



OUR SHARED BELIEFS

BAILLIE GIFFORD

October 2017

BAILLIE GIFFORD

– We aim to add value for clients, support companies and benefit society through thoughtful long-term investment.

CHARLES PLOWDEN
SENIOR PARTNER



OUR SHARED BELIEFS

WE BELIEVE THAT:

Our active investment management will add material value for clients over the long run.

Successful active investment management is not easy: it requires dedication, independent thought and a long-term perspective. Our whole firm should be built around this and we must remain resolutely investment-driven in our outlook.

We put our clients' interests ahead of our own.

Our actions must be honourable and beneficial for our clients, for the companies we invest in and for society. We aim for excellence in all levels of client service and wish to be seen as a trusted long-term partner and adviser. As they are important to our clients' returns, we aim to keep costs low and transparent, including maintaining our fees at fair and reasonable levels.

We should be actively engaged shareholders of the companies in which we invest.

Our equity investment process is founded on the long-term ownership of growing businesses. We want to help these companies fulfil their potential by encouraging them to invest in growth opportunities and to ignore the short-term pressures of the stock market. We take the responsibilities of ownership seriously, and will be active stewards of our clients' capital.

Our ownership structure is a key strength.

Being independent, private and wholly owned by working partners allows us to focus on our clients and their investments. It helps our stability, motivation and culture and enables us to take a long-term view in all that we do, including investing, client relationships and staff development.

Our firm must be an engaging and progressive place to work.

It is imperative that we attract and retain a diverse group of talented individuals. We need to create opportunity and challenge while providing support. We are committed to getting better at everything that we do and remaining relevant to our clients' needs as they evolve.

Our actions and behaviours should support society as a whole.

We seek to set a positive example as an investor, as an employer and within our own communities. We aim to uphold and promote the highest standards of service and professional behaviours and to help enhance the reputation of the investment industry.



*WE BELIEVE OUR ACTIVE INVESTMENT
MANAGEMENT WILL ADD MATERIAL
VALUE FOR CLIENTS OVER
THE LONG RUN.*

Successful active investment management is not easy: it requires dedication, independent thought and a long-term perspective. Our whole firm should be built around this and we must remain resolutely investment driven in our outlook.

It is disconcerting to find that active management, on which our entire firm is based, is currently on the defensive, amidst accusations that it doesn't work. We strongly disagree with this view and fervently believe that we can add material value for clients over the long term, as we have demonstrated over several decades and across a wide range of investment strategies. While we shall step up our efforts to make the positive case for active management in general, our first priority must be to continue to focus our efforts on our own investment capabilities and on meeting the expectations of our existing client base.

We readily acknowledge that successful active management is not easy and that many, perhaps even the majority, will fail. But that does not mean that the challenge is futile, merely that it is difficult. Our experience, together with that of other similar firms, suggests that if we focus on the right issues, then we can address many of the more prevalent difficulties and continue to add significant value to our clients, even after charging a reasonable fee for our efforts.

The keys to success, we believe, are independence of thought and a long-term perspective. Our partnership structure and culture encourage both aspects within our investment teams and right across the firm. Thoughtfulness, cooperation, and a focus on quality rather than quantity are the hallmarks of our research process which focuses on future upside. Active management requires a willingness to take a

differentiated view of companies and then to back that judgement and construct portfolios which will inevitably and consciously diverge significantly from benchmarks in the pursuit of superior returns. This will often result in periods when our portfolios underperform relative to other investors and benchmark indices, and we must have the courage to back our process, our individual investors and our teams through such periods. Active investment is not only difficult but at times it can also be stressful and lonely; the whole firm needs to be supportive and understanding, especially when times are tough.

