Our Stewardship Approach

ESG Principles and Guidelines 2022

Actual Investors

Risk Factors

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This communication was produced and approved in May 2022 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, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

Stock Examples

Any stock examples and images used in this article are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style.

This article 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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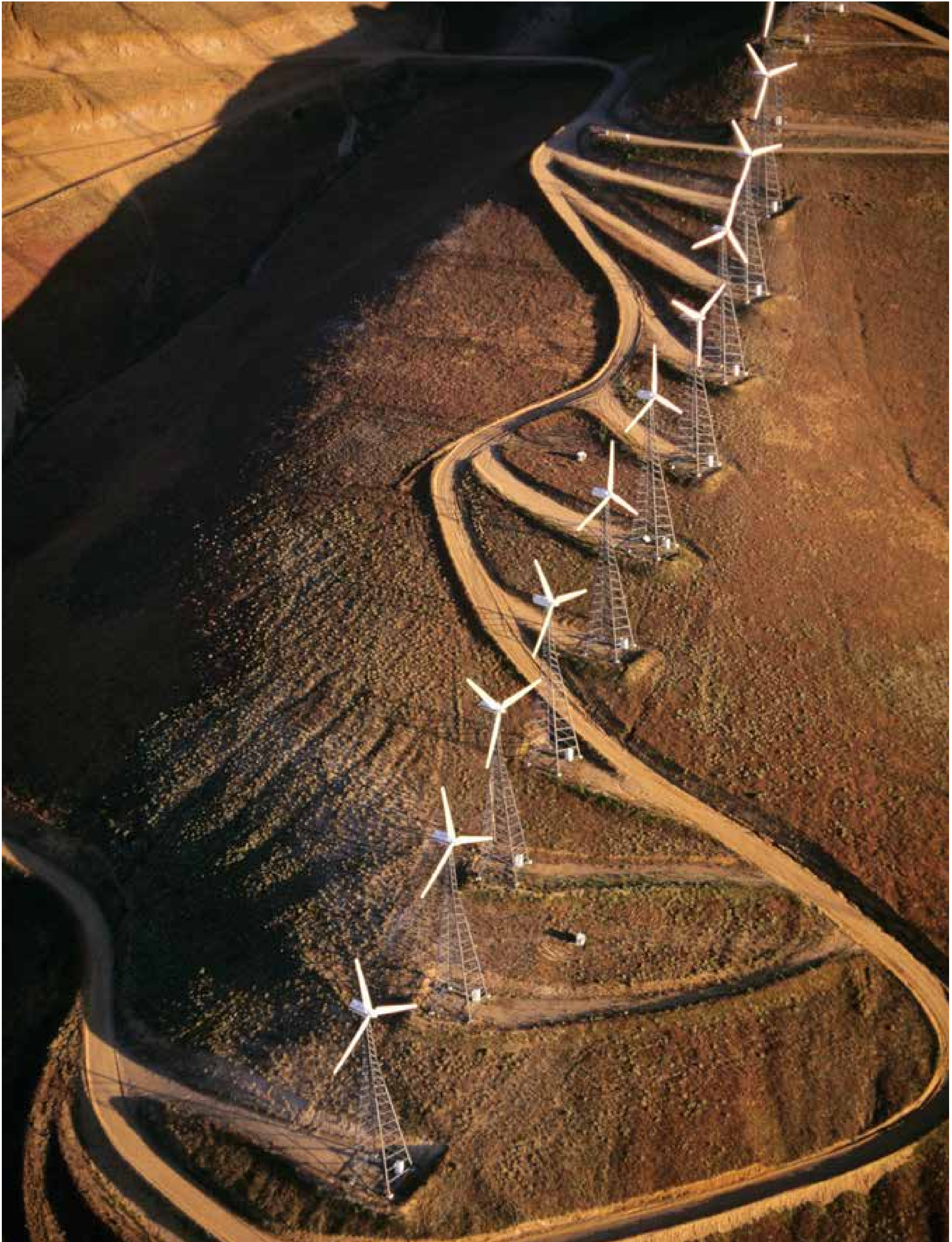
Introduction

This document sets out Baillie Gifford's stewardship approach and how we integrate environmental, social and governance (ESG) matters into our investment process. As a private partnership, we know from our own experience how critical ownership structures and corporate cultures can be to the success and longevity of a business. Too often in asset management, active ownership or 'stewardship' and ESG matters are an afterthought. As a truly long-term investor these issues are central to how Baillie Gifford invests, how we manage our own affairs and how we interact with our clients.

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

Our clients trust us to oversee and manage their investments for the long term. Stewardship of their holdings is a core part of this commitment. Our genuinely long-term perspective is evidenced by our low portfolio turnover. If you analyse a company's business prospects over the next decade, not the next quarter, you must think deeply about the way it interacts with a variety of stakeholders. We think that there needs to be a much more open and honest conversation among all stakeholders about how the financial sector contributes to society and about the rules and behaviours that underpin those interactions.

All our investment staff are involved in our stewardship work and, as long-term investors, we believe that our approach to monitoring holdings, engaging with management and voting thoughtfully supports investment performance. Over the following pages, we explore how we consider and integrate ESG matters into our investment process through research, engagement and voting. Our approach is framed around our five core stewardship principles.

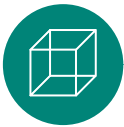


Our Stewardship Principles

Baillie Gifford's overarching ethos is that we are 'Actual' investors. We have a responsibility to behave as supportive and constructively engaged long-term investors. We invest in companies at different stages in their evolution, across vastly different industries and geographies and we celebrate their uniqueness. Consequently, we are wary of prescriptive policies and rules, believing that these often run counter to thoughtful and beneficial corporate stewardship. Our approach favours a small number of simple principles which help shape our interactions with companies.

Prioritisation of long-term value creation

We encourage our holdings to be ambitious and focus their investments on long-term value creation. We understand that it is easy to be influenced by short-sighted demands for profit maximisation but believe these often lead to sub-optimal long-term outcomes. We regard it as our responsibility to steer holdings away from destructive financial engineering towards activities that create genuine economic and stakeholder value over the long run. We are happy that our value will often be in supporting management when others don't.



A constructive and purposeful board

We believe that boards play a key role in supporting corporate success and representing the interests of all capital providers. There is no fixed formula, but it is our expectation that boards have the resources, information, cognitive and experiential diversity they need to fulfil these responsibilities. We believe that good governance works best when there are diverse skillsets and perspectives, paired with an inclusive culture and strong independent representation able to assist, advise and constructively challenge the thinking of management.

Long-term focused remuneration with stretching targets

We look for remuneration policies that are simple, transparent and reward superior strategic and operational endeavour. We believe incentive schemes can be important in driving behaviour, and we encourage policies which create genuine long-term alignment with external capital providers. We are accepting of significant payouts to executives if these are commensurate with outstanding long-run value creation, but plans should not reward mediocre outcomes. We think that performance hurdles should be skewed towards long-term results and that remuneration plans should be subject to shareholder approval.

