Stewardship Report
Year ended 31 December 2023

Investment Stewardship Activities Report

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 March 2024 and has not been updated subsequently. It represents views held at the time of writing and may not reflect current thinking.

Potential for profit and loss

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

Stock examples

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 communication are for illustrative purposes only.

Baillie Gifford™

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Welcome

For Baillie Gifford, stewardship is about being thoughtful, active and responsible investors on behalf of our clients

I am delighted to present our Investment Stewardship Activities Report for 2023. It is a privilege to manage the financial assets of our clients. We do so with a rigorous focus on our role as investor and our responsibility to be an effective owner. Our stewardship duty is core to our firm's ability to deliver sustainable benefits for clients, the economies in which we invest and society more widely.

This report sets out our approach to stewardship and our chosen pathways to deliver effective and measurable stewardship outcomes for the long-term benefit of our clients. Building on the changes we reported in prior reports, we have made further important enhancements to our stewardship approach during the year under review. I would like to highlight four enhancements in particular:

- We have revised our Stewardship Principles so they better reflect our stewardship practices and are clearer for our clients
- Our Human Rights Research Group developed and articulated a set of seven principles to help teams across the firm address human rights questions in their work
- We have continued to develop our understanding of the interaction between the investments we make and climate change, and have undertaken a range of company engagements to understand how they are positioned
- We have continued to evolve our suite of in-house analytical tools, providing investment teams with greater access to key ESG data

We hope these developments will make us better investors and more effective stewards of our clients' capital. On behalf of all our partners and colleagues at Baillie Gifford, I welcome this opportunity to present our investment stewardship approach and share some of our plans for the future.

Andrew Telfer
Managing Partner

Introduction

Based on the 12 UK Stewardship Code Principles, this report sets out Baillie Gifford's stewardship approach, highlighting some of the key activities and improvements made in 2023. In preparing this year's report, we have responded to client feedback for greater detail on how our investment style influences our stewardship choices. This is set out in a new chapter – Shaping our stewardship. This year, like last, we have also adapted our reporting in line with recommendations made in the Financial Reporting Council's 2022 Review of Stewardship Reporting.

As of 31 December 2023, Baillie Gifford had an environmental, social and governance (ESG) resource of 45 individuals working alongside our investors. This dedicated team helps our investment managers to consider material ESG factors as part of the investment decision-making process. The focus is on technical advice, thematic and company research, proxy voting, and engagement assistance. Supporting investment teams in this way continues to facilitate the effective implementation of stewardship duties.

During the year, guided by our investment teams, we discussed ESG matters with 526 portfolio companies on 744 separate occasions. The table below, discussed in greater detail with multiple case studies under **Principle 9**, highlights the variety of ESG and wider investment-related topics that we discussed with companies over the course of the year. These case studies detail examples of our engagement, outcomes and next steps. We often take the opportunity to discuss multiple topics during each interaction we have with a company and therefore the number of topics discussed may not reconcile with the number of meetings.

Summary issue	Times discussed in 2023
Environment	260
Social	146
Governance	569

The value of meetings however is not measured by their quantum but by their quality. We aim to build trusted, constructive relationships with management and boards. This takes time but is essential if we are to influence and challenge effectively.

We believe our stewardship approach aligns naturally with our active, long-term investment style. A five-year-plus investment time horizon requires us to consider all material factors. We have therefore long considered ESG matters and they are relevant to all asset classes in which we invest. Comprehensive due diligence, monitoring and engagement have always been key to how we invest on behalf of clients.

We invest in companies at a range of points along the ESG spectrum, including global leaders and innovators, and those where there may be material ESG risks. Where we identify material issues, we undertake thoughtful analysis and use engagement to better understand a company's approach. We will look for a trend of improvement and we will engage to both deepen our understanding and influence change where we can.

This allows us to responsibly invest in a broad range of companies around the world, acknowledging geographical norms and context will differ. In the context of climate change, this allows us to invest in 'transition enablers' contributing to an adapting world. We expect companies to think and behave according to their ownership structure, stage of development and corporate culture. The appropriate governance model for an early-stage growth company will likely differ from that of a mature incumbent.

We recognise that some clients prefer to exclude certain sectors or have specific ESG preferences. To meet these needs, we offer some strategies and variants of strategies that exclude certain sectors such as tobacco and some strategies which, for example, have Paris-aligned or other climate-related objectives.

We also offer strategies that have explicit positive impact goals such as climate solutions and reducing inequality (Positive Change) and broader sustainability strategies that stop short of impact, but make clear commitments to factor in the environmental and social sustainability credentials of their investments as a core part of the process (Sustainable Growth and Sustainable Multi Asset).

In this report, we present examples of our stewardship activities undertaken during the year: company engagements; well-functioning markets studies, and voting outcome examples. We hope these cases illustrate the natural linkage between our investment style and our stewardship approach.

Statement of international stewardship code adoption

This annual report is a response to the 2020 UK Stewardship Code. Organisations are required to submit an annual Stewardship Report explaining how they have applied the Code over the previous 12-month period.

We take our stewardship responsibilities seriously and apply our stewardship approach across every company and asset class we invest in on behalf of our clients. We are signatories to a number of other country-specific, regional and global stewardship codes that support our commitment to active ownership in a manner appropriate to the markets we invest in. These are:

- Japan's Stewardship Code
- Investor Stewardship Group (ISG) Principles
- European Fund and Asset Management Association (EFAMA) Stewardship Code
- International Corporate Governance Network (ICGN) Principles.

While this report directly corresponds to the 2020 UK Stewardship Code, it also evidences our compliance with the Japan Stewardship, ISG, EFAMA and ICGN codes and principles. More generally, we hope it also provides some insight and evidence of our commitment to our stewardship responsibilities across all geographies on behalf of our clients.

Shaping our stewardship

Our approach to stewardship is fundamentally shaped by our chosen investment style which, in turn, influences the composition of our funds. From an internal perspective, it is easy to join the dots between our investments and the ownership and engagement choices we make, but this may be less obvious to an external stakeholder. This new chapter in the Investment Stewardship Activities Report sets out in more detail why we believe Baillie Gifford is well-positioned to act as an effective steward of our clients' capital and a constructive voice for well-functioning markets. This chapter also illustrates more fully our preference for direct engagement with an emphasis on trusted relationships with significant holdings.

