ESG Principles and Guidelines 2023

Actual Investors

Risk Factors

The views expressed should not be considered as advice or a recommendation to buy, sell or hold a particular investment. They reflect opinion and should not be taken as statements of fact nor should any reliance be placed on them when making investment decisions.

This communication was produced and approved in June 2023 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

This communication 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 our teams typically integrate environmental, social and governance (ESG) matters into their investment processes. As a private partnership, we know from experience how critical ownership structure and corporate culture 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, Baillie Gifford considers these issues as central to how our teams invest, how we manage our own affairs and how we interact with our clients.

We define stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, which we believe is consistent with positive outcomes for the economy, the environment and society.

Our clients trust us to oversee and manage their investments for the long term. Stewardship of these investments is a core part of this commitment. Our demonstrably long-term perspective is evidenced by our low portfolio turnover. When analysing a company's prospects over the next decade, not the next quarter, we believe it is important to think deeply about the way the company interacts with a variety of stakeholders. We think 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.

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

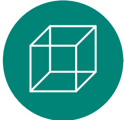
Our Stewardship Principles

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 of their evolution, across many different industries and geographies, and we focus on their unique circumstances and opportunities.

Consequently, we are wary of prescriptive policies and rules, believing 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 and give appropriate latitude to diverse processes of our different investment teams. These principles do not all have to be positively reflected in each holding our teams acquire.

Prioritisation of long-term value creation

We encourage our holdings to be ambitious, focusing on long-term value creation and capital deployment for growth. Helping management to resist demands from shareholders with shorter horizons than ours can at times be an important way to achieve better investment outcomes. We regard it as our responsibility to encourage holdings away from destructive financial engineering and 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 we expect boards to have the resources, information, cognitive and experiential diversity they need to fulfil these responsibilities. We believe good governance works best when there are diverse skill sets and perspectives, paired with an inclusive culture and strong independent representation with sufficient time 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 drivers of behaviour, and 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 or short-termism. We generally 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 companies to maintain strong relationships with stakeholders – including employees, customers, suppliers, regulators and the communities they work 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 accountability should be prioritised at all appropriate times.