Fair treatment of stakeholders

We believe it is in the long-term interests of all enterprises to maintain strong relationships with all stakeholders – employees, customers, suppliers, regulators and the communities they exist within. We do not believe in one-size-fits-all policies and recognise that operating policies, governance and ownership structures may need to vary according to circumstance. Nonetheless, we believe the principles of fairness, transparency and respect should be prioritised at all times.

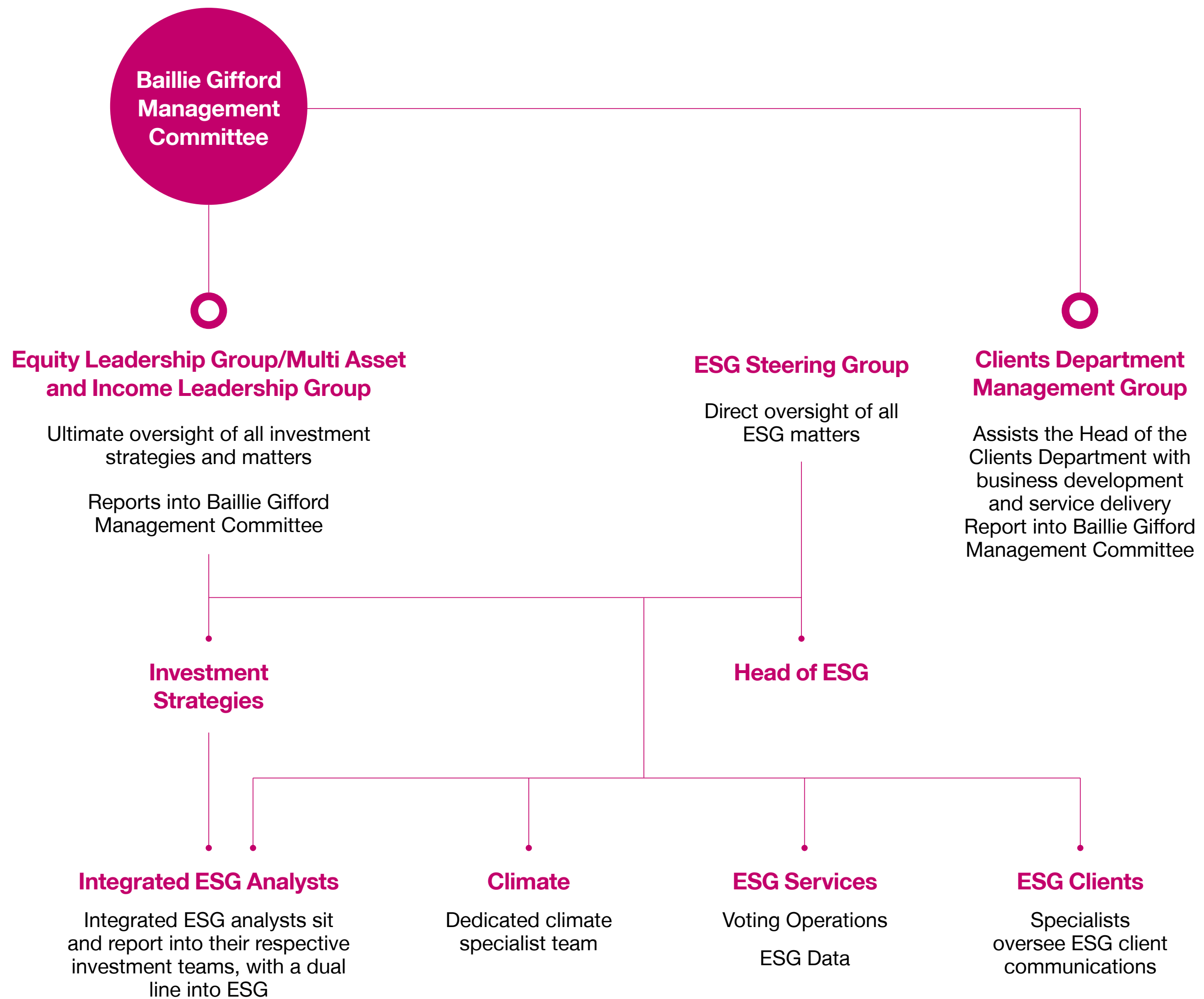
Sustainable business practices

We believe an entity's long-term success is dependent on maintaining its 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. We expect all holdings to consider how their actions impact society, both directly and indirectly, and encourage the development of thoughtful environmental practices and 'net-zero' aligned climate strategies as a matter of priority. Climate change, environmental impact, social inclusion, tax and fair treatment of employees should be addressed at board level, with appropriately stretching policies and targets focused on the relevant material dimensions. Boards and senior management should understand, regularly review and disclose information relevant to such targets publicly, alongside plans for ongoing improvement.

ESG Integration Approach

How do we integrate ESG into our investment process?

Our long-term, active approach to investment is based on identifying and holding high-quality growth businesses that enjoy sustainable competitive advantages in their marketplace. To do this, we look beyond current financial performance, undertaking proprietary research to build up our in-depth knowledge of an individual company and form a view on its long-term prospects. Material ESG issues, matters which affect the financial condition or operating performance of a company, can positively or negatively influence investment returns. Therefore, such issues are routinely considered throughout the investment process through three main pillars – Research, Engagement and Voting. The following chart shows how our ESG resource is structured and its integration within the investment firm.



As at 31 December 2021.

In addition to this formal structure, we have a range of working groups dedicated to specific topics including climate change, governance and human rights. These groups are pan-departmental initiatives (in the case of climate, pan-firm) to further our thinking on specific topics and to share knowledge across our investment and client-facing teams. We also have operational working groups on specific topics such as regulation.

Research

All our investment staff share responsibility for identifying, analysing and monitoring issues and opportunities for both existing and potential holdings. They spend significant time assessing the quality, integrity, motivation and culture of management teams, and then acting upon their convictions. We believe that companies which abuse the environment, treat staff poorly or damage the fabric of society will, within a relevant investment horizon, be regulated out of profitability or deserted by their customers. Therefore, consideration of such factors must form an integral part of any credible long-term investment process. In assessing ESG matters, investment teams are supported by our ESG resource to ensure material ESG issues are integrated into investment decisions.

While the general approach outlined in this document is valid across all our investment strategies, each investment strategy may have a subtly different method to reach the same goal of properly assessing and weighing up ESG matters within its investment process. A subset of our investment products takes ESG integration further through negative screening, positive selection or an impact focus[1]. Several of our funds and strategies are now defined as Article 8 under the European Union Sustainable Finance Disclosure Regulation, meaning that, aside from their primary return objective, they also aim to promote environmental and social characteristics. Such funds and strategies have made binding ESG commitments which apply to any investment made. Further details of these commitments can be found in relevant fund and strategy documentation. We also have a limited firmwide exclusion policy which can be found in appendix 1.

We firmly believe that a qualitative approach to the integration of ESG investment is crucial. Simple negative screens, ESG scores provided by third parties (which often bear little relation to the actual ESG credentials of a company), or rigid policy approaches are unlikely to yield real results in helping to invest responsibly.

The different impacts that ESG matters can have on the different types of asset class we hold is described below.