Concentration brings influence and responsibility

Our investment style favours high conviction stock selection within concentrated portfolios. As a consequence, we are a major shareholder in many of our holdings. There is no perfectly complete or consistent source for share registers globally, but using available third-party sources and our own holdings data, we can estimate the holding rank of Baillie Gifford in the companies our funds invest in. As at 31 December 2023, Baillie Gifford was among the five largest shareholders in 261 companies representing approximately 40 per cent of total assets under management. We emphasise that these are internally prepared estimates, but it reasonably illustrates the opportunity we have to be an effective, active owner.

This results in Baillie Gifford having considerable ownership influence, and a responsibility to exercise this influence with the utmost care. For example, where we are a top five shareholder in a listed company, we anticipate that our voting decision may be decisive in the outcome of a particular resolution. So, in the knowledge, that our vote may dictate the direction of corporate strategy for years to come, we undertake a careful process of research-led engagement. This is done to ensure that we are fully appraised of all material information that could have a bearing on our engagement and voting decisions.

Number of holdings where we are a top five shareholder

261

Assets under management where we are a top five shareholder

40%

Our chosen contract between issuer and Baillie Gifford

Our long-term approach to stewarding clients' capital is valued by the companies we hold. We know that exceptional returns are not created overnight. Empowering and trusting ambitious management teams to execute is vital in this pursuit. Our willingness to meet companies where they are and to support them on a journey, which may be volatile at times, differentiates us. It is against this context, that companies actively seek our opinion.

A recent example of this came in Q3 2023, when the CEO of one of our large holdings asked us to feed back our views as a long-term shareholder. It was the company's expectation that our candid discussion was only for its consideration. We were appreciative of the opportunity and happy to agree. We advised the CEO on the value of corporate disclosure as a means of safeguarding its license to operate. We do not yet know to what extent this advice will be taken on board, but recognise the significance of being asked for our input.

Perhaps unusually among other public shareholders, we choose not to take credit for such dialogues or their eventual outcomes. We may share some of our more notable engagements with interested clients but will not overstate our influence when we do.

We are privileged to be viewed as a thoughtful owner by so many of our holdings. We believe that remaining focused on what really matters over the long-term will reinforce this position and the constructive dialogue which often follows.

Our recurring focus on academic research and insight

While we actively embrace innovation, our idea generation and investment approach is rooted in knowledge gathering. Learning from academia is core to this approach. Our long-standing partnerships span a multitude of topics, ranging from genetics to climate-positive farming to semiconductor design to the ethics of artificial intelligence (AI). We embrace the unexpected journeys pioneers take us on in the knowledge that alternative sources of insight are often the most valuable. We believe this informs a better, more thoughtful and nuanced stewardship approach than might otherwise be the case. For example, our work with the James Hutton institute has helped inform our engagements with John Deere on its environmental commitments and its role in the future of sustainable agriculture.

Principle 1 Purpose, strategy and culture

Culture, values, strategy and business model

Baillie Gifford was established as an investment management partnership in 1908. Our purpose has always been to deliver excellent returns for our clients by investing in companies for the long term. Our stable ownership structure supports alignment with our clients and allows all staff to focus solely on investing with client interests at heart. As an unlimited liability partnership, our company is wholly owned and run by its partners. The current generation of partners, built on the prized legacy of former partners, can concentrate on the careful stewardship of our long-term vision, undistracted by short-term shareholder demands.

Our chosen ownership structure also allows us to attract and retain the best talent, creating a distinctive and enduring culture built on a foundation of trust both with our clients and between our partners and staff. **Our Shared Beliefs** document encapsulates our culture, values, business model and strategy. First published in 2017 and updated this year, it articulates the five beliefs that inform our actions as a firm and as individuals within it:

- Our style of active investment management will add material value over the long-term
- Our clients come first
- Our firm must be an engaging and progressive place to work
- Our actions and behaviours should support society as a whole
- Our ownership structure is a key strength

A keen awareness of our role as stewards of our clients' capital and how we discharge those responsibilities is clearly woven throughout these beliefs. We are proud to use our Shared Beliefs in our day-to-day work and share the document with our clients and, importantly, our investee companies. It is an essential component of our approach to ownership that companies understand who Baillie Gifford is and the expectations our investment brings.

Our strategy

Our firmwide strategy is simple and unchanged. Our over-riding business objective is to provide our existing client base with a first-class service encompassing investment performance, administration and client care. We have no business growth targets. Adding assets under management is not a measure of success and is potentially misaligned with the interests of our existing clients. We close investment strategies to new clients when we are approaching investment capacity limits, or sometimes to manage client flows and maintain client service quality.

Our strategy is formed of the following components:

- Keep our existing clients' interests paramount. Evolving with client needs and developing our business is important but generating strong results for existing clients will always be our core goal
- Focus investment teams on high-value tasks. We aim to reduce distractions to increase the chances of outperformance
- Back our investment judgement. Embracing risk within a reasonably diversified portfolio is an integral part of the pursuit of meaningful returns over the long term
- Provide high levels of service to enhance client relationships and retain client confidence through clear, thoughtful and helpful communications
- Keep our firm and its activities simple. Our time should be focused on investment activities and on looking after and understanding our clients' needs. We minimise bureaucracy for investment professionals where we can by having strong and well-resourced supporting teams

By acting with professionalism and integrity, we can invest in our people and adapt our business with the aim of delivering exceptional long-term investment performance and unparalleled client service. Our priority is to focus our efforts on our own investment capabilities while thinking ahead to meet the evolving needs of our key stakeholders.

Our long-term stance is reflected in long holding periods: equity portfolios, comprising 94.7 per cent of our assets under management, have an average holding period of 7.4 years. For comparison, the average holding period of active equity strategies globally is between three and four years, and the average holding period of shares on the New York Stock Exchange is less than one year. Our Balanced, Multi Asset and Fixed Income portfolios, 5.3 per cent of our assets under management, take similarly longer-term approaches. In addition to long holding periods, we primarily run concentrated, active portfolios, making investment decisions on assets based on in-house, fundamental research.