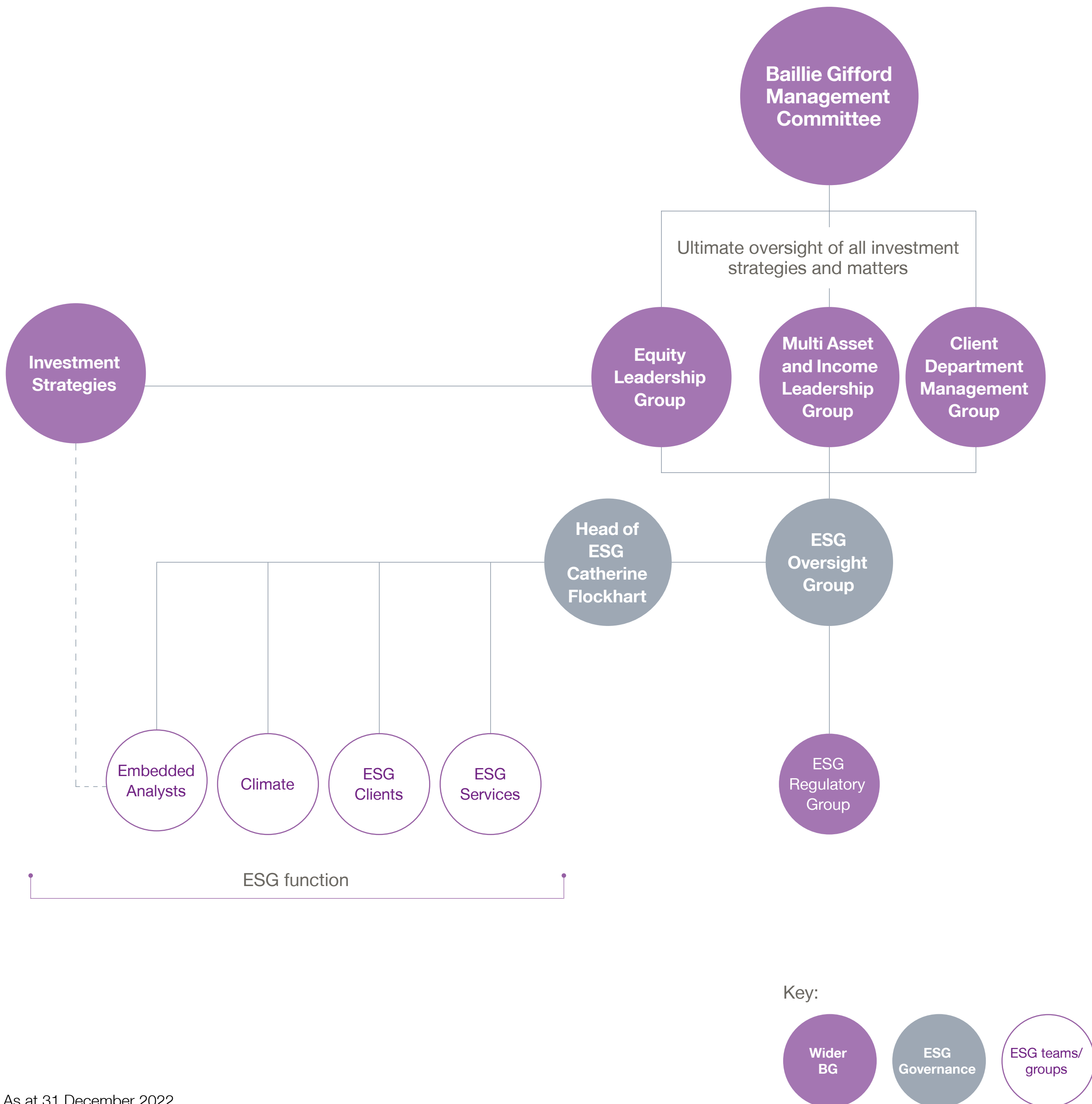
Sustainable business practices

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 how such actions may impact their long-term success. Environmental practices should recognise the current pace of change in opportunities, risks and societal expectations. Climate change, environmental impact, social inclusion, tax and fair treatment of workers should be addressed at board level, with appropriately ambitious policies and targets focused on the relevant material dimensions. Boards and senior management with superior prospects for long-term value creation 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. By 'sustainable' we mean advantages that have prospects for persisting over the longer term. To identify these kinds of businesses, we often look beyond current financial performance, undertaking proprietary research to build up our in-depth knowledge of an individual company and form a view of its long-term prospects. Material ESG issues, matters which affect the financial condition or operating performance of a company, can positively or negatively influence long-term 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 2022.

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 help further our thinking on specific topics and share knowledge across our investment and client-facing teams. We also have operational working groups on specific topics such as regulation.

Research

Responsibility for identifying, analysing and monitoring issues and opportunities for both existing and potential holdings is shared across a cross section of our investment staff. Investment teams spend a significant time assessing the quality, integrity, motivation and culture of management teams, and then acting upon their convictions. We believe companies which abuse the environment, treat staff poorly or damage the fabric of society will, within a relevant investment horizon, either be regulated out of profitability, deserted by their customers or otherwise fall into disfavour by the marketplace. 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 support the integration of material ESG issues into investment decisions.

While the general approach outlined in this document is valid across all our investment strategies, there may be subtle differences between the methods each strategy uses to properly assess and weigh up ESG matters in 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 portfolios that we manage for European clients are now defined as Article 8 or Article 9 under the European Union Sustainable Finance Disclosure Regulation, meaning they have made binding ESG commitments that promote environmental and social characteristics. Further details of these commitments can be found on the Baillie Gifford website. We also have a limited firmwide exclusion policy which can be found in appendix 1.

We firmly believe that our qualitative approach to integrating ESG matters in our investment research is crucial. We have access to a range of external data providers to support our research but believe simple negative screens, ESG scores provided by third parties, or rigid policy approaches are unlikely to yield real results in helping to invest responsibly. The advantage of these third-party providers is the breadth of their coverage and standardised approach. This allows for a quick understanding of areas of potential risk and underperformance. However, we are very aware of the challenges and limitations of some of these data providers and the application of quantitative scores to our investments. Further details of how we use ESG data providers can be found on the **ESG section** of the Baillie Gifford webiste.

The different impacts ESG matters can have on the different types of asset class we hold are described below. Any description of process is specific to the team or teams that focus on the particular asset class.

Listed equities

We focus on undertaking in-house ESG research, as we believe we can add value by bringing a nuanced understanding of the performance of the companies we hold, and importantly, how they are aiming to develop over time and the measures they have in place to achieve this. The type and depth of ESG research we complete on individual holdings will be determined by investment teams depending on the stated philosophy of the investment strategy and how material we think ESG issues may be to the investment case. Our in-house research typically incorporates a variety of information, which can range 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 on critical infrastructure assets, such as schools, hospitals and transportation, are examples of social benefits that can be 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.

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 prefer to engage regularly and proactively with the management and boards of these vehicles to monitor and progress relevant governance and performance issues.

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

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 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 will come from businesses that address the challenges and meet the needs of society. Given that, we do not believe ESG questions can be 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, 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 gain another sort of influence with often more direct access to management at an earlier stage of development. 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. This process draws on broad involvement from 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.

We generally engage with companies on an individual basis. We will on occasion participate in collective engagement on critical issues which could have a material impact on 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 we support are available on the **ESG section** of the Baillie Gifford website.

Much of the discussion in this section on engagement focuses on equity holdings. When engaging as a bondholder, by contrast, 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.

Objectives of engagement

As patient, active owners we aim to engage with the companies we invest in 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 to 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, understanding the less tangible aspects of an entity (such as corporate culture), facilitating a two-way dialogue and, as noted, 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 management from the core role of running the business over 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 and we feel our investment case is challenged, our investment managers may consider reducing or selling our holdings.

Identifying engagement priorities

The topics we prioritise for engagement will vary by individual issuer and 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 further 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. 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 specific investment strategies or fund vehicles have made net zero emissions commitments and particular companies are seen to be lagging, such companies will be a priority for engagement for these strategies and funds. Similarly, where issues relating to environmental, social or governance matters arise that we deem material, and it is clear there is a need for improvement, we would aim to engage where 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 rather than driven by a general ESG principle: how we vote is an important part of the long-term investment process and can, at times, have a decisive impact on a company's share price. Full details of our approach to voting can be found in the voting and engagement guidelines section.

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. Our ESG Services team oversees our voting analysis and execution in conjunction with our ESG analysts and investment managers. Unlike many of our peers, we do not outsource the responsibility for voting to third-party agents. We utilise research from proxy advisers for information only. We exercise our own judgement based on our knowledge of the wider investment case.

Baillie Gifford analyses general meetings in-house and we endeavour to vote every one of our clients' holdings in all markets in the client's best interest. However, on occasion this may not be possible for regulatory reasons or due to operational constraints. For example, under a practice known as share blocking, voting these shares would prevent us from trading for a certain period, which, in our view, may not always be in our client's best interest. Additionally, we are not able to vote clients' shares if their stock is on loan, a common industry practice that we discourage because of the potential impact on our ownership and 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 where we believe attendance in person rather than voting by proxy is in our client's best interest.

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. Often by necessity, checklists revert to focusing on inputs rather than outcomes. For example, it is easier to draw up a rule dictating how many other companies' boards a director can be on, rather 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. It is important also to consider the wider regulatory environment in which a company is operating and the structure of the company for which votes are solicited.

Aligned with this approach, Baillie Gifford retains voting rights for all the pooled vehicles 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 voting is very much part of our overall managerial responsibility, as we execute votes in a way that we believe is in the best interest of the fund. Therefore, we do not currently facilitate split voting on our pooled vehicles. We do, however, welcome the opportunity to discuss any specific vote preference requests on a case-by-case basis to understand where these may differ from our own approach.

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 in the prior year
- Egregious remuneration
- Controversial equity issuance
- Shareholder resolutions that received 20 per cent or more support from shareholders in the prior year
- 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
- Where we identify material 'E' 'S' or 'G' issues that result in Baillie Gifford opposing management

Stewardship reporting

We recognise the importance of transparency with regard 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, institutional clients receive 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 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 2020 UK Stewardship Code. 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/esg**

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 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.

A broad cross section 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, on occasion our investment teams will 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 to ensure that in all cases the firm acts in the clients' best interest. Baillie Gifford's firmwide conflict of interest disclosure is available on our website.

Prior to taking any voting action against management, we usually address any specific questions 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 pre-emptive rights are important to protect shareholders from being detrimentally diluted. However, 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 significant capital issuance. In both instances, the onus is on the company 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. Share repurchases are reviewed on a case-by-case basis and we give further consideration to requests for repurchases of more than 10 per cent. Above this limit, we only approve requests on an exceptional 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. Where this includes payment of dividends we normally expect to vote in favour. However, many profitable companies 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. Where no dividend vote is proposed, we will consider taking voting action against the board chair.

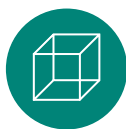
Additionally, if we have significant and ongoing concerns over a company's capital allocation policy, we endeavour to engage with management to encourage them to improve their practices and, if this proves ineffective, we will take appropriate voting action.

Mergers, acquisitions and disposals

Corporate restructurings such as mergers, acquisitions and disposals can clearly have a very significant impact on shareholder value. When done well, a successful merger or acquisition can accelerate a company's growth prospects. 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 that 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, recognising that such functions may vary depending on the wider regulatory environment in which a company is operating and the structure of the company. 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, considering 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

— Where necessary, review and 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 is working within the legal and regulatory norms of the countries it operates in 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 background

— 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 appropriate members of the board.

We expect boards to take the diversity of directors seriously. We consider cognitive and social diversity to be a driving feature of a high-functioning board, while recognising that the specific mix of skills appropriate for a business varies widely. The company should comply with relevant industry recommendations on both gender and ethnic diversity or have at least set out a clear roadmap of 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.

We do however recognise that composition may vary depending on the structure of the company and the wider regulatory environment in which it operates. We will adjust expectations as required, depending on these variables.

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 to 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. It 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 its 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 quantity 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 are appropriate for a company's individual circumstances. When reviewing remuneration proposals, we generally favour the following:

- That a substantial proportion of total reward potential for senior executives is made up of variable performance-based pay that 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. We support restricted stock plans when considered the best remuneration structure. We will seek 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 stretching targets appropriately
- The use of a maximum cap on variable incentive schemes to limit the total compensation available at an appropriate level
- A requirement for senior executives to build up an appropriate level of shareholding within a reasonable time
- 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, the ratio of pay related to executives and the level 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 that (i) are excessive relative to market practice and/or (ii) allow accelerated vesting of variable pay awards without pro-rating for time and performance
- Frequent changes to performance metrics or unexpected use of discretion

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 or other appropriate director.

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. We understand the benefit of annual general meetings being held electronically as this may allow the wider engagement of a greater number of shareholders, however our preference is that a physical meeting is also held to allow shareholders to have direct access to the company. 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 expectation, 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 are put up for election each year

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

We support 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 20 years, in line with current guidelines across several markets. We will consider voting against an auditor's 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 (not more than two consecutive years) where there are exceptional circumstances that 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 consideration and disclosure within the context of the annual accounts. As international disclosure standards continue to develop, auditors should be called upon to analyse and evaluate the consistency, materiality, control processes, metrics and comparability demanded by these disclosure requirements. Additionally, for heavy-emitting or systemically very large companies[2], auditors should be encouraged and empowered to draw attention between obvious gaps in stated climate strategies 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, known as 'poison pills', 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 proposals

Shareholder proposals are a mechanism permitted in some markets which enable shareholders to table resolutions at company meetings. These proposals often request that companies improve their approach to environmental and social issues. Shareholder proposals can be a useful mechanism to hold companies to account for 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 to support long-term investment performance. We do not, however, support these proposals if they are designed to frustrate or distract a company. Prior to voting, we consider the company's current approach to the issue, its response to the resolution and whether the intent of 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.

2. "Heavy emitting" companies will generally be found in the "carbon-related" sectors defined by the Taskforce for Climate-related Financial Disclosure (energy, transportation, buildings and materials, agriculture, food and forests). Systemically very large companies are those within the largest 25 by market value.