While we believe our firm has a number of structural and cultural advantages which we are determined to retain and strengthen, we cannot relax. Continued success is far from certain. In particular, we need to ensure that the broader firm continues to support our investment efforts and minimises distractions. Across the firm we must all continue to improve in everything that we do and we can never stop learning; this includes the search for new and different sources of investment insight as well as ongoing personal development. We must also work hard to ensure we remain relevant to our clients' requirements, through maintaining close relationships which should help us to anticipate their future needs. Our investment capabilities will undoubtedly need to evolve over time, as they have in the past, but should always play to our core belief and skills in active investment management.

*WE PUT OUR CLIENTS' INTERESTS
AHEAD OF OUR OWN.*

Our actions must be honourable and beneficial for our clients, for the companies we invest in and for society. We aim for excellence in all levels of client service and wish to be seen as a trusted long-term partner and adviser. As they are important to our clients' returns: we aim to keep costs low and transparent, including maintaining our fees at fair and reasonable levels.

We have long held as our core principle that we should always put our clients' interests ahead of our own, but recent years have produced far too many examples of financial companies, in particular banks, doing the opposite. As a result, regulators are increasing scrutiny of us all, adding burdens and regulations to our processes and demanding increased transparency around all possible conflicts of interest. This greater focus should give us an opportunity to more clearly demonstrate our own high standards in this area and to help lead our industry back towards the position of trust it formerly enjoyed.

For example, we have repeatedly demonstrated a willingness to close successful strategies in order to ensure that existing investors are not disadvantaged by rapid inflows or excessive funds under management. For more than 20 years we have avoided paying any third party soft commissions and we were among the very first firms to absorb the full costs of external research. More recently we have been taking a lead in helping to establish new industry guidelines for transparency of costs and in pre-emptively sharing economies of scale with larger clients through lowering fee scales. This is not a knee-

jerk reaction to recent pressures as we have been consistently reviewing fees for a wide variety of client types over several years. Nor is it wholly altruistic: we believe that lower fees enhance returns for clients and help strengthen the case for Baillie Gifford specifically and for active management in general.

Behaving honourably may seem a somewhat old fashioned aim but we believe it supports the sort of trust-based relationships we wish to establish with our clients. We aspire to be seen as more than merely the 'hired help', but rather as a trusted long-term partner, who can be relied on to give honest and objective advice at all times. This is as true for the companies in which we invest as for our clients themselves, and we believe we can provide valuable perspective and insights across a wide range of issues. The Operations, Administration, Systems and Client Service functions can all help support our internal efforts while also contributing towards delivery of a first-class service to external clients. The more value we can add in different ways for our clients, including through excellence in all elements of service, the more secure our own future prospects should be.



*WE SHOULD BE ACTIVELY ENGAGED
SHAREHOLDERS OF THE COMPANIES
IN WHICH WE INVEST.*

Our equity investment process is founded on the long-term ownership of growing businesses. We want to help these companies fulfil their potential by encouraging them to invest in growth opportunities and to ignore the short-term pressures of the stock market. We take the responsibilities of ownership seriously, and will be active stewards of our clients' capital.

Over recent years, as our funds have grown, we have become increasingly aware of both the responsibilities and the opportunities that our ownership affords. This is an integral part of active management; the careful selection of investments, chosen for their long-term potential and our own part in supporting growth and promoting good decision making.

We tend to run relatively concentrated portfolios and to own substantial stakes in companies for several years; this gives us a position of significant influence which we should use for our clients' and society's broader good.

Most often, this influence is exercised quietly, in private discussion between our fund managers and senior management (or their advisors), while our Corporate Governance team also liaise with management on specific issues and vote all of our clients' holdings at public ballots, wherever we have the authority to do so. Occasionally we are required to vote on major strategic issues such as takeovers or mergers and here we will always try to take the longer-term view; in the past we have helped defend companies from unwanted takeovers and used our influence to secure higher offers, sometimes voting against

the advice of the incumbent management team in the process. Voting is an important and integral part of our investment process and we would like to remove any obstacles to the thoughtful exercise of our clients' votes, including client specific voting policies and stock lending.

We believe that our long-term perspective and growth focus are increasingly unusual amongst institutional investors and make us attractive and helpful shareholders for many companies, particularly when investors with shorter-term priorities are applying pressure. We see our role as helping companies to realise their full potential, often through supporting high levels of investment for the future and by encouraging them to avoid shorter-term targets and distractions (such as detailed quarterly guidance and reporting). We have recently seen examples of a positive feedback loop emerging, with successful long-term growth companies introducing us to other similar companies where we are not shareholders; this is true of both public and private companies and is another benefit of constructive and sensible stewardship. Our reputation is strong and is becoming more widely appreciated.

OUR OWNERSHIP STRUCTURE IS A KEY STRENGTH.

Being independent, private and wholly owned by working partners allows us to focus on our clients and their investments. It helps our stability, motivation and culture and enables us to take a long-term view in all that we do, including investing, client relationships and staff development.

Our ownership structure has long been seen as a key strength and differentiator. Partnership is often the ideal structure for asset-light people businesses such as ours, even if it is increasingly uncommon these days. Many professions including law, accounting, advertising, estate agency and even merchant banking were once dominated by partnerships but sadly most have disappeared, often driven by inter-generational issues when the founders retired or sought to capitalise their ownership through sale or flotation. We have a well-established process for transferring ownership between generations and all the current partners recognise the importance of our structure to our past and future success: we would be loath to see any material change.

Partnership and our Edinburgh location are helpful because we are answerable to no-one except our clients and we are located ‘far from the madding crowd’ of markets, both of which contribute to a culture of staff loyalty and continuity. This in turn allows us to take a thoughtful approach, to do things in our own way, to ignore fads, markets and

benchmarks and to take a long-term attitude in everything we do, from staff and business development, through to investment research and performance measurement. Our growth has all been organic and we have shunned corporate activity while, likewise, our preference for internal promotion wherever possible supports stability and staff loyalty.

The lack of any short-term financial targets makes it easier to put the interests of our clients first and always to take a longer-term view when thinking about recruitment, internal investment or the development of new capabilities: consistent investment over time is better than stop-start. We intentionally do not analyse divisional or departmental profitability or financial contribution, with all partners and staff being rewarded from the same profit pool. This one-firm attitude reduces unhelpful internal rivalries and haggling over resources and encourages partners and senior staff to put narrow self interest aside, for example, when it comes to moving into new roles or in taking decisions for the longer-term best interests of the business as a whole.

It is interesting that most hedge funds and recent fund management start-ups have established themselves as partnerships but for most of the larger and long-established fund management companies this is impossible, though some tried unsuccessfully to replicate the structure. Collective internal ownership and control of our own destiny are clearly strong differentiators relative to most of our main competitors and we believe the privacy provided by our structure is a great positive and avoids many potential distractions.

While believing that our partnership structure is a key strength, we must also be aware that it can have downsides. Unlimited liability could make us excessively cautious and risk averse. A partnership of over 40 can be vulnerable to slow and consensual decision making as well as a lack of accountability, particularly for unpopular decisions. While we believe that the lack of external scrutiny and pressure is an advantage, it could lead to complacency or a lack of energy. We should guard against such weaknesses and continually challenge ourselves and each other.



*OUR FIRM MUST BE AN ENGAGING AND
PROGRESSIVE PLACE TO WORK.*

It is imperative that we attract and retain a diverse group of talented individuals. We need to create opportunity and challenge, while providing support. We are committed to getting better at everything that we do and remaining relevant to our clients' needs as they evolve.

Our ability to attract and especially to retain high quality staff is vital to our future success. The opportunity to become a partner is clearly a motivating factor for some, but we need to create opportunity and challenge for all, so that ambitions can be achieved without the need to move elsewhere. This is why it is important that the firm continues to develop and to grow over time, creating new opportunities and more positions of responsibility, though growth is not an end in itself. It is also important that the firm remains profitable, so that we can attract and reward the best talent, even if markets turn down or profitability comes under short-term pressure. We must be long-term in our staff policies and put appropriate focus on development and constructive feedback, so that people learn and improve through experience.

We aspire for all employees to feel valued and for their work to count. We aim to treat all staff with dignity and respect and this means we should always be objective and fair. We see ourselves as a true meritocracy, rewarding and promoting people solely on their contribution, without bias

or prejudice of any sort. In this, as in everything we do, we can of course improve; current efforts to increase diversity and flexibility should be seen in this light. We are also strong advocates of teamwork and our remuneration schemes are designed to align individual rewards with client satisfaction and with the long-term success of the firm as a whole.

While focusing on excellence and high service levels across the firm, we must also ensure that we continue to evolve, both as individuals and in the capabilities we possess. To do so, we need to be forward looking and always open to change, while encouraging enterprise and innovation. This is perhaps most obviously true in the Information Systems and Communications areas, where technology is continually improving but it also impacts on the investment requirements of our clients: if we don't remain relevant to their needs, we risk becoming redundant. New skills, new capabilities and new routes to market will all require forethought and development; we cannot afford any complacency.

OUR ACTIONS AND BEHAVIOURS SHOULD SUPPORT SOCIETY AS A WHOLE.

We seek to set a positive example as an investor, as an employer and within our own communities. We aim to uphold and promote the highest standards of service and professional behaviours and to help enhance the reputation of the investment industry.

For many years Baillie Gifford consciously shunned the limelight and kept as low a profile as possible and simply concentrated on looking after our clients to the best of our abilities. We have always tried to adhere to the highest possible standards of professionalism, integrity and courtesy and we believe that positive client and staff feedback backed up by excellent retention rates of both suggest that we have succeeded. But we need to recognise that not all in the financial services industry have behaved so professionally or honourably, as became clear during and after the financial crisis. This has damaged public and regulatory perceptions of our industry and those who work in it, as being self-interested, uncaring and unhelpful. The assault on active management and increasingly intrusive regulations are the direct result. Trust has been damaged and will take a long time to be restored.

We have now become a significant firm, managing large sums for well-known clients around the world and we are one of Edinburgh's largest employers. We have influence and increased responsibilities: to promote the highest professional and personal behaviours; to strive to do the very

best for our clients and to put their interests ahead of our own at all times; to be a fair and progressive employer. Within our investment activities we should invest wisely, for the benefit of society as a whole, as well as for our own clients; we believe we can be useful and help contribute to economic advancement.

In all of this, our scale brings a profile and visibility which can be used for positive rather than vainglorious purposes. We should be more prepared than in the past to speak out for what we believe in, whether through the media or at conferences, industry forums and external meetings. While continuing to encourage modesty, thoughtfulness and teamwork, we can set a positive example and try to help rebuild and enhance the reputation of our industry as well as our firm. Increasing our sponsorship and charitable activities is one way; driving for lower fees and greater transparency around costs is another; continuing to focus on adding significant value through active management is the most important.

It is important that we recognise the broader significance of our task. Active management, done properly,

has the potential to add significant value for end clients, be they pension funds, foundations or individuals. It would be wrong to deny future generations the clear benefits arising from superior returns. At a broader level, active management fulfils an essential economic role by allocating capital to those companies with the best prospects of adding most to long-term prosperity; this is too important and complex a task to be left to passive investment flows and index providers. This is why fundamental forward-looking research and active engagement are so important: directing capital towards productive and responsible investments is good for all of society as well as for individual investors.

Being clearer internally about our beliefs and core purpose should be helpful in binding us together around a common cause. But it is vital that we then work together to live up to them. No one likes a hypocrite, and if we want respect we will need to earn it. If our work really matters and has significance then it will bring its own rewards, beyond the merely financial. It will be something we can be proud of.



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CURIOUS ABOUT THE WORLD

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