Listed equities

We focus on undertaking in-house ESG research, as we believe that this is where we can add value – by bringing a nuanced understanding of the performance of the companies we hold from an ESG perspective, and importantly, how they are aiming to develop over time and the measures they have in place to achieve this. Our in-house research also incorporates information, ranging from company-specific data and analysis to proxy advice, supplied by the companies in which we invest and trusted external research and information providers. Utilising multiple sources ensures we have a comprehensive understanding of the companies under review and provides comfort that any inaccuracies will be identified.

Multi asset – real assets

Within our real asset class allocations (commodities, infrastructure and property), longer-term ESG trends and factors can often be clearly identified. For example, environmental considerations may play an important role in the long-term attractiveness of a property investment or infrastructure project. As with other asset classes, our focus is on engaging with companies rather than excluding them. All relevant factors are considered as part of our investment analysis, and the integration of ESG factors allows a better assessment of the risks and opportunities involved. Increased construction and government spending in critical infrastructure assets, such as schools, hospitals and transportation, delivers social benefits and is vital for economic growth. There are also substantial environmental opportunities associated with infrastructure investment, such as renewables and improving power grids to deal with the future of energy.

1. Impact investing, as defined by the Global Impact Investing Network as 'investments made with the intention to generate positive, measurable, social and environmental impact alongside financial return.' https://thegiin.org/assets/Core%20Characteristics_webfile.pdf

Multi asset – external managers

Where we invest in externally managed vehicles as a means of accessing desired asset classes, we employ a thorough due diligence process to select and monitor investments. This includes seeking managerial alignment with our own ESG beliefs and practices. We engage regularly and pro-actively with the management and boards of these vehicles to monitor and progress relevant governance and performance issues.

Fixed income – corporate bonds

Alongside a company's long-term competitive position and capital structure, ESG factors are considered a key component in assessing a bond issuer's fundamental financial resilience. As well as providing warning signs of upcoming issues, ESG factors may also signal that a company is becoming a more attractive investment opportunity. As such, we believe additional ESG analysis adds value in both controlling risk and identifying opportunities for outperformance. The materiality of these factors will vary depending on the company's sector, region and the strength of its financial position.

Strong positive ESG factors may increase our enthusiasm for an investment. Conversely, negative performance may weigh against a potential investment. We might hold a smaller position, demand a higher risk premium, or choose not to invest.

Fixed income – government debt

When we contemplate investing in a country's bonds, we examine key ESG factors to help consider associated risks, the country's broad direction of travel and whether our provision of capital is likely to aid its progression. We believe that if a country is governed effectively, its people are respected and its natural assets are managed responsibly, there is a greater chance it will enjoy sustainable growth and development, as well as be in a better position to repay bond debt.

These factors are integrated into our analytical framework, which rests on three key areas: macroeconomic sustainability, economic management and growth potential. This framework allows us to identify and focus on the risks specific to the potential investment, from political stability in one country to environmental pressure in another, and to monitor these risks on an ongoing basis.

Private companies

Our Private Companies Team invests over 15-year-plus periods. Over that timeframe, we believe the best returns from will come from businesses which address the challenges and meet the needs of society. Given that, we do not believe ESG questions can be helpfully extracted from our core research process. Instead, they are fundamental to the analysis we perform on each investment. Our research framework addresses issues such as the scale of the opportunity, the competitive edge and potential returns. The returns will only be met, however, if topics such as the opportunities and risks created by ESG factors, and how the company's culture helps achieve its long-term business vision, are also addressed.

We do believe ESG considerations play out differently in private markets. For example, as most of the capital is deployed in primary capital investments, this money goes directly to company balance sheets to invest in growth. As private investors, we also often have a different kind of relationship with holdings and so another sort of influence. Our access to investments is often predicated on building strong relationships of trust with these companies.

Engagement

Engaging with and monitoring investments we make on behalf of clients is an integral element of our investment process and core to how we discharge our stewardship responsibilities. All investment managers, investment analysts and ESG analysts are involved in this process. We meet with management and other executive staff, heads of divisions and non-executive board members.

When engaging as a bondholder, we understand our ability to influence differs from that of a shareholder, given the contractual nature of our relationship with issuers. However, we believe corporate issuers of debt do take on board our comments and recommendations and we will also engage with sovereign representatives as appropriate.

We generally engage with companies on an individual basis. Subject to analysis around concert party regulatory rules, we will on occasion participate in collective engagement on critical issues which could have a material impact the value of our holding. It can be an important part of our engagement escalation and may be necessary in some instances to achieve our engagement objectives. When appropriate, we will undertake collaborative engagement through a range of industry organisations and associations, such as the UK Investor Forum. Full details of the industry organisations that we support are available in our *Investment Stewardship Activities* report.

Objectives of engagement

As patient, active owners, we aim to engage with the companies in which we invest on behalf of our clients, encouraging a long-term focus and meaningful change when needed. We prefer engagement to divestment, which is typically the tool of last resort. We have four primary reasons for engaging with a company: to fact find, to assess progress, to support the management team and to influence. It is important to note that influence is only one of these four aims. We firmly believe in taking time to understand companies and making our own, long-term agenda known to management. This is an important foundation for our work as responsible holders and over time makes it easier to advocate for changes, as both sides have a better understanding of and appreciation for what the other party is trying to achieve.

The importance of this patient approach cannot be overstated; it is integral to building relationships with companies, to understanding the less tangible aspects of an entity (such as corporate culture), to facilitating a two-way dialogue and, as noted, to influencing change. We believe that ongoing dialogue between investors and companies on strategic issues can protect and enhance our clients' long-term returns. However, we are equally mindful of not attempting to 'micromanage' our holdings in areas where we have no special expertise or insight, or distracting managements from their core role of running the business for the long term.

We expect our dialogue with companies to be constructive. All conversations with a company should have a purpose. The focus of a meeting could be broad, covering multiple matters of interest, or very specific, but it should always be connected to the investment case and have a focus on matters of strategic importance.

If, after a protracted period, we have been unable to exert any influence over a company on a material issue, our investment managers may consider reducing or selling our holdings.

Identifying engagement priorities

The topics we prioritise for engagement will vary by individual issuer, by investment strategy, and will be informed by our proprietary investment research. Often, the larger a position we hold, the greater our ability to engage. However, we endeavour to engage on key issues with all relevant issuers regardless of market capitalisation or holding size.

For example, where we have taken a new holding in a company, our initial aims for engagement will typically focus on fact finding and building a dialogue with management teams. We will move to influence change only where we think we can add long-term value and/or we have a good understanding of a significant issue that has arisen. We do not seek to react to one-off events, but, where there are material developments at a company, we will carefully consider how they may affect our investment over the long term.

Where our investment strategies have made net zero emissions commitments and particular companies are seen to be lagging, they will be a priority for engagement. Similarly, where issues relating to social or governance matters arise that we deem material, and it is clear there is a need for improvement, we would aim to engage as appropriate.

Voting

Thoughtful voting of our clients' listed equity holdings is a critical part of our commitment to stewardship and is closely interwoven with our broader investment and engagement aims. We believe that voting should be investment led: how we vote is an important part of the long-term investment process and can, at times, have a decisive impact on the company share price.

Our strong preference is, therefore, to take on this direct responsibility for our clients. The ability to vote our clients' shares strengthens our position when engaging with investee companies; we can far more effectively engage for change if we have the voting power to back up our conversations with companies. Our ESG Services team oversees our voting analysis and execution in conjunction with our investment managers. Unlike many of our peers, we do not outsource the responsibility for voting to third-party suppliers. We utilise research from proxy advisers for information only. We exercise our own judgement based on our knowledge of the investment case.

Baillie Gifford analyses all meetings in-house and we endeavour to vote every one of our clients' holdings in all markets. However, on occasion this may not be possible due to a practice known as share blocking, where voting these shares would prevent us from trading for a certain period. Additionally, we are not able to vote clients shares if their stock is on loan, a common industry practice which we discourage because of the potential impact on our voting rights. If we deem a meeting to be significant or contentious, we may consider requesting that clients recall any stock on loan so we can vote. We vote almost all our clients' shares by proxy. However, in exceptional circumstances, we will attend company general meetings where: we have large holdings, there is a contentious issue, or attendance in person rather than voting by proxy is in our clients' best interests.

We review the merits of proposals on a case-by-case basis in line with the principles and guidelines set out in this document rather than following restrictive checklists. Checklists often by necessity revert to focusing on inputs rather than outcomes. For example, it is easier to draw up a rule dictating how many other company boards a director can be on than to try to determine whether their performance as an independent director is effective. A formulaic approach to governance can often lead to recommendations that just don't make sense to us in an investment context – attempting to vote a successful founder CEO off the board because they are also the board chair, for example.

Aligned with this approach, Baillie Gifford retains voting rights for all pooled vehicles which we manage. We recognise increasing calls among some pooled clients to provide asset managers with an expression of wish for votes undertaken on the assets within the funds in which they invest. However, we feel that it is very much part of our overall responsibility as the manager of the funds and are also conscious that facilitating these requests present a number of logistical challenges. We do, however, welcome the opportunity to discuss any specific requests on a case-by-case basis.

We recognise that some votes can be more significant than others and that not every vote against is necessarily significant. Whether a vote is deemed significant is determined by market opinion, media scrutiny or an internal view.

The list below is not exhaustive, but exemplifies potentially significant voting situations:

— Baillie Gifford's holding had a material impact on the outcome of the meeting
— Management resolutions that receive 20 per cent or more opposition and Baillie Gifford opposed
— Egregious remuneration
— Controversial equity issuance
— Shareholder resolutions that Baillie Gifford supported and received 20 per cent or more support from shareholders
— Where there has been a significant audit failing
— Mergers and acquisitions
— Where we have opposed the financial statements/annual report
— Where we have opposed the election of directors and executives

Stewardship reporting

We recognise the importance of transparency with regards to our stewardship activities. We maintain records of our engagement and voting activity in our in-house systems. This enables us to monitor the effectiveness of our engagements and set priorities for future engagements. Each quarter, our clients receive detailed voting and engagement information in their quarterly reports. We also regularly fulfil client specific requests for more detailed information on our stewardship activities and will accommodate these wherever possible.

Additionally, we publicly disclose on our website all our voting decisions and which companies we have engaged with on a quarterly basis. Each year, we publish an *Investment Stewardship Activities* report detailing our compliance with the five stewardship codes we are signatory to across the globe. The report features case studies of our most substantive engagement and voting activity allowing further insight into our approach.

For more information on how we implement our stewardship policy, please visit the ESG section of our website here: **https://www.bailliegifford.com/en/uk/about-us/esg/**

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Our Voting and Engagement Guidelines

We believe that 'active ownership' of our clients' holdings is as important as selecting the right investments in the first instance. These guidelines are aligned with our stewardship principles and describe our approach to proxy voting and company engagement, the key levers of active ownership, often described as 'stewardship'.

While these guidelines are intended to provide an insight into how we approach voting on our clients' behalf, it is important to note that we assess every company individually. In voting, we will always evaluate proposals on a case-by-case basis, based on what we believe to be in the best long-term interests of our clients, rather than rigidly applying a policy.

All members of our investment staff are involved in our ongoing work on stewardship. In the same way that our investment approach is based around empowered and independent teams, our voting and engagement is led by the individual investment teams. In keeping with our decentralised and autonomous culture, our investment teams will, on occasion, elect to vote differently on the same general meeting resolutions. Where this happens, we report accordingly in the proxy voting disclosure on our website. We also have clear processes in place to identify, prevent and manage potential proxy voting related conflicts of interest. Baillie Gifford's firm-wide conflict of interest disclosure is available on our website.

Prior to taking any voting action, we usually address specific ESG concerns by engaging directly with the company, using voting as an escalation mechanism if we have not seen sufficient progress.

Prioritisation of long-term value creation

Equity issuances

We consider companies' requests to raise additional capital with or without pre-emptive rights on a case-by-case basis, taking account of their specific circumstances and local market practice. We view excessive equity issuances as potentially destructive to creating long-term value. We believe that pre-emptive rights are important to protect shareholders from being detrimentally diluted, although we recognise that in some instances it is appropriate for companies to have the flexibility to issue shares without first offering them to existing shareholders on a pre-emptive basis. We also typically prefer that shareholders are given the opportunity to vote on large amounts of capital issuance. In both instances, the onus is on the board to clearly demonstrate that the request is necessary and proportionate.

Share repurchases

Share repurchases, when executed in a thoughtful and appropriate manner, can play an important role in creating long-term value. Boards should be clear about how the share repurchase authority will be used. We typically approve share repurchases of up to 10 per cent of authorised capital, dependent upon the share price at which shares will be repurchased and local market practice. Above this limit, we evaluate requests on a case-by-case basis considering the views of our investment teams.

Allocation of income and dividends

We expect companies to allocate capital as effectively and efficiently as possible in pursuit of long-term returns, and where this includes payment of dividends we normally expect to vote in favour. However, many profitable companies (especially in Japan) continue to propose unusually low dividend payments without an adequate explanation, deciding to retain cash on their balance sheets. In such instances, we typically oppose the proposed dividend.

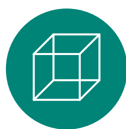
Additionally, if we have significant and ongoing concerns over a company's capital allocation policy, we endeavour to engage with management to encourage them to improve their practices and, if this proves ineffective, will take appropriate voting action.

Mergers, acquisitions and disposals

Corporate restructuring such as mergers, acquisitions and disposals can clearly have a very significant impact on shareholder value. When done well, successful mergers or acquisitions can accelerate a company's growth and increase its market share. However, when used inappropriately, they can be destructive to long-term value creation. It can be difficult to successfully integrate acquired companies, particularly if they have distinctive company cultures. Therefore, we carefully consider all such proposals on a case-by-case basis.

Political donations

We generally oppose all resolutions that seek approval for intentional political contributions, and we will usually support shareholder resolutions which oblige companies to report to shareholders on their political contributions.



A Constructive and purposeful board

Board effectiveness

Effective company boards should perform some key functions. First and foremost, they should provide oversight to executive management teams, regularly reviewing performance against a defined strategy, recognising and supporting success but taking firm action if changes of direction or leadership are required. Specifically, we expect boards to perform the following functions:

— Undertake effective succession planning for key roles, giving consideration to the diversity of current and future board members

— Put in place an appropriate and effective remuneration plan to attract, retain, motivate and direct key executives

— Establish the necessary risk management framework and controls on corporate activity

— Review and, where necessary, challenge key capital allocation decisions, ensuring that management teams are taking a long-term approach to business planning

— Appoint, monitor and set the remuneration for a suitably qualified and independent financial auditor

— Undertake a formal and transparent process for nominations and appointments to the board, the details of which should be fully disclosed in the annual report

— Regularly evaluate the effectiveness of their own work, taking appropriate measures to address any priority issues

— Ensure that management are working within the legal and regulatory norms of their countries of operation and that stakeholders of the business are treated fairly

— Ensure the material social and environmental impacts of the business are considered and improvements made, where necessary, to support the sustainable growth of the business

If a board of directors is persistently failing to exercise one or more of these key responsibilities, we aim to engage with the company in the first instance and then consider taking additional voting action if appropriate. Such voting action may include voting against the election of the chair or members of relevant board committees. This may be escalated to the board chair if we feel the overall effectiveness of the board is in question, or if our previous action has not materialised in any progress.

We also believe that independent directors should be periodically available to engage with shareholders.

Board composition

When considering board composition, we generally prefer to see the following features:

— A majority of independent non-executive directors on the main board

— Audit and remuneration committees composed of three or more independent non-executive directors

— The appointment of a senior or lead independent director

— An effective mix of qualifications, experience and diversity

— Directors with sufficient time to focus on their responsibilities, given their other commitments and directorships

Companies should be able to demonstrate an appropriate level of commitment and independence on the board. Where we consider that a director has too many other appointments to be able to dedicate sufficient time to the board, or demonstrates persistently poor attendance without reasonable explanation, we will take voting action against that director.

We expect boards to take the diversity of directors seriously. They should comply with relevant industry recommendations on both gender and ethnic diversity, such as the Hampton-Alexander Review and Parker Review in the UK or have at least set out a clear roadmap of to how they intend to achieve this. If the board composition or that of its subcommittees is very different from these expectations, we aim to engage with the company in the first instance. We may also consider taking additional voting action against appropriate directors, such as the chair of the Nomination Committee, if we do not believe sufficient progress has been made.

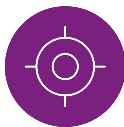
The roles of board chair, chief executive and senior (or lead) independent director

We generally support separating the roles of board chair and chief executive. If the roles are combined, there should ideally be a majority of independent directors on the board. The board should also appoint a senior or lead independent director with clearly defined responsibilities separate from that of the board chair to mitigate the risks associated with combining the positions. This should include the senior independent director having the right to periodically convene a meeting of the independent directors with the full support of the company. Additional actions to strengthen corporate governance should be considered where appropriate, such as enhanced authorisation, audit and disclosure requirements.

We also typically prefer that companies do not appoint a retiring CEO as board chair, however we recognise that in exceptional cases this may be in shareholders' best interests. In these circumstances, the board should explain why it is appropriate and we will consider the justification on a case-by-case basis.

Director tenure

We believe that companies should be mindful of the value of periodically refreshing the membership of the board of directors. While we recognise the value that long-serving directors can bring in terms of continuity and experience, we will no longer consider them independent if their tenure exceeds nine years of service. This is in-keeping with the UK Corporate Governance Code. Where a director is deemed not be independent, we will consider the impact this has on the wider composition of the board and associated committees. If we deem the overall independence is insufficient, we will take voting action against said director. The board should have in place an effective succession plan to mitigate any impact long-tenured directors may have on board composition.



Long-term focused remuneration with stretching targets

Effective remuneration policies help to recruit, retain and motivate the best available talent. They also incentivise management to focus on the right long-term priorities for the business. We encourage our investee companies to develop robust and transparent pay practices. These should demonstrate clear alignment with long-term shareholders, reward outstanding performance and mitigate against excessive risk taking or unintended consequences arising from a narrow focus on inappropriate targets. In addition to this, companies should take due account of increasing public scrutiny of executive pay practices. They should be cognisant of the reputational and regulatory risks of excessive or inequitable pay practices. We believe that substantive changes to executive remuneration policies should be submitted to a shareholder vote. We also welcome the opportunity to engage with our investee companies on material remuneration matters.

To achieve the right overall balance, we expect the Remuneration Committee to take full responsibility for this process, taking independent advice as necessary. They should retain discretion to make upward or downward revisions in exceptional circumstances, particularly where such action is clearly aligned with long-term shareholder interests. For us to effectively assess a company's executive remuneration, it is essential that we receive timely disclosure. Therefore, early in their deliberations, we look to receive clear and concise information about the design of the scheme, the underlying targets that are used to assess performance awards, and the total quantum of reward that is possible.

We review each policy on a case-by-case basis and are prepared to support innovative structures which do not necessarily fit within conventional practices, but which are appropriate for a company's individual circumstances. When reviewing remuneration proposals, we generally favour the following:

— We prefer that a substantial proportion of total reward potential for senior executives is made up of variable performance-based pay that it is subject to deferral and clawback provisions

— Performance for long-term incentives should be measured over a minimum three year period, paid in equity, and subject to a post-vesting holding period. However, we acknowledge that for some businesses restricted stock plans may be more suitable. We expect the board to clearly justify why this structure is suitable and assess the appropriateness of such proposals on an individual basis

— Performance metrics attached to variable pay should be relevant to the strategy of the company, robust, measurable, and utilise appropriately stretching targets

— We typically favour the use of a maximum cap on variable incentive schemes to limit the total compensation available at an appropriate level

— We expect a requirement for senior executives to build up an appropriate level of shareholding within a reasonable time

— We expect pension arrangements for executives to be aligned with the wider workforce

— While we recognise that circumstances can change, we prefer investee companies' pay policies to be consistent long-term structures and are therefore not usually supportive of regular changes or subsequent amends

We also encourage companies to disclose details of employee pay practices and why these are appropriate for the business, including whether employees are offered the real living wage as a minimum, whether an employee equity ownership plan is in place, ratio of pay related to executives and levels of company contributions to employee pensions.

Typically, we would not support the following pay practices:

— Repricing of equity awards

— Retesting of performance conditions

— Vesting of incentive awards for below median performance

— Incentive-based awards for non-executive directors

— Severance agreements which (i) are excessive relative to market practice and/or (ii) allow accelerated vesting of variable pay awards without pro-rating for time and performance

When a company's remuneration policy or report is significantly below expectations, we will consider taking voting action against any relevant pay proposals on the ballot and against the chair of the Remuneration Committee. Where appropriate, we will also consider taking action against the chair of the board and other independent directors.

Fair treatment of stakeholders

Annual general meetings

All listed companies should aim to ensure that an annual shareholder meeting takes place where substantive matters are submitted for shareholder approval. Every shareholder should be actively solicited for their voting instructions. The paperwork, particularly the annual report signed off by the appointed auditor, should be available to investors well in advance of the meeting. This enables due consideration by investors of any matters ahead of any relevant regulatory and market proxy voting deadlines. In the limited number of markets where the above features are not common practice, we engage with issuers and relevant third parties to encourage change and consider taking voting action where appropriate and possible. Such action may include voting against the board chair or the annual report and accounts.

Director elections

As a general principle, we believe that all directors should be subject to annual, individually proposed, majority voting, standard elections. Currently, there are several alternatives:

— ‘plurality voting’ enables uncontested board nominees to be elected with a single affirmative vote, even if all other votes are withheld

— ‘cumulative voting’ allows shareholders to direct all or any of their votes to single or multiple directors

— ‘bundled’ director elections are when several or all directors are proposed as a single resolution, without the ability to support or oppose individual directors

— ‘classified’ boards is the term for when only a subset of directors is put up for election each year

We believe that each of these alternatives can potentially undermine individual director accountability, although we recognise that there may on occasion be company specific circumstances that support such voting arrangements.

We are supportive of management and shareholder resolutions calling for alternative director voting procedures to be replaced by a simple majority voting standard on an annual basis. When asked to vote in cumulative elections, we typically allocate our votes equally across independent directors on the ballot, unless we have specific concerns about their effectiveness or a desire to see a particular director on the board.

Auditors

The appointment of auditors should ideally be submitted to an annual shareholder vote. We will consider voting against the auditors' appointment if we have concerns about their independence, level of non-audit fees, audit quality, where a company changes its auditor without providing an adequate explanation to shareholders, or where auditors are not adequately accounting for climate risk in their evaluation of the annual accounts.

We believe it is good practice to rotate the lead audit partner at least every five years and to limit continuous audit firm tenure to no more than twenty years, in line with current guidelines across several markets. We will consider voting against the auditors' appointment if this tenure is exceeded without reasonable explanation.

Non-audit fees paid to the audit firm should not typically exceed audit fees, except for a limited period (and not for more than two consecutive years) where there are exceptional circumstances which support that position. In this case, the company should provide additional disclosure on the nature of the non-audit work undertaken by the audit firm.

We believe that auditors have an increasingly important role to play in evaluating climate risk within the context of the annual accounts. As international disclosure standards continue to develop, auditors should be called upon to analyse and evaluate the materiality, control processes, metrics and comparability demanded by these disclosures. Additionally, for world-leading or heavy-emitting companies, auditors should be empowered to draw attention between obvious gaps in net zero alignment plans and the annual accounts. Where auditors are lagging, we will consider voting against their appointment or the annual accounts.

Statutory auditors play an important role in defining audit policy in the Japanese market, supervising the external audit of a company's financial statements and advising the board. Given their responsibilities we prefer outside nominees. We assess internal candidates on a case-by-case basis, considering the materiality of their relationship with the company and the presence of other external statutory auditors.

Proxy access

Proxy access is the ability for a shareholder or group of shareholders to nominate candidates to the board. We are supportive of proxy access in principle, believing that long-term shareholders should have the ability to place director nominees on the proxy ballot. While we are likely to support proposals based on the terms outlined above, we review each resolution individually. We also welcome the opportunity to engage with investee companies to help structure an appropriate policy: one which enhances board accountability and responsiveness to shareholders but also limits potential abuse by shareholders without a meaningful long-term interest in the company. Where a shareholder proposal is proposed on proxy access, we will assess the merits of this proposal against a company's existing practice.

'Poison pill' anti-takeover devices

We generally oppose proposals for new anti-takeover devices, particularly when introduced post-Initial Public Offering. We also usually support shareholder proposals that request a company to submit a shareholder rights plan to a shareholder vote or to revoke a poison pill.

We evaluate proposals to modify or remove existing shareholder rights plans or poison pills on a case-by-case basis. While many anti-takeover devices have the potential to entrench management and damage shareholder value, there may be certain growth-oriented companies and sectors where an element of protection from short-term market priorities can support long-term shareholder value creation.

Articles of association

We review amendments to a company's articles of association within the context of the company's business strategy and shareholders' best interests. Accordingly, we usually oppose any proposed changes that have the potential to erode shareholders' rights.

Shareholder resolutions

Shareholder resolutions are a mechanism permitted in some markets, which enable shareholders to table proposals at company meetings relating to any aspect of a company's business. These proposals often request that companies improve their approach to environmental and social issues. Shareholder proposals can be a useful mechanism to hold companies accountable on their wider impact on stakeholders.

We review each resolution on a case-by-case basis and will support those resolutions that address key ESG concerns or encourage progress on material ESG issues where we feel improvement is required. We do not however expect these proposals to be repetitive, prescriptive or to seek to micromanage companies. Prior to voting, we consider the company's current approach to the issue, its response to the resolution, and whether the resolution is workable and in the best interests of all stakeholders. Shareholder resolutions often relate to environmental and social issues, these matters are further explored in the following 'Sustainable business practices' section.

Bundled resolutions

In some markets it is still common for companies to 'bundle' together proposals, such as the election of directors, or amendments to articles of association. This practice reduces shareholder discretion by preventing voting on separate issues. For example, if shareholders have concerns about one specific director, the only option may be to vote in favour or against the entire board, which may be counterproductive. Nonetheless, we vote against bundled resolutions where we have concerns and it is in shareholders' best interests for us to do so. We communicate our views to the company and encourage them to isolate all relevant matters as separate resolutions in the future.

Related party transactions

As a general principle, we believe that large shareholders should recuse themselves from voting if they are involved in related party transactions. Most markets have specific disclosure rules on related party transactions and require approval from minority shareholders. We consider such transactions carefully to determine if they are appropriate and in our clients' best interests.

Multi-class share structures

The use of dual and multi-class share structures is common in a number of regions where listing rules allow. While the one-share, one-vote principle clearly aligns voting rights and economic rights for all holders, we appreciate that multiple share structures with different voting rights can enhance long-termism and protect the strategy and culture of some organisations. Accordingly, we assess all proposals to introduce additional share classes or amend existing voting rights on a case-by-case basis.

Disclosure

Levels of disclosure vary significantly between sectors and countries. We believe that all material issues should be set out succinctly in an annual report. Plus, the approach to ESG matters should be reported in the context of the whole range of risks and opportunities faced by the company.

When disclosure on key financial ESG information is significantly below expectations and impedes us exercising our stewardship responsibilities for our clients, we endeavour to engage with the company in the first instance and thereafter consider taking appropriate voting action, where necessary. Such action may include voting against the board chair or the annual report and accounts. Our expectations of disclosure are further explored in the following 'Sustainable business practices' section.

63%
160
140
120
100
80
60
40
20
0
FEB
MAR
APR
MAY
JUN
JUL
AUG

Sustainable business practices

We believe that a company cannot be financially sustainable in the long run if its approach to business is fundamentally out of kilter with changing societal expectations. We consider each of the following sustainability risks and opportunities in the context of our overall focus on long-term investment performance.

As a minimum, we expect all holdings to operate in accordance with the principles and standards set out in the United Nations Global Compact (UNGC). If a company fails to meet the UNGC Principles, making it a material risk to the long-term performance of their business, we will engage with management in the first instance, before considering appropriate voting action. We have a number of funds which make a binding commitment to not invest in companies which are non-compliant with the UNGC, further details of how this is applied can be found in appendix 1.

We expect that all our holdings operate their businesses in a way that takes account of all relevant legal and regulatory guidelines and which is supportive of good stakeholder relations. Relevant areas of practice include responsible marketing, governance of data privacy and security, responsible taxation approaches and how the company manages product and service issues, such as product quality and integrity, complaint handling, safety recalls and compensation. Where we have concerns with a company's practice in any of these areas, we will engage with the company to seek improvements, support any relevant shareholder proposals and consider voting against members of the board to ensure accountability for continued progress. Should our concerns be material and continue to persist, we will consider selling the shareholding.

Diversity and inclusion

We believe that employee diversity is an important issue for all businesses, and we expect our holdings to take steps to understand and, where necessary, improve any aspect of employee diversity. Companies should disclose their policy on diversity and inclusion with details of initiatives to improve the diversity of the workforce where required. The diversity of employees throughout an organisation is important to ensure a diverse pipeline of talent for future senior roles and improve equality generally within society.

Reporting on the diversity of the workforce should also be provided and include details on gender, ethnicity, culture and nationality. In markets where it is required, gender pay gap reporting should be clear and unambiguous with clear actions to solve any pay gap that exists.

We further expect businesses to carefully monitor and manage the culture within their organisation to ensure that all employees are treated equally and with respect in the workplace. There should be suitable policies and processes in place to ensure that inappropriate behaviour and/or discrimination is identified and addressed accordingly.

Combating bribery and corruption

We expect all our holdings to work against corruption in all its forms, including extortion and bribery. For companies in the extractive industries, such as oil, gas and minerals, we support active participation in the Extractive Industries Transparency Initiative. We expect to see apt conduct and compliance programmes reinforced by leadership, policies and training, and appropriate reporting procedures such as confidential 'whistleblower' hotlines. We would also not ordinarily expect our holdings to make political donations or contributions to 'politically exposed' charitable organisations.

Human rights and labour rights

We expect all our holdings to respect internationally accepted human rights and labour rights throughout their business operations and value chain in line with the United Nations Guiding Principles for Business and Human Rights. As a minimum, this should include the maintenance of health, safety and wellbeing management systems, particularly in high-risk sectors; the management of exposure to labour and human rights risks throughout their value chain, especially human/modern slavery; and encouraging positive relationships with local communities.

Climate change and other environmental impacts and risks

As long-term investors, a key role is to support the new technologies, business models and societal changes that will help address the global challenge of climate change. If we do this effectively then the results for our clients will look after themselves. Nonetheless, we must be cognisant of the risks associated with both the physical impacts of climate change itself, as well as the myriad of technological, policy and market changes that accompany the transition to net zero emissions globally.

Our view at this stage is that ‘transitional’ risks and opportunities are more material to overall investment performance over the short to medium term. We anticipate physical risks to become more severe over the medium to long term. We believe that without sufficient investment in the solutions to climate change, all actors in the financial system and wider economy will be affected negatively, including ordinary savers and pension holders.

In general, we see transition-related risks and opportunities as being particularly acute for companies or assets within the energy, transport, agriculture and construction/property sectors. These sectors generally have some of the highest emissions (either directly or indirectly) and are the most susceptible to policy, technology and market changes associated with the drive to reduce them. Our exposure to these sectors tends to be relatively low versus the average, apart from transport.

Our risk management approach is focused on stock-level research and analysis within individual investment strategies, with the assistance of dedicated ESG and risk specialists working across the firm. Key considerations include the carbon intensity of the company or asset, the climate impact of its core products and services, and its relationships with its own stakeholders, including customers, regulators and non-governmental organisations. We have access to data from independent providers to help add further detail to our understanding of each holding, and place great value in seeking the perspectives and insights of external experts and researchers to help inform our approach.

We use this information primarily as an aid to engage with companies to ascertain how they are mitigating risks and maximising opportunities, and to help inform stock discussions and investment decision-making.

We expect companies we hold to provide basic climate disclosures (scope 1 and 2 emissions, material scope 3 emissions[2]) by 2023 and will make this expectation clear in the feedback and engagement we provide in 2022. For world-leading companies and those with a high climate impact, disclosure requirements will be held to a higher standard. We acknowledge that this is a bigger ask for different countries and companies, dependent on size, location, and other factors.

By 2025, world-leading and high climate impact companies should have clear net zero aligned climate goals. These should meet or exceed the ambitions of the Paris Agreement, including scope 1, 2, and 3 emissions and mid-term milestones, with consistent strategy and narrative. We will make use of the Science Based Targets initiative and credible alternatives to evaluate net zero alignment plans.

2. Scope 1 means emissions from sources owned or controlled by a company, whereas scope 2 means indirect emissions from purchased energy. Scope 3 means indirect emissions in a company’s value chain.

If we feel that companies are not making enough progress in mitigating climate risks, then we retain the option of exercising our concerns by engaging with the company to communicate our expectations, taking voting action on resolutions such as annual reporting and accounts, election of the chairman, election of the auditors, and ultimately divesting our holdings.

Further details of our approach to climate change can be found in our Task Force on Climate-related Financial Disclosures (TCFD) report, available on our website.

Nature and biodiversity

Biodiversity loss is a significant risk. Related risks may include increased raw material or resource costs, regulation and taxation, resource availability and/or supply chain disruption.

The protection of biodiversity should be a priority for all businesses and companies should take steps to limit the destruction of the natural environment as far as possible. We are working towards developing an approach in relation to our material exposures, considering how best to assess and integrate the consideration of biodiversity risks and opportunities into our investment and engagement process. Many business activities (particularly those associated with resource extraction and cultivation) contribute to drivers of biodiversity loss, while others are highly dependent on biodiversity. Key sectors we are planning to target under our biodiversity approach include:

- Agricultural products
- Apparel, accessories and luxury goods
- Brewers
- Distribution
- Electric utilities
- Home furnishing
- Independent power producers and energy traders
- Mining
- Oil and gas exploration and production
- Oil and gas storage and transportation
- Tyre manufacturers

Learning from industry initiatives like FAIRR, which we joined in 2020, is aiding this process. The FAIRR Initiative is a collaborative investor network that raises awareness of the ESG risks and opportunities brought about by intensive animal agriculture. We have also joined the stakeholder forum of the Task Force on Nature-related Financial Disclosures (TNFD) and look forward to active engagement as the TNFD is developed.

Appendix 1: Exclusion Policy

This policy sets out Baillie Gifford's approach to key exclusions. Some of our strategies and funds may apply further screens. Details of these can be found in the relevant fund and strategy documentation.

Controversial weapons

Baillie Gifford prohibits investment in controversial weapons such as landmines, cluster munitions, nuclear weapons where such weapons are in breach of the Treaty on the Non-Proliferation of Nuclear Weapons, chemical weapons, white phosphorus and depleted uranium ('controversial weapons'). Baillie Gifford is not permitted to invest in companies that produce controversial weapons or in companies providing products or services that are integral to, and tailor-made for, the dissemination or use of controversial weapons.

Baillie Gifford uses screens across all products and investments to ensure compliance with this policy, using data from Sustainalytics, MSCI and Pax Christi to identify and exclude companies involved in controversial weapons. In addition, where Baillie Gifford considers an investment in a company connected to nuclear weapons it shall make its own assessment of whether that company's activities comply with the Treaty on the Non-Proliferation of Nuclear Weapons.

Cannabis

As cannabis products are increasingly legalised around the world, there are an increasing number of investable opportunities in the sector. There are challenges for UK investors to receive benefit 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 some companies operating in the cannabis sector due to the potential illegality of benefits derived in the UK.

UN Global Compact

We have several funds which have made a binding commitment to not invest in companies which are non-compliant with the UNGC 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. If a holding is identified as having breached the principles based on our judgement, supported by our own internal research alongside data feeds from third-party sources, a formal engagement and monitoring process will be implemented. 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.

UN Guiding Principles on Business and Human Rights

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 its forms, including extortion and bribery.

Appendix 2: Sustainable Finance Disclosure Regulation (SFDR)

For products sold in Europe, SFDR requires asset managers to disclose how they integrate and measure ESG risks into the investment process. Under the regulation on sustainability-related disclosures in the SFDR, investment products need to be classified as Article 6 (mainstream products which do or do not integrate ESG criteria), Article 8 (products that promote environmental or social characteristics) or Article 9 (products that have sustainable investments as its objective).

Baillie Gifford has taken a rigorous and thoughtful approach to the classification of its funds under SFDR and has a range of funds classified as Article 6, Article 8 and Article 9. For more details, please see the fund selector on the Baillie Gifford website and relevant fund documentation.

For the purposes of SFDR, this section outlines Baillie Gifford's approach in classifying whether an investment can be classified as 'sustainable' under Article 2 (17) of SFDR.

Defining sustainable investments within Baillie Gifford

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 firm-wide definition, it is important that the above definition is broken down into various elements, each of which are outlined in turn below:

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

This definition is relevant for both our Article 9 products and those Article 8 products which commit to invest a proportion of assets in sustainable investments. The proportion of sustainable investments, including the level of taxonomy alignment, will be disclosed annually in periodic reports.

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

We define this as one, or a combination of the following:

— Activities aligned with the broader sustainable objectives of society as currently best defined by the UN Sustainable Development Goals;

— Activities aligned with the EU Taxonomy or other regional taxonomies as appropriate; and/or,

— Activities which contribute to reducing absolute greenhouse-gas emissions in view of achieving the long-term global warming objectives of the Paris Agreement.

Do not significantly harm any of those objectives

Demonstrated as follows:

Alignment with responsible business codes and internationally recognised standards including UNGC and related standards, including the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights; and

Principal adverse impacts on sustainability factors are taken into account:

(a) Defined scope of revenue-based exclusions associated with activities that can materially cause principal adverse impacts applied at issuer level;

(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 and;

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

Investee companies follow good governance practices

Alignment with the expectations of corporate governance as set out in these Baillie Gifford ESG Principles and Guidelines, taking account of various case-by-case considerations including, but not limited to, business age, size, business model, market(s) of operation etc.

In assessing investee companies against this definition, both third-party and internal research will be utilised. Companies will be periodically monitored to ensure ongoing compliance.

While ‘sustainable investments’ are defined within SFDR, the definition is very broad and as such financial market participants may interpret it differently. Clients should exercise caution when comparing level of sustainable investments between investment products.

Appendix 3: Divestment Approach – Baillie Gifford Pooled Funds

Baillie Gifford's genuinely long-term investment approach means that ESG considerations are integrated throughout the investment process. This policy sets out our approach to divestment 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, and Canadian Pooled Funds (each a 'Baillie Gifford Pooled Fund' and together the 'Baillie Gifford Pooled Funds'), which apply certain sector-based exclusions and norms-based evaluations as part of the investment process, at the time of purchasing an investment. This policy applies to the Baillie Gifford Pooled Funds only and does not relate to any segregated mandates.

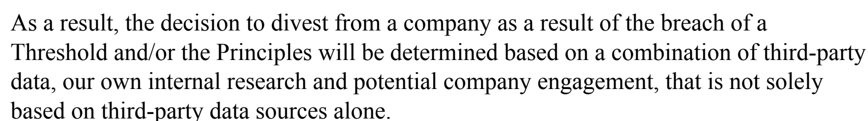
Should there be any conflict with the rules of a particular jurisdiction in which a Baillie Gifford Pooled Fund is established and this policy, the rules of that particular jurisdiction shall prevail.

As long-term, bottom-up, active investors, it is our view that divestment should be the last resort, following significant engagement efforts. However, it is important that we adhere to the sector-based exclusions and norms-based evaluations we have set for our portfolios via the various governing documents (eg prospectuses, offering memorandums, etc) of the Baillie Gifford Pooled Funds. To make certain that we are operating to the highest standards – ensuring that we comply with these exclusions and evaluations while remaining responsible stewards of our clients' capital – there are a number of guidelines to which we adhere to in order to ensure compliance and which detail the actions we shall take in the event that 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

On a quarterly basis, we will monitor the third-party data sources we have subscribed to (eg Sustainalytics, MSCI) for (i) any flags against our various sector-based exclusions, which are limits on companies which derive percentage levels of revenue from certain activities as detailed in the relevant Baillie Gifford Pooled Fund governing documents (the 'Threshold') and (ii) compliance with the UNGC Principles and related standards including the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (the 'Principles').

In our view, caution is required when using such third-party data sources in isolation. As a result, if a potential issue were flagged by a third-party data source, we would then conduct our own analysis to ensure that we have a detailed understanding of both the company's current position as well as the direction of travel. We may also seek to engage with the company in question to provide further clarification.



As a result, the decision to divest from a company as a result of the breach of a Threshold and/or the Principles will be determined based on a combination of third-party data, our own internal research and potential company engagement, that is not solely based on third-party data sources alone.

Threshold breaches

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

If, using our own internal research as described above, we conclude that there is a breach of the Threshold, and this breach is expected to be sustained, we will divest from the company:

- At the first opportunity where it is possible to do so without material financial detriment to investors and taking due account of the interests of such investors
- At the maximum within one month from the date upon which the Threshold was identified as being breached based on our own internal research

Principles breaches

Funds that apply norms-based evaluation will not invest in securities (equities and/or corporate bonds) which, in the investment manager's judgment, have severe breaches of the Principles and are not demonstrating positive perspective (ie not showing clear time-bound intent and evidence to improve behaviour against any such breach). If a holding is identified as having breached the Principles based on our judgement, supported by our own internal research alongside data feeds from third-party sources, a formal engagement and monitoring process will be implemented. 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 investors and taking due account of the interests of such investors
- At the maximum within one month from the date upon which the formal engagement process has deemed to have failed based on our own internal research

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