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 of 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 it to isolate all relevant matters as separate resolutions in the future.

Related party transactions

As a general principle, we believe that large shareholders should excuse 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 permitted in a number of regions. 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.

Corporate 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 of key financial ESG information is significantly below expectations and impedes us from 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.

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 and/or environmental realities. 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 believe all holdings should 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, resulting in 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 several funds that make a binding commitment not to invest in companies that are non-compliant with the UNGC. Further details of how this is applied can be found in appendix 1.

We expect all our holdings to 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 about a company's practices 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 persistent, we will consider selling the holding.

Diversity and inclusion

We believe that worker diversity is an important issue for all businesses, potentially impacting the ability of a company to generate returns over the long term, so we expect our holdings to take steps to understand and, where necessary, improve worker 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 varied pipeline of talent for future senior roles which we believe will in turn support the investment case.

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

We further expect businesses to carefully monitor and manage the culture of their organisation to ensure 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 appropriate conduct and compliance programmes reinforced by leadership, policies and training, and appropriate reporting procedures such as independent and confidential 'whistle blower' hotlines. We would 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 chains, 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 the value chain, especially human/modern slavery; and encouraging positive relationships with local communities.

Climate change and the energy transition

We act in clients' best interests: delivering long-term returns, using research and engagement to deepen understanding of climate opportunities and risks.

1. As investors, we are agents of our clients and stewards of their assets. We believe a successful transition that keeps increases in global temperatures to well below 2C, and ideally to 1.5C, this century offers our clients a better opportunity for strong long-term investment returns than a failed transition. We recognise that the successful pathway is not pre-determined.
   - We will invest in accordance with, and not exceeding, our investment mandates.
   - We regard the climate transition as a material investment factor and a threat to companies' ability to operate if they remain unaware of or unprepared for its potential impacts. We will engage with holdings to understand the opportunities and risks they face related to climate change and to ensure that company management teams also understand them and have appropriate strategies in place. We will never invest or engage with our holdings on climate-related topics in a manner that we believe undermines the delivery of long-term returns.
   - We expect the backdrop against which our investments operate and our clients' definitions of fiduciary duty to evolve. And we anticipate our clients' expectations of our work on climate to continue rising.
2. As a firm, we accept the scientific evidence for climate change and the need for action to mitigate the risks climate change poses.
   - We are committed to reducing our Scope 1, 2 and operational Scope 3 emissions to net zero by 2040[3].
   - We recognise the finance industry's importance as outlined at COP26. We will work with regulators to develop frameworks to promote the proper functioning of capital markets and transparent, stable climate-related regulation.

In order to help us assess climate-related opportunities and risks, and support companies to develop sustainable relations with their stakeholders, we seek and communicate the following expectations.

We expect companies we hold to provide basic climate disclosures (scope 1 and 2 emissions, material scope 3 emissions). For heavy-emitting, or systemically very large, companies, strategy and disclosure requirements will be held to a higher standard. We acknowledge that this may be more challenging for different countries and companies, dependent on size, location, and other factors and will consider this in the context of our stewardship activities.

By 2025, heavy-emitting, or systemically very large, companies should articulate strategies that acknowledge and align with the ambitions of the Paris Agreement, including scope 1, 2, and 3 emissions and mid-term milestones, with consistent governance and capital allocation. We accept that effective alignment will vary by company, country and sector. We will conduct our own research and engagement to draw company-specific conclusions, making use of guidance from regulators, our academic partnerships and other credible organisations.

If we feel that companies are not making enough progress in mitigating climate risks, or accessing opportunity, then we will engage with the company to communicate our expectations and deepen our understanding of their approach. We may also take voting action on resolutions such as annual reporting and accounts, election of directors, 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 have developed an initial framework for integrating biodiversity considerations into our company evaluation process but will continue to refine this over time. We are members of the stakeholder forum of the Task Force on Nature-Related Financial Disclosures (TNFD) and will use it to develop our approach to biodiversity.

3. 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.

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 on the Baillie Gifford website.

Controversial weapons

Baillie Gifford prohibits investment in companies that are involved 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 (NPT), 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 NPT.

Cannabis

As cannabis products are increasingly legalised around the world, there is a growing number of investable opportunities in the sector. There are constraints against UK investors receiving benefits 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 not to invest in companies that are determined to be 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.

Where funds have made this commitment in relation to new purchases, if a company is identified as non-compliant with the principles based on our judgement, supported by our own internal research alongside data feeds from third-party sources, then we will not proceed with the purchase unless we determine there are prospects for improvement. In that case, the company may be purchased but a formal engagement and monitoring process will be implemented.

In relation to existing holdings, if a company 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 Global Compact Principles

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 sustainability risk in the investment process. This ESG Principles and Guidelines document serves as our sustainability risk policy. 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 an 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.

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 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 in the investment manager's opinion:

- Aligned with the broader sustainable objectives of society as currently best defined by the UN Sustainable Development Goals;
- Aligned with the EU Taxonomy or other regional taxonomies as appropriate; and/or,
- 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) Revenue-based exclusions associated with activities that can materially cause principal adverse impacts at the issuer level which may be assessed through set thresholds against relevant third-party indicators or through proprietary research frameworks;

(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.

While 'sustainable investments' are defined within SFDR, the definition is very broad and, as such, financial market participants may interpret it differently. The definition of sustainable investments is also evolving and the framework reflected here is based on our understanding of the definition with SFDR. Clients should exercise caution when comparing the level of sustainable investments between investment products.

Investee companies follow good governance practices

SFDR requires that products promoting environmental and/or social characteristics (Article 8 or Article 9 products) do not invest in companies that do not follow good governance practices. This policy describes how Baillie Gifford determines good governance in the context of SFDR and for those funds and segregated accounts that fall under the scope of the regulation. The policy covers the areas of sound management structures, employee relations, remuneration of staff and tax compliance.

Indicator	SFDR Element	Minimum Standard
Accurate Financial Statement Reporting	Sound Management Structures	Company has not been convicted for fraudulent financial statement reporting or has taken appropriate steps to rectify an issue where a conviction has previously occurred in the opinion of Baillie Gifford.
Corruption	Sound Management Structures	Compliance with Principle 10 of the UN Global Compact in line with the Baillie Gifford UN Global Company Policy.
Employee Relations	Employee Relations	Compliance with Principle 3 of the UN Global Compact in line with the Baillie Gifford UN Global Company Policy.
Remuneration Concerns	Remuneration	Company does not have ongoing remuneration concerns that Baillie Gifford believes undermine the investment case.
Tax Behaviour	Tax Compliance	Company has not been convicted for tax evasion or the company has taken appropriate action to rectify concerns and prevent these convictions in the opinion of Baillie Gifford.

In assessing investee companies against this definition, both third-party and internal research will be utilised. Companies will be monitored periodically to ensure ongoing compliance. This policy sets out the basic expectations of good governance as required under SFDR. Holdings will be subject to other governance and stewardship elements as set out within this ESG Principles and Guidelines Document.

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 is a number of guidelines to which we adhere. These guidelines ensure compliance and 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

We will monitor the third-party data sources we have subscribed to (eg Sustainalytics, MSCI) on a periodic basis for (i) any flags against our various sector-based exclusions, which are limits on companies that 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'). A post-trade compliance check is undertaken by the Mandate Compliance Team daily to ensure that market movements or any data changes have not moved the portfolio near to or beyond restriction guidelines. Breaches to ESG fund restrictions are monitored by the relevant groups internally.

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, 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) that, 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 is deemed to have failed based on our own internal research.

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 an Authorised Corporate Director of OEICs.

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.

Persons resident or domiciled outside 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.

Financial Intermediaries

This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

Europe

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. Baillie Gifford Investment Management (Europe) Limited is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. Baillie Gifford Investment Management (Europe) Limited is also authorised in accordance with Regulation 7 of the AIFM Regulations, to provide management of portfolios of investments, including Individual Portfolio Management ('IPM') and Non-Core Services. Baillie Gifford Investment Management (Europe) Limited has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. Through passporting 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. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions ('FinIA').
The representative office is authorised by the Swiss Financial Market Supervisory Authority (FINMA). The representative office does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. 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.

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