Our equity portfolios invest using our growth investment philosophy. This means investing in companies that can grow at above-average rates, believing that, over the long run, share prices follow company fundamentals. Investing in well-run companies with strong financial and cultural characteristics, we seek management teams that have an aligned long-term mindset and are committed to investing in their businesses over a 5–10 year time horizon. Our Multi Asset and Fixed Income strategies take a similarly rigorous fundamental approach when investing in other asset classes.

Beyond these core principles, our investment strategies are autonomous decision-making teams. We have no Chief Investment Officer or policy committee to dictate investment direction from the top. There has been no change to our approach and outlook over the period of this report and we do not anticipate any change.

Actions we have taken to ensure our investment beliefs, strategy and culture enable effective stewardship

Our investment philosophy focuses on active long-term sustainable growth across equities, multi asset and fixed income asset classes. Our universe is global. We believe that fundamental analysis and proprietary research are key to a successful approach. From our head office in Edinburgh, we encourage the sharing of ideas and robust debate between our investment teams as core components of our investment culture. Successful active investment management is not easy: it requires enormous focus, endeavour, independent thought and a long-term perspective. Our whole firm and culture are built around making this happen by improving what we do and how we do it, and we remain resolutely investment-driven in our outlook.

Our ESG strategy prioritises excellent research, engaged ownership and a focus on outcomes. We strive to be thoughtful with the integration of high-quality ESG research into the investment process. Our investment team has always accepted responsibility for determining the key drivers of investment scenarios, wherever they may originate. For decades, we have considered ESG as an integral part of the stock-picking process. What has changed is the availability of accurate new and unique data sources and a rapidly evolving investment outlook where ESG factors may be changing in their relative materiality. The ESG regulatory framework for investing is also changing. Our integrated ESG team is designed to enable Baillie Gifford to be the best investors we can be. It is consistent with our internal philosophy of constant improvement. Accordingly, over the course of recent years, we have added selective resource across our investment and ESG teams (see **Principle 2** for more detail).

The partners are committed to retaining a culture that fosters effective stewardship. Annual strategic updates are held for all employees. During these sessions the partners highlight future strategy, opportunities and challenges for the firm, with plenty of time set aside for questions. This allows employees to engage with a range of partners from across the business, to remain engaged in the firm's investment activities and performance, and it reinforces the importance of our core beliefs and corporate culture.

Integrating our principles into stewardship, investment strategy and decision-making

Our only business activity is to invest using our active, long-term approach. In 2023, we undertook a comprehensive review and update of **Our Stewardship Principles and Guidelines**. This guides how we think about stewardship across our investment strategies. The updated document became effective on 15 January 2024. While this date is after the reporting period for this document, we have used the updated Principles, as shown below, throughout this report to ensure consistency.

Performing an active stewardship role is integral to our investment beliefs and process. Indeed, we believe it underpins and improves investment performance in the long run. Broadly, **Our Stewardship Principles and Guidelines** outlines Baillie Gifford's expectations of our holdings and guide our decisions surrounding stewardship and our investment strategy:

Our Stewardship Principles

Prioritisation of long-term value creation	Governance fit for purpose	Alignment in vision and practice	Sustainable business practices

More specifically, our investment beliefs and resulting long-term approach to share ownership result in low portfolio turnover, cementing our reputation as a long-term investor. This is a helpful starting point when looking to engage with a company: there is an understanding that we expect the discussion to evolve over time. We have included many engagement examples throughout this report.

Assessment of efficacy in serving the best interests of clients and beneficiaries

Our clients' interests are paramount: without our clients we do not exist. As mentioned above, this is articulated as a shared belief: our clients come first.

We carry out an annual client satisfaction survey. The information collected feeds into goals for improvement and affects the remuneration of all employees. More detail on this is provided under **Principle 2**.

The externally-conducted survey (now in its 23rd year) has helped us to gain constructive feedback and address areas where we can improve to meet our clients' aspirations. The survey is designed to measure the quality of our service across several areas, including understanding clients' needs, their performance expectations, and communication and reporting. In 2023, against a backdrop of another challenging year for investment returns, the Net Promoter Score we received from our clients declined. However, we were pleased to see that despite this challenging performance backdrop, the year-over-year satisfaction in client service and communications metrics improved and we achieved a largely stable overall satisfaction metric. The survey also highlighted that a significant and growing number of our clients regard ESG integration as important.

