies follow good governance practices

Good governance practices apply to all holdings in Article 8 and Article 9 funds. How holdings align with a good governance approach is referred to under ‘Good governance for the purposes of SFDR’ above. Further details of how we consider governance factors beyond these minimum standards can be found in our principles and guidelines documents, including our **stewardship principles**, **ESG integration approach**, **proxy voting guidelines** and **our exclusion policy**.

While ‘sustainable investments’ are defined within SFDR, the definition is very broad. As such, financial market participants may interpret it differently. The definition of sustainable investments is also evolving, and the framework reflected here is based on our understanding of the SFDR definition. Clients should exercise caution when comparing the level of sustainable investments between investment products.

[4]Details of revenue-based exclusions can be found in relevant fund documentation.

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