



BAILLIE GIFFORD'S COMPLIANCE WITH JAPAN'S STEWARDSHIP CODE

2019



This document describes our approach to stewardship, referenced against the seven Principles for Responsible Institutional Investors Code which was first adopted by the Financial Services Agency of Japan in April 2014 and updated in May 2017. Stewardship is about protecting and managing our clients' investments by actively monitoring investee companies, which includes engaging with company management on strategy, performance, remuneration governance, corporate culture, capital allocation and risk management. We endeavour to apply our approach to stewardship to all companies that we invest in on behalf of our clients, including international equities and other relevant asset classes. Our approach is integral to Baillie Gifford's overall aim of putting our clients' interests first and providing good long-term performance. We are helped in this respect by our own governance structure – we are a private partnership, and therefore able to focus 100% on our clients' long-term interests rather than outside investors with potentially different priorities. This governance structure also reduces the potential for conflicts of interest in our business model.

At Baillie Gifford, we focus on 'bottom up' stock selection, and we similarly look at governance structures and management quality at our current and potential holdings on a company by company basis. Our views on what constitutes good governance is not always uniform across markets and sectors, and therefore does not always align with more rigid rules-based approaches to assessing governance. We firmly believe that this leads to more effective governance outcomes and better long-term performance for our clients. You will see this overall approach reflected in our response to each of the seven Principles of Japan's Stewardship Code set out below.

***PRINCIPLE 1** – Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities, and publicly disclose it.*

- Baillie Gifford takes its stewardship responsibilities extremely seriously. As long-term investors we are committed to performing our stewardship role actively to support the investment process that is looking to identify and generate long-term sustainable corporate growth.
- We have extensive dialogue with executives and, where appropriate, non-executives of our investee companies throughout the year. The objective is to have open discussions that are constructive and helpful. We believe there is significant value to building long-term knowledge and relationships with management and board members in order to promote two-way dialogue, deepen knowledge regarding tangible indicators including remuneration, succession and future strategic direction, as well as less tangible factors of corporate culture, board dynamics and/or approach to risk management. The topics raised with company representatives relate to any area identified as relevant and material to the company and/or the sector it operates in.
- Proxy voting is an important part of our stewardship activities and we are committed to voting all our proxies where we retain the voting rights. All voting decisions are taken internally with the Governance & Sustainability team working closely with the relevant investment teams to ensure that all decisions are made with the long term growth prospects of the companies, and best interests of our clients at the forefront of the decision making process.
- We do not outsource any aspect of our proxy voting or stewardship responsibilities and activities.
- We define our approach to governance & sustainability issues in our Principles and Guidelines document available publicly [on our website](#).
- The purpose of our engagement and stewardship activities is to enhance the investment decision making process, and protect and enhance our clients' capital over the long term.

PRINCIPLE 2 – Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

- We are an independent fund manager and so are not exposed to many of the conflicts that may affect financial conglomerates.
- However, conflicts of interest do arise from time to time in the normal course of business. The most likely scenario for such a conflict will be where we are managing assets for a client that has an association with one of the holdings in our portfolio, such as the pension fund of a listed company. This has occurred on a small number of occasions in the last five-year period. At all times, we will aim to act in our clients' best interests.
- We have a straightforward approach to managing conflicts of interest, aiming to identify the instances where Baillie Gifford faces a conflict and seek to manage these in an objective manner, consistent with protecting our clients' interests.
- We recognise the importance of managing potential conflicts of interest that may exist when we vote a proxy solicited by a company with whom we have a material business or personal relationship and the Governance & Sustainability team is responsible for monitoring these possible material conflicts of interest.
- For proxy votes that involve a potential conflict of interest that is not managed in line with our Conflicts of Interest policy, the Governance & Sustainability team report the conflict to the Investment Management Group (IMG) for discussion. The Governance & Sustainability team reports into the IMG which comprises of several senior Baillie Gifford partners. They review the voting rationale, consider whether business relationships between Baillie Gifford and the company have influenced the proposed vote and decide the course of action to be taken in the best interest of our clients. The Investment Management Group's decision and rationale will be documented.
- Under certain circumstances, we are willing to become an insider following discussions with companies. However, we ask that companies do not convey inside information to us without our prior agreement. Where we become an insider, we follow the policies and procedures in our Market Abuse and Insider Dealing Manual. For any queries about this issue, we can be contacted at governance&sustainability@bailliegifford.com.
- Baillie Gifford maintains a firmwide Conflicts Matrix, which identifies conflicts and potential conflicts of interest that exist within the firm, and the procedures and controls that have been adopted to manage these conflicts. It is subject to review and approval by our Compliance Committee, which consists of a cross section of senior management. Each partner and employee has a responsibility for the identification of conflicts through adherence to the firm's Code of Ethics Manual. Training is provided on the terms of the Code as part of new employee inductions and annually thereafter.
- Baillie Gifford's firm wide conflict of interest disclosure is available [on our website](#). The Governance & Sustainability team's conflicts of interest policy is available on request.

***PRINCIPLE 3** – Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.*

- Engaging and monitoring our investee companies is an integral element of our investment process, and we therefore aim to meet with senior management of our key holdings on a regular and ongoing basis. All portfolio managers, investment analysts and members of the Governance & Sustainability team are involved in this process. As an active investment manager running often concentrated portfolios, monitoring our investee companies is a fundamental part of the investment process and our ownership responsibilities.
- We meet with management and other executive staff, heads of divisions, and non-executive board members, where appropriate. The importance of these meetings cannot be overstated; they are integral to building relationships with management, to understanding less tangible aspects of a company such as corporate culture, and facilitates two-way dialogue between companies and ourselves.
- Meetings are generally one-to-one or conference calls, although there are occasions when we collaborate with other interested parties.
- In addition to this, we subscribe to a number of additional investment and ESG monitoring services that support our ongoing monitoring of our clients' holdings, and from time to time commission external research on current or potential holdings.
- Our Governance & Sustainability team oversees our voting analysis and execution in conjunction with our investment managers and analyse all meetings in-house. This approach to voting means that the majority of companies we hold on behalf of our clients are reviewed by a member of the Governance & Sustainability team at least once a year. If this monitoring process highlights questions, we initiate dialogue with the company prior to the relevant shareholder meeting.
- We maintain an audit trail of our dialogue with companies by recording 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; where there is a contentious issue and where attendance in person rather than voting by proxy is in our clients' best interests.

***PRINCIPLE 4** – Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.*

- We recognise the benefits of working alongside other likeminded investors on both policy and company specific matters, which can increase the influence that we can bring to bear on our clients’ behalf and may be necessary in helping us to achieve our engagement objectives. This includes collective engagement with investee companies and regulators. We generally engage with companies on an individual basis but subject to analysis around ‘concert party’ regulatory rules, we participate in collective engagement on critical issues which could have a material impact on shareholder value. Typical examples of issues which we have acted on collectively with other investors include proposed changes to disclosure standards by stock exchanges or regulators, and persistent corporate governance malpractice by one of our holdings despite repeated attempts to engage with management.
- We were one of the founding members of the Investor Forum, a collective engagement initiative which came out of the work of the Kay Review. We are also an active member of 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 could be of benefit to our clients.
- We do not outsource our stewardship responsibilities to any other party and in any collaborative engagement we will speak for ourselves, not rely on others to take responsibility for articulating our views.

PRINCIPLE 5 – *Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of investee companies.*

- Our Governance & Sustainability Principles and Guidelines document is available [on our website](#).
- Where our clients have delegated voting discretion to Baillie Gifford, 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, whereby voting these shares would result in us being prevented from trading for a certain period of time.
- Baillie Gifford does not engage directly in stock lending. However, where our clients engage in stock lending we may consider requesting that clients recall any stock on loan to enable us to vote if we deem a meeting to be significant or contentious. Stock lending is a practice which we discourage because of the potential impact on our voting rights.
- 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 employ several proxy advisers including Institutional Shareholder Services and Glass Lewis, to provide us with their proxy voting reports which assists us in gathering information on companies' general meetings. Although we are cognisant of proxy advisers' voting recommendations, we do not delegate or outsource any of our stewardship activities, or follow or rely upon their recommendations when deciding how to vote our clients' shares.
- With regards to reporting, all clients receive a proxy voting and engagement report on a quarterly basis. This provides rationale for all votes where we have not supported a management resolution, and a summary report on engagement meetings we have had with companies in the previous quarter.
- We publicly disclose a summary of all our voting and engagement activities on our website under Company Engagement & Disclosure Reports. This report is published quarterly. The public report can be found [on our website](#).

PRINCIPLE 6 – *Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.*

- As stewardship forms such an integral part of the investment process, our approach to corporate governance and broader ESG factors are incorporated into ad hoc and quarterly reports, as well as discussed in our regular investment review meetings with clients.
- We provide all 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.
- The quarterly voting reports provide a statistical summary of our voting decisions, as well as a description and rationale for our voting decisions when we have voted against or abstained on a management resolution.
- We maintain a record of engagement and voting activity.
- Our engagement and voting procedures are independently reviewed annually. This is part of our internal controls review completed by our external auditors, having regard to the UK standard AAF 01/06. Clients may request a copy of our assurance report.

PRINCIPLE 7 – *To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment and skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.*

- Baillie Gifford is a research-led long-term investment manager. Our entire business model is built around developing an in-depth knowledge of the companies that we invest in on behalf of our clients.
- We engage extensively with these companies on an ongoing basis to monitor their progress, reappraise our investment case in the business, and on occasions, recommend change on a range of issues.
- All our investors, alongside the Governance & Sustainability team, are involved in this ongoing commitment to stewardship. We have a rigorous multi-year programme for training our trainee investment staff to equip them with the necessary skills to fulfil these responsibilities, including a secondment with the Governance & Sustainability team. We are committed to the continuous learning, mentoring and development of all staff. Where required, we also hire in senior experienced staff to build up our expertise in particular areas.
- We have a dedicated Japanese Equity team, assisted by a Tokyo based researcher and a member of the Governance & Sustainability team. In addition to this we have a number of global investment strategies which have an interest in the market. Our investors make regular trips to the region to verify and strengthen our proprietary analysis of Japanese corporations.

CONTACT DETAILS AND FURTHER INFORMATION

For further information on Baillie Gifford’s approach to stewardship and governance & sustainability matters, you can contact us by email at governance&sustainability@bailliegifford.com.

Further details are also available on our website at: www.bailliegifford.com.

Andrew Cave
Head of Governance & Sustainability

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