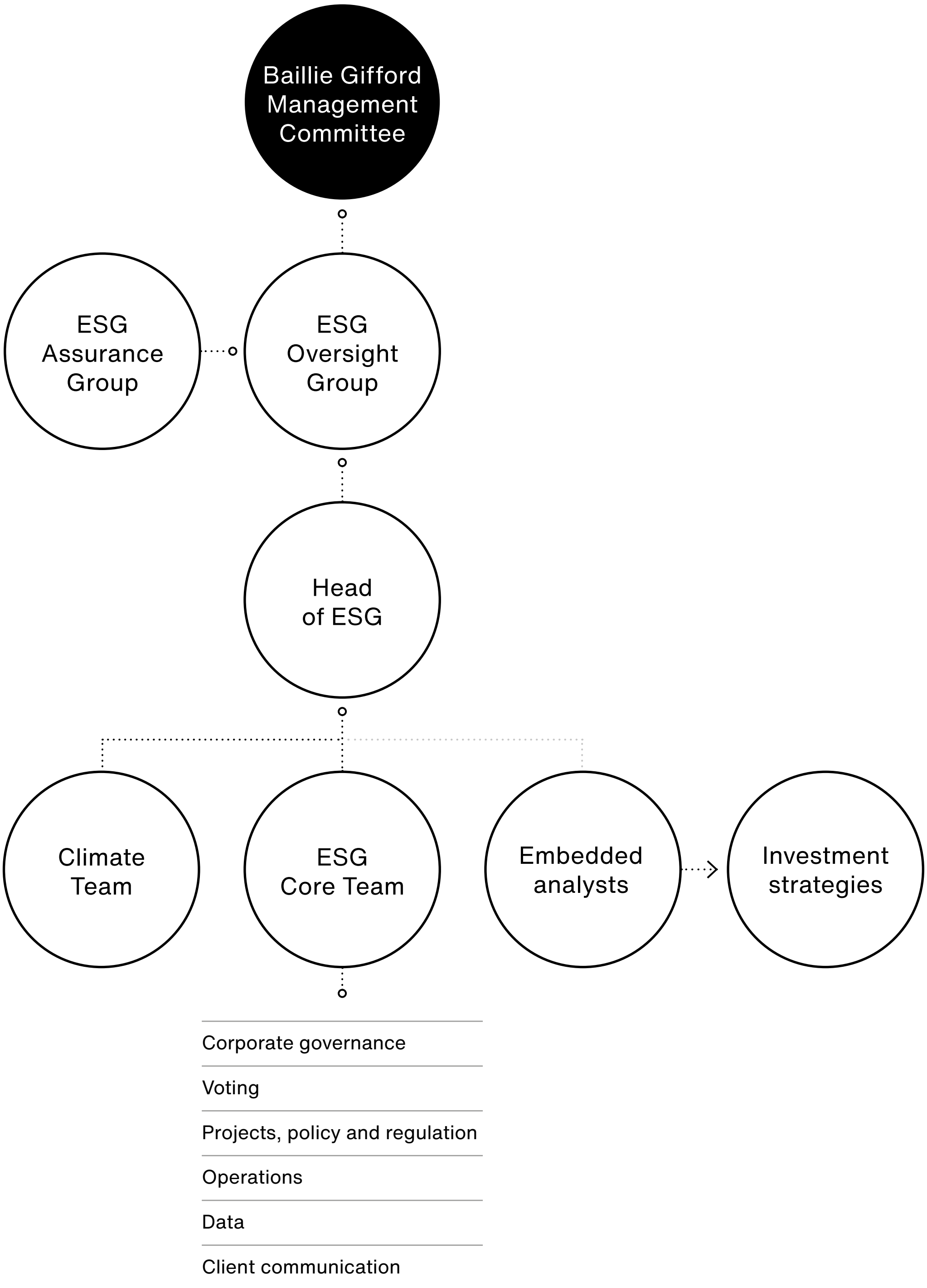
Client reporting enhancements have recently been front of mind with requests for more detailed analysis. Our work on ESG data and reporting is discussed further under **Principles 9 and 12.** Similarly, continued improvements to our control functions, including the work of the ESG Assurance Group and the ESG Oversight Group, are important contributors to ensuring we serve the best interests of clients and beneficiaries.

Principle 2 Governance, resources and incentives

Oversight and accountability for effective stewardship

Our governance structures continued to evolve during 2023 to support our organisation and an increased focus on ESG research, integration and stewardship. Governance of stewardship starts with our partners and is delegated to the Baillie Gifford Management Committee.

Baillie Gifford ESG organisational structure



ESG Oversight Group

The ESG Oversight Group is responsible for setting the firm's strategic approach to ESG matters in relation to investment strategies and client activities and, along with the Head of ESG, for overseeing the ESG function. It provides coordination for the firm's approach to ESG and the multiple strands of ESG activity that take place. It aims to ensure that the rapidly evolving demands of ESG from an investment, client and regulatory perspective are met.

It is chaired by the Head of ESG and comprises senior representatives from the Investment department, Clients department, ESG function and Operational areas.

The ESG Oversight Group aims to:

- Coordinate and monitor progress towards the firm's ESG strategy, working with the individual investment, client and operational teams
- Empower and encourage investors to systematically consider ESG, as relevant for the investment strategy, throughout the investment process
- Create and oversee ESG-related research groups and ESG professionals to ensure Baillie Gifford has sufficient specialist knowledge
- Oversee the different components of the ESG function to ensure they continue to meet the requirements of investors, clients and regulators
- Ensure accurate ESG reporting to clients
- Oversee the ESG Assurance Group, ensuring that Baillie Gifford is equipped to meet its regulatory requirements and honour ESG commitments made by investment teams
- Review and recommend any key ESG disclosures for approval or adoption by the Management Committee or any relevant Baillie Gifford entities. This includes the TCFD Climate Report; Our Stewardship Principles and Guidelines and the Investment Stewardship Activities Report

This group reports into the Management Committee, the Equity Leadership, Multi Asset and Income Leadership and Clients Management groups – which include partners from investment, client facing and operational areas. These reporting lines help ensure that our research and stewardship activities are aligned with and remain of value and relevance to our clients.

ESG Assurance Group

The ESG Assurance Group is responsible for ensuring that the firm is equipped to meet its ESG-related regulatory requirements and that ESG commitments are being met. This Group is comprised of individuals from our ESG function, Clients Department, Business Risk, Compliance Department and Legal Department. During 2023, we continued our integration of ESG into these and other operational areas. Evidence of this is the establishment of an ESG group within Legal and Compliance. This is an ongoing process, but important progress has been made during the year.

Resourcing of stewardship activities

Stewardship is a key component of Baillie Gifford's long-term, active, patient and growth-focused approach to investment management. Consequently, our investment staff and ESG team are integral to the delivery of effective stewardship.

ESG resource	Employees (31 December 2023)
ESG Leadership	1
Embedded analysts	23
ESG Core Team	14
Climate	5
ESG Client Team	2

In 2023, there were 45 employees within the specialised ESG function, a net increase of two over the prior year. We can now reap the benefits of the team we have built over recent years. Our embedded analysts who are aligned with specific investment teams remain the largest segment of ESG-focused employees. The embedded ESG analysts are responsible for:

- ESG research and analysis (in addition to the research done by investment analysts and managers)
- Highlighting ESG risks and opportunities to investment strategies, as relevant
- Working with investment teams to identify engagement or stewardship priorities for portfolio holdings
- The engagement and monitoring of holdings on material ESG matters

These analysts continue to have a dual reporting line, to both their respective investment strategy and to the ESG function. Having been in place for a number of years, we are pleased to report that this model has encouraged a more effective integration of ESG into our investment processes while leveraging best practice across the analyst team.

Within the core ESG team we have voting specialists who ensure our voting rights are exercised effectively by the investment teams, in accordance with our clients' mandates, and then reported according to firm and regulatory requirements. Data specialists also sit within this team. These analysts focus on facilitating and improving the process by which ESG data is gathered, cleansed and brought into our investment decision-making process.

The ESG data analysts also facilitate external reporting. We recognise this as a critical component of our research efforts and is key to supporting effective ESG integration and stewardship.

Client and regulatory demands for ESG data are increasing and evolving, so continual improvement around data integrity and data availability is an ongoing priority. We will continue to improve and expand the coverage of ESG data across different asset types as we work to improve the flexibility of data points for both internal and external use. In parallel, we continue to assess and selectively add external vendors' services that may help us to deliver ongoing data improvements to enrich client and regulatory reporting.

Our Climate Team is tasked with coordinating our approach to considering climate-related risks and opportunities across the firm. Its remit spans investment research, stakeholder engagement, data, reporting, governance, and internal and external partnerships.

Seniority, experience, qualifications, training, and diversity

We are fortunate to have significant depth of experience across each ESG functional area to ensure our stewardship activities are carried out by team members seasoned in the techniques of company analysis, engagement, voting and wider industry policy advocacy. The table below sets out the seniority and experience of ESG team members by function. Of the 45 members of the ESG team, 53 per cent identify as female and 47 per cent as male. The team is drawn from a range of nationalities with a variety of backgrounds including law, asset management, human rights, corporate sustainability and environmental non-governmental organisations (NGOs).

ESG resource	Head/Director/Manager	Senior Analyst	Analyst	Assistant
Embedded analysts	1	8	14	
ESG Core Team	4	2	7	2
Climate	1	2	2	
ESG Client Team	2			
Total	**8**	**12**	**23**	**2**
Gender (% female)	63	75	35	100
Average ESG experience (years)	17	14	4	1

We recognise the importance of ESG and stewardship training. Training on ESG topics is offered to all investment staff, including our investment research graduates. We also run a comprehensive training programme for new employees joining our ESG function. All members of our ESG function are encouraged to achieve the Investment Management Certificate (IMC) qualification (or equivalent) and it is required to reach Senior Analyst level. We also expect team members who have no demonstrable industry experience in ESG to complete the CFA ESG qualification or equivalent within a two-year timeframe.

To support this evolving area of research within the business, ESG training is also made available to the Clients Department, Compliance, and other relevant staff. This is done to ensure that ESG matters are understood across the firm. As part of this, our Compliance department launched an ESG e-learning training module rolled out as part of mandatory training. This was completed by 863 individuals across a number of departments, including our investment and client teams.

Diversity – internal

We aspire to be one of the best investment management firms in the world. Fostering a culture of inclusivity is central to this: it will enable us to attract and retain diverse talent, encourage the exchange of views, and enhance our relationships with clients and companies across the world.

We are proud of what we have already achieved, but more needs to be done. It is our collective responsibility to continue to challenge our perspectives and improve in all that we do. To that end, we continue to actively engage with industry groups, clients, consultants, and regulators to learn from them and share insights. Our eight employee-led networks provide communities of support and allyship, provide feedback on policies and generate innovative ideas based on lived experiences to improve the workplace experience for all and support an everyday approach to inclusivity.

Our partner-led Diversity and Inclusion (D&I) Group, formed in 2016, continues to act as an advisory body to the rest of the firm on D&I matters. The group has driven a focus on developing our D&I data and insight with the aim of better understanding our demographic and the experience colleagues with different backgrounds and personal identities have. This work is enabling us to more readily identify gaps in our existing D&I approach and is being used to shape key focus areas and tangible actions. We are also developing how we measure progress over time with the aim of introducing further clarity, transparency and accountability to our D&I approach.

More information on our activities to become a more diverse and inclusive organisation can be found within the **About us** section of our website.

Investment in systems, processes, research and analysis

Throughout 2023 we have continued to develop our ESG data capabilities to inform our stewardship activities. We have rolled out a number of data visualisation tools across our investment teams to help with the accessibility of ESG data to inform the investment research process and prioritise stewardship activities. These tools have helped drive forward stewardship initiatives such as engagement with company holdings not disclosing Scope 1 and 2 carbon emissions. We continue investing in our ESG data capabilities and we have made several improvements to our data processing methods during the year. For example, we have created an internal calculation engine to simplify the method of calculating portfolio level ESG data for our Multi Asset portfolios. We will continue enhancing our ESG data processing capabilities in 2024.

We made our approach to engagement a key focus area during 2023, looking at our approach through three lenses – behaviours associated with engagement, system capabilities to record engagements and external reporting of engagement. We recognise engagement as one of our key stewardship tools and therefore want to ensure that we have an approach aligned with our investment philosophy and clients' expectations.

Use of service providers

We use a range of service providers to support our stewardship activities. These are primarily research providers, rather than contracted agents carrying out delegated stewardship tasks. Taking voting as an example, we do not apply voting guidelines administered by third party proxy advisors. We do, however, purchase proxy research from a range of providers, using their research as an input. Similarly, we have not contracted any third party to facilitate, support or undertake any engagement activities on Baillie Gifford's behalf. Beyond our participation in collaborative engagements, we are proud to carry out our own due diligence, analysis and engagements.

Some of our research vendors and technology enablers used during the year are set out in the table below.

Research vendors	Brief description of purpose
BoardEx	Relationship-mapping tool
CDP	ESG data tool (climate, water, forestry)
Glass Lewis	Proxy advisory firm
Diligent	Executive compensation platform
IIAS	Proxy advisory firm for the Indian market
ISS	Proxy advisory firm
MSCI	ESG research and data
RepRisk	ESG and business conduct risk research and quantitative solutions
Sustainable Investments Institute (Si2)	Research provider for US environmental and social shareholder proposals
Sustainalytics	ESG research. restrictions screening (eg controversial weapons, UNGC)
ZD Proxy	Proxy advisory firm for the Chinese market
Technology enablers	**Brief description of purpose**
Bloomberg	Financial and ESG data tool
LSEG Workspace (Eikon)	Financial and ESG data tool
FactSet	Financial and ESG data tool

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. 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. More discussions on the developing area of ESG data can be found under **Principle 8**.

These research services act as a useful independent flagging mechanism. They can provide a starting point from which to conduct our own more detailed analysis and may help to focus the universe to companies or issues that might warrant further attention through research and/or engagement. Our research supports a much more sophisticated understanding of both the company position and its direction of travel. Conducting our own research allows us to focus on the areas we think are most important and relevant. We are also able to leverage our in-house knowledge and relationships with companies and academic partners to supplement available data on ESG issues. In many cases, ESG issues have no clear right or wrong answer. Issues evolve over time and best practice emerges from comparative approaches taken by different companies and sectors. We can use this insight to help other companies we invest in make better long-term decisions on material ESG matters.

Incentives

Our remuneration approach is unchanged during this year. The last comprehensive review of our remuneration approach took place in 2021. We consider that it remains aligned with our purpose and culture and the investment time horizons (five-years plus) that we communicate to clients. All employees of the firm, including our ESG analysts and investment managers, are now remunerated using the same incentive structure. This is based upon three pillars: (i) salary, (ii) annual performance award and (iii) long-term profit award. Pillars (ii) and (iii) are adjusted depending on the performance we deliver for clients over the long term, client satisfaction and firmwide profitability (which is also in part a function of good long-term investment performance). All employees defer some bonus into our funds, which provides further long-term alignment. This ensures that all employees are aligned with our goal to deliver long-term value for our clients.

Performing an active stewardship role is integral to our investment process and, ultimately, our long-term investment performance. We believe effective stewardship underpins and improves investment performance in the long run and by contrast, if we are unsuccessful in meeting our stewardship objectives, our firm's investment performance will be negatively impacted. All portfolio managers and ESG analysts have a material component of long-term remuneration linked directly to investment performance, in many cases tied directly to the fund or funds they manage. Stewardship is, therefore, a core determinant of remuneration outcomes for our employees.

Efficacy of governance structures and areas for improvement

We enhanced our governance structures in 2022 by forming the ESG Oversight Group and refreshing the membership of the ESG Assurance Group. Throughout 2023, these governance groups have become an established part of our governance framework, overseeing the implementation of our ESG and stewardship strategy and the commitments that our investment strategies and funds make in relation to ESG and stewardship.

During the year, our Compliance Department undertook a thematic review of our ESG activities, specifically focusing on ensuring that our internal activities are consistent with our published statements and client commitments. During the year we also sought to improve oversight of our ESG and stewardship activities within our second-and third-line business functions (Compliance, Business Risk and Internal Audit). Coordination efforts will continue into 2024 with the aim of ensuring a continued robust, but efficient, control and oversight environment.

Principle 3 Conflicts of Interest

Our Conflicts of Interest Disclosure is available on our website. In terms of stewardship, the disclosure specifically references proxy voting and is directly referred to in Our Stewardship Principles and Guidelines.

Baillie Gifford maintains a firmwide Conflicts of Interest Policy and risk register. It identifies (potential) conflicts of interest within the group and the procedures and controls adopted to prevent or manage these conflicts. It is subject to review and approval by the relevant management body of each regulated entity within the Baillie Gifford group. Conflicts of interest such as those discussed below are rare for our clients and us.

Our overarching commitment to always work in the best interests of our clients is particularly relevant in a potential conflict-of-interest situation. Potential conflicts of interest will arise from time to time in the normal course of business. The following scenarios illustrate where a conflict of interest may arise specifically in relation to our stewardship activities where:

- We manage 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
- A non-executive director of one of the Baillie Gifford managed investment trusts is also a non-executive director of an investee company
- A Baillie Gifford employee is on the board of an issuer
- A Baillie Gifford portfolio manager has an association with a listed company. An example might be membership of a nomination committee of a company that we might invest in on behalf of clients
- We vote at a meeting that has a shareholder proposal submitted by a client

As highlighted in **Our Shared Beliefs**, we always aim to act in the best interests of our clients regardless of any potential conflict.

It is the responsibility of each employee and partner to identify potential conflicts as laid out in the firm's Code of Ethics Manual, and each employee must submit an annual declaration to confirm they have adhered to the rules. Training, the results of which are recorded and monitored, is provided on the terms of the Code during employee inductions and annually thereafter.

We continue to provide supplementary conflict of interest training to all individuals in signed off roles, covering issues and risks specific to ESG, company engagements and stewardship activities. We incorporate this training into our onboarding package for new hires into the ESG function. This includes discussions around four scenarios in which Baillie Gifford's investors could receive inside information and how to respond in those situations:

Company meetings

Expert networks

Research engagements with subject matter experts

External positions
Nomination Committees/Board Observers

Identification and management of any actual or potential conflicts

Our Voting Team maintains a proxy voting conflicts of interest policy which details potential scenarios in which a conflict of interest could occur, including the seven areas noted below, and the course of action to be taken in the best interests of our clients. For proxy votes that involve a potential conflict of interest that is inconsistent with (or not covered by) the proxy voting conflicts of interest policy, Baillie Gifford has an internal process to review the proposed voting rationale. The review considers whether business relationships between Baillie Gifford and the company have influenced the proposed voting decision and decides the course of action to be taken in the best interests of our clients.

01. Voting on behalf of a segregated client that is an issuer and owns itself

Scenario

Voting on behalf of a segregated client that is also a listed company (parent or subsidiary) that is held directly within the segregated client's fund (eg if Company ABC client held Company ABC equity directly). This situation is a potential conflict of interest.

Management and actions

Where we have full voting discretion for the client, we would vote in line with our voting guidelines.

02. A Baillie Gifford employee is on the board of an issuer

Scenario

Voting at an investee company where an employee or partner of Baillie Gifford is also a director or committee member of that company.

Management and actions

Where the employee is a director on the board, discussing any voting with the employee will be deemed a conflict of interest. If the employee is a board committee member only, it is only a conflict if we are discussing a resolution related to the work of that committee. In these instances, another investment manager's view will be sought. If we follow this course of action, we will notify those clients who request to be notified of a conflict of interest.

03. Voting at shareholder meetings of pooled vehicles managed or advised by Baillie Gifford

Scenario

Voting at a shareholder meeting of a fund managed by Baillie Gifford. This is a potential conflict of interest. These funds will be clearly identified in our proprietary corporate governance system (CGS) to alert analysts of the potential conflict.

Management and actions

Baillie Gifford will not vote on behalf of segregated clients at a shareholder meeting of a Baillie Gifford-managed vehicle, unless we have received specific instructions to vote on their behalf at each shareholder meeting of the relevant Baillie Gifford pooled vehicle. We will contact them when we have been notified of the meeting to see if they would like to provide us with instructions to execute on their behalf.

04. Voting at a shareholder meeting of an investment trust managed by Baillie Gifford

Scenario

Voting at a shareholder meeting of an investment trust managed by Baillie Gifford. This is a potential conflict of interest.

Management and actions

We will not vote at a shareholder meeting of Baillie Gifford-managed investment trusts on behalf of Baillie Gifford strategies, Baillie Gifford in-house funds or Baillie Gifford entities. Baillie Gifford will not vote on behalf of segregated clients at a shareholder meeting of a Baillie Gifford-managed investment trust, unless we have received specific instructions to vote on their behalf at each shareholder meeting of the relevant investment trust. We will contact them when we have been notified of the meeting and see if they would like to provide us with instructions to execute on their behalf.

05. Interconnected directorships

Scenario

Voting at a shareholder meeting of an investee company where a member of the board also sits on the board of a Baillie Gifford-managed vehicle/entity (eg director on the board of a Baillie Gifford-managed investment trust also sits on the board of directors of one of our investee companies or is on the board of a Baillie Gifford entity and one of our investee companies). This scenario is a potential conflict.

Management and actions

Investment trusts and group governance teams will notify the Voting Team of any changes to the registered interests for directors of Baillie Gifford entities. As part of our voting process, we may relay information regarding our voting intentions to the issuer ahead of the meeting date, provided we are not discussing the upcoming shareholder meeting with the director who is connected to Baillie Gifford. After votes have been instructed, should we have taken any action against management, we will notify the relevant internal contact(s) who have discretion to notify the relevant director of our voting decision.

06. Shareholder proposals

Scenario A

Voting at a shareholder meeting on a proposal which has been put forward by a segregated client, and we are voting on their behalf. This is a potential conflict of interest and may impact on the client relationship. However, there is no requirement to notify other clients voting on the shareholder proposal.

Management and actions

When we are voting on behalf of a segregated client on their proposal, we will vote in favour for that client. For all other clients where we have full voting discretion, we will vote in line with the **Proxy voting guidelines** document.

Scenario B

Voting at a shareholder meeting on a proposal that has been put forward by a segregated client and we are voting on behalf of other clients. This is a potential conflict of interest. However, there is no requirement to notify other clients voting on the shareholder proposal once the conflict has been managed.

Management and actions

Where we have full voting discretion, we would vote in line with our proxy voting guidelines document. This is in line with our usual process, so the conflict has been managed.

07. Split voting decisions for the same client

Scenario

Where investment strategies take a different decision on the same resolution and a client is invested in more than one of those strategies, we will vote differently for the same client, according to the decisions made by the individual investment strategies. So, for example, if client XYZ is invested in two different strategies which hold the same company but have differing views on a resolution, we will vote in two separate ways for the client.

Management and actions

Clients sign up to individual strategies' philosophies, which may result in different voting decisions. Voting in line with each strategy's philosophy is in line with our clients' expectations, so this is not deemed a conflict of interest.

Case study: Portfolio manager on the nomination committee of a holding

On behalf of our clients, Baillie Gifford is a shareholder in Kinnevik, a Swedish-listed venture capital firm. In Sweden, the Nomination Committee is commonly comprised of representatives from a company's largest shareholders and should promote the common interests of all shareholders.

In 2023, one of our portfolio managers and Baillie Gifford partners, Lawrence Burns, was reappointed to sit on the Nomination Committee of Kinnevik. He is the Chair of the Nomination Committee for the 2024 AGM. As the position is not a board position and the right to be on the committee stems from shareholding rank on the share register, we do not deem this to be a conflict of interest. However, given our shareholding and the position held, we recognise the increased risk of a conflict occurring. To manage this, we have procedures in place to ensure we do not discuss resolutions related to the work of the Nomination Committee with him. For example, we will not discuss the election of nominees to the Nominations Committee, board elections or non-executive director fees.

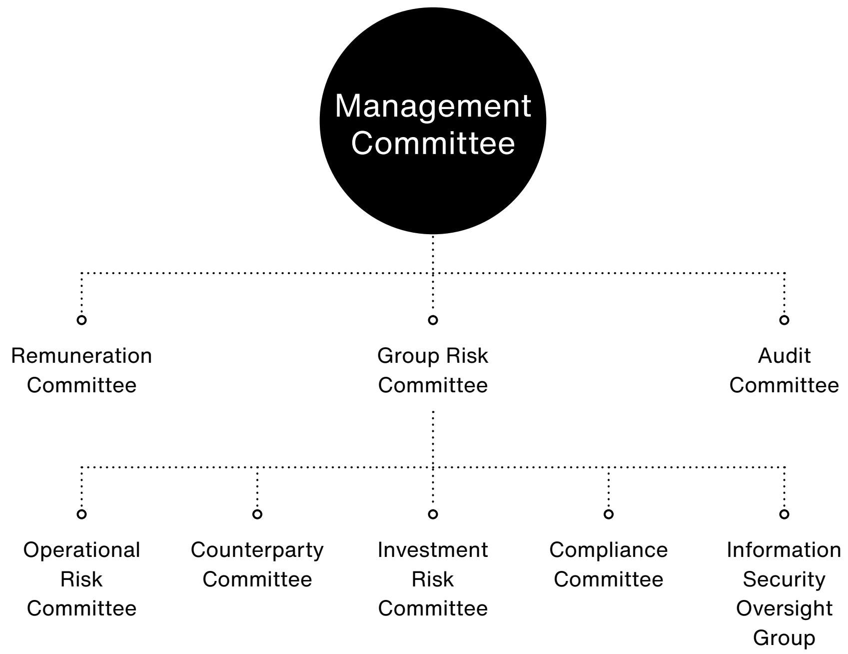
Principle 4
Promoting well-functioning markets

Identification and response to market-wide and systemic risk(s)

Baillie Gifford operates a group-wide risk management framework. This includes a Risk Appetite Framework and Group Risk Policy, and several committees to ensure that risks are managed effectively, and internal control processes are operating as required. The framework aims to focus risk management activity on the strategic aims of the business and provides a high degree of confidence that unexpected risk events will not interfere with the strategy. It provides a means of expressing the firm's attitude to risk and forms a framework for risk decision-making. This includes market-wide and systemic risks to the business.

The Management Committee of Baillie Gifford is responsible for overseeing the overall strategy and risk profile of the firm and approves the Risk Appetite Framework. The key governance committees in respect of risk management are set out in the diagram below:

We identify broader market-wide and systemic risks and themes through a combination of bottom-up company research and portfolio management. Oversight is provided by a number of groups, including our Investment Risk, Analytics and Research Team, and the firm's Investment Risk Committee. These groups help to ensure that levels and concentrations of portfolio investment risks are consistent with client expectations. Baillie Gifford's Business Risk and Compliance functions, assisted by other functions such as Legal, Finance and Human Resources, support these groups and committees. This 'second line of defence' provides policy direction and oversees and monitors the risk framework to determine whether all key risks are being identified, assessed and controlled by management in a manner commensurate with Baillie Gifford's applicable risk appetite and regulatory needs.



2023 analysis of portfolios has explored risks related to:

Equity duration

Our focus on companies with long-term growth characteristics naturally tilts portfolios towards stocks with higher equity duration. This area continues to be a focus of risk analysis given the backdrop of rising interest rates and increasing term premia. Analysis of duration characteristics has been updated regularly for all equity strategies as well as bespoke performance analysis. Further investigation into the evolution of the duration factor during different market conditions and macroeconomic environments remains a research priority. This extends into the exploration of different duration models in terms of their ability to measure the sensitivity of a stock to changes in discount rates, cash flow growth, and expectations of long-term competitive advantage.

Valuations and growth rates

Analysis of company and portfolio valuations both in absolute terms and relative to portfolio benchmarks remains a key tenet of our risk oversight and engagement with investment teams. The ongoing operational progress of many companies stands in sharp contrast to the fall in company valuations. Analytical tools such as the heatmaps developed by the Investment Risk Team are one way that the team are engaging with investors to identify potential opportunities for superior long-term returns.

Behavioural risk and portfolio construction

Behavioural analysis of trading decisions from our risk team has provided feedback on decision-making patterns for many of our strategies. This included analysing purchasing patterns and sell discipline, supporting investment teams in improving their decision-making processes. For one of our global equity strategies, this has informed trading principles introduced for earlier-stage growth businesses held in the portfolio.

Financial resilience

The risk team analysed company quality, resilience, and cash runways in response to banking industry stresses in early 2023. This was timely, and motivated investment strategies in reviewing convictions and portfolio risks against an economic backdrop of more scarce and expensive capital.

Assessment of market-related and systemic risks

Climate change

Climate change and global efforts to mitigate and adapt to its impacts present risks and opportunities that are materially relevant to our task of delivering long-term investment returns for clients. Such risks and opportunities can manifest themselves at many levels, including market-wide and systemic impacts. As active investors, our focus is on identifying and assessing these risks and opportunities as part of our bottom-up, fundamental investment research process, summarised here and described in more detail in our **TCFD Climate Report**.

Our investment research is led by individual investment strategy teams, often involving one or more of our embedded ESG analysts. Research is supported by specialists in our central Climate Team, ESG Core Team and others with expertise in governance and voting.

Research is focused on understanding the materiality of climate issues to holdings, and ultimately to investment performance. We take a broad view of potential materiality, cognisant of the complexity of both the physical and transitional elements of climate change risks and opportunities.

As part of our research process we have introduced a 'Climate Audit' process that is shared across all our investment strategies. This aims to ensure that at least 90 per cent of our holdings (by AUM), including the largest 250 holdings, are assessed by investment teams in relation to two dimensions: emissions reduction goals and performance, and potential transition role. The two dimensions can be summarised as follows:

Emissions reduction goals and performance

This dimension aims to assess the extent of each company's ambitions and targets to reduce direct and indirect emissions in line with the goals of the Paris Agreement (ie a global temperature rise of well below 2C, and ideally 1.5C, by the end of the century). Our judgements are qualitative but rest on fundamental research and make use of the guidance of bodies such as the Science Based Targets initiative and the Institutional Investors Group on Climate Change. Our assessment currently has seven assessment categories ranging from no disclosure through to targets that demonstrate well-above average ambition. Presently, we organise these seven categories into three groups to provide an indication of company preparedness:

Leading

Companies commited to reductions in line with their fair share of a science-based 1.5C-aligned pathway, with appropriate demonstrations of targets, intent and strategic coherence.

Preparing

Companies with disclosure and narrative that suggests they are preparing to set 1.5C-aligned targets in the near future.

Lagging

Companies lacking sufficient disclosure or suitably robust targets, where the pathway to improvement is currently uncertain.

Potential transition role

This dimension aims to assess the positioning of each company relative to a successful transition towards net zero emissions globally. The judgements are company-specific rather than being founded on sector-based assumptions, and predominantly qualitative in nature. This allows us to classify different companies in the same sector in different categories depending on their overall potential to transition. Our assessment currently has four categories:

Solution innovator

Companies whose primary purpose is the innovation and commercialisation of products and services that will drive a successful transition.

Potential influencer

Companies who are carbon-light by direct emissions but have the opportunity to accelerