

# Baillie Gifford's Compliance with the UK Stewardship Code



30 September 2010

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This document describes the extent to which we have applied the seven Principles of the UK Stewardship Code which was adopted by the Financial Reporting Council (FRC) on the 2nd of July 2010.

Stewardship refers to how we protect and manage our clients' investments by actively monitoring investee companies, which includes inter alia engaging with company management on strategy, performance, governance and risk management.

We endeavour to apply our approach on stewardship to all companies that we invest in on behalf of our clients.

Our approach is consistent with Baillie Gifford's overall aims, which are to provide good long-term performance to our clients, and keeping clients' interests paramount.

## Principle 1

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*Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.*

- How we engage with and monitor investee companies, and the circumstances in which we will intervene in companies and integrate stewardship activities into our investment process is outlined in our [Company Engagement Policy](#)
- Our Global Corporate Governance Principles and Guidelines and Environmental, Social and Governance (ESG) Policy can be found on our website at: <http://www.bailliegifford.com/pages/UKInstitutional/CorporateGovernance/CorporateGovernanceSRI.aspx>
- All of our voting decisions are taken internally: our corporate governance team, in conjunction with the relevant investment teams, is responsible for making voting decisions. Although we review local best practice and corporate governance codes when voting clients' shares, we actively consider companies' explanations for not complying with best practice. Where we are satisfied that these explanations are in our clients' best interests we will vote in favour of management.
- We employ several voting agencies including Institutional Shareholder Services, Glass Lewis, and the Association of British Insurers to assist us in gathering information on companies' general meetings.

## Principle 2

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*Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.*

- We recognise the importance of managing potential conflicts of interest on behalf of our clients when voting their shares and engaging with investee companies. We aim to identify the instances where Baillie Gifford faces a conflict of interest and seek to manage these in an objective manner, consistent with protecting our clients' interests.
- Our policy on managing conflicts of interest is disclosed publicly on our website via our Global Corporate Governance Principles and Guidelines and Company Engagement Policy.

## Principle 3

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*Institutional investors should monitor their investee companies.*

- As outlined in our Company Engagement Policy, we actively monitor the companies in which we invest on behalf of our clients and where appropriate communicate our views to management and boards where we have concerns. Our monitoring of investee companies' strategies, and operational, governance and management performance is integral to our investment process. In addition, many of our clients and their consultants periodically assess the effectiveness of our approach to monitoring and engagement.
- We maintain an audit trail of our dialogue with companies by recording all engagements and voting activity on our in-house systems. This enables us to monitor the effectiveness of our engagements and set priorities for future engagements.
- We vote the vast majority of our clients' shares by proxy. However, in exceptional circumstances, we will attend meetings where we have large holdings and there is a contentious issue and where attendance in person rather than voting by proxy is in our clients' best interests.
- In the unlikely event that we are made insiders following discussions with companies, we follow specific policies and procedures via our Market Abuse and Insider Dealing Manual.

## Principle 4

*Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.*

- Our preference is to have confidential and private discussions with companies which enable us to build an effective relationship with boards and management.
- However, as outlined in our Company Engagement Policy, where it is necessary to protect and enhance our clients' long-term investment returns we will consider escalating our stewardship and engagement activities.
- We will consider escalating our activities where we have concerns about inter alia strategy and performance, board structure and management quality, conflicts of interest and lack of independence on the board, executive remuneration, and where minority shareholder rights are being compromised.

## Principle 5

*Institutional investors should be willing to act collectively with other investors where appropriate.*

- We recognise the benefits in certain instances of working alongside other like-minded investors on both policy and company specific matters, which can increase the influence that we can bring to bear on our clients' behalf. This includes collective engagements with investee companies and regulators.
- We are members of the UK Corporate Governance Forum, the International Corporate Governance Network, the Asian Corporate Governance Association, and signatory to the United Nations Principles for Responsible Investment. We also engage with other investor groups on a case-by-case basis where this is of benefit to our clients.

## Principle 6

*Institutional investors should have a clear policy on voting and disclosure of voting activity.*

- Our global policy on voting is available on our website under Baillie Gifford's Global Corporate Governance Principles and Guidelines.
- Where our clients have delegated voting discretion to Baillie Gifford, we endeavour to vote all their shares unless it is prohibitively costly for them to vote, for example in blocking markets where trading restrictions apply. We also advise our clients to recall stock on loan when voting on significant investment related matters.
- In gathering information and making our final voting decisions, we endeavour to engage with companies and their advisers. We routinely advise investee companies where we plan to vote against management.
- We publicly disclose a summary of our voting and engagement activities on our website under Company Engagement & Disclosure Reports via the following link: <http://www.bailliegifford.com/pages/UKInstitutional/CorporateGovernance/CorporateGovernanceSRI.aspx>

## Principle 7

*Institutional investors should report periodically on their stewardship and voting activities.*

- We provide our institutional clients with detailed quarterly reports on our engagement and voting activities unless the discussions with companies are deemed confidential and disclosure to our clients would not be in their best interests.
- Our proxy voting systems and procedures are independently reviewed annually as part of our internal controls review, by our external auditors. However, our engagement activities are not currently externally audited as recommended by the FRC<sup>1</sup>.

<sup>1</sup> The FRC has announced that guidance on how to audit engagement activities is currently being developed by the Institute of Chartered Accountants in England and Wales which is expected to be published in 2011. The FRC has therefore advised investors that they may wish to wait until the guidance has been finalised before considering whether to comply with this part of the Code. We will consider our response once the guidance has been published in 2011.

## Contact Details

For further information on our approach to governance, engagement and stewardship matters please contact Kenneth Bell or Marianne Harper Gow on +44 (0)131 275 2000:

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