

# BAILLIE GIFFORD'S COMPLIANCE WITH THE EFAMA STEWARDSHIP CODE

2019



This document describes our approach to stewardship, referenced against the six Principles of the EFAMA Stewardship Code which was first adopted by the European Fund and Asset Management Association (EFAMA) in 2011 and updated in 2017 and 2018. 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 six Principles of the EFAMA Stewardship Code set out on the following pages.

---

**PRINCIPLE 1** — *Asset managers should have an engagement policy available to the public on whether, and if so how, they exercise their stewardship responsibilities. Where asset managers decide not to develop an engagement policy, they should give a clear and reasoned explanation as to why this is the case.*

---

- We define our approach to governance & sustainability issues in our Principles and Guidelines document available publicly [on our website](#).
- 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.
- 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.
- 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.
- Baillie Gifford maintains a firm-wide 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 2 – Asset managers should monitor their investee companies, in accordance with their engagement policy.*

---

- 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.
- 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](mailto:governance&sustainability@bailliegifford.com).

---

**PRINCIPLE 3** — *Asset managers should establish clear guidelines on when and how they will escalate engagement with investee companies to protect and enhance value of their clients' investments.*

---

- Baillie Gifford actively engages with its investee companies. The way in which the engagement takes place is dependent on circumstances and the issues being discussed. Our experience suggests that constructive dialogue with management and boards typically results in satisfactory outcomes.
  - From a corporate governance perspective, conference calls and meetings will often be with company secretaries, non-executive board members and, where appropriate, we request meetings with company chairpersons.
- For specific issues, we will request a meeting with a committee chairperson. We frequently speak to Remuneration Committee chairs, for example.
  - Escalation occurs in a number of ways. Where appropriate: we oppose management resolutions at company AGMs and EGMs; we write letters to the chair; we can join collaborative initiatives with other asset managers and asset owners; and, in extreme circumstances, we can make public statements.
  - Our preference is to have confidential and private discussions with companies, which enables us to build an effective relationship with boards and management teams.
- We will consider escalating our activities where we have concerns about strategy and performance, business operations, corporate governance matters, and where we believe minority shareholder rights are being compromised.
  - There is no single approach to escalating our stewardship activities. Decisions are made on a case-by-case basis by the portfolio managers in collaboration with the Governance & Sustainability team. Factors influencing the approach include materiality, the company's responsiveness to previous communications, and an assessment of whether such engagement is in the best interests of our clients.

---

**PRINCIPLE 4** — *Asset managers should consider acting with other investors, where appropriate, having due regard to applicable rules on acting in concert.*

---

- We recognise the benefits of working alongside other like-minded investors on both policy and company specific matters, which can increase the influence that we can bring to bear on our clients' behalf 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 – Asset managers should exercise their voting rights in a considered way.*

---

- 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.
- 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.
- 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. 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 6*** — *Asset managers should disclose the implementation and results of their stewardship and voting activities.*

---

- 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](#).
- 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.
- With regards to reporting, all institutional clients receive a proxy voting report on a quarterly basis. This provides rationale for all votes where we have not supported a management resolution. We also provide a summary report on engagement meetings we have had with companies in the previous quarter unless the discussions with companies are deemed confidential and disclosure to our clients would not be in their best interests.
- 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.

---

**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](mailto:governance&sustainability@bailliegifford.com).

Further details are also available on our website at: [www.bailliegifford.com](http://www.bailliegifford.com).

*Andrew Cave*  
*Head of Governance & Sustainability*

---

## IMPORTANT INFORMATION

---

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is a unit trust management company and the OEICs' Authorised Corporate Director.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018 and is authorised by the Central Bank of Ireland. Through its MiFID passport, it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany.

Baillie Gifford investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

Persons resident or domiciled outwith the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

### **Important Information South Korea**

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

### **Important Information Japan**

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority. Important

### **Information Hong Kong**

Baillie Gifford Asia (Hong Kong) Limited 百利亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 licence from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of UCITS funds to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 百利亞洲(香港)有限公司 can be contacted at 30/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong. Telephone +852 3756 5700.

### **Important Information South Africa**

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

### **Important Information Australia**

This material is provided on the basis that you are a wholesale client as defined within s761G of the Corporations Act 2001 (Cth). Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth). It is exempt from the requirement to hold an Australian Financial Services License under the Corporations Act 2001 (Cth) in respect of these financial services provided to Australian wholesale clients. Baillie Gifford Overseas Limited is authorised and regulated by the Financial Conduct Authority under UK laws which differ from those applicable in Australia.

### **Important Information North America**

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in America as well as some marketing functions in Canada. Baillie Gifford Overseas Limited is registered as an Investment Adviser with the Securities & Exchange Commission in the United States of America.



# **CURIOUS ABOUT THE WORLD**



**Calton Square, 1 Greenside Row, Edinburgh EH1 3AN  
Telephone +44 (0)131 275 2000 / [www.bailliegifford.com](http://www.bailliegifford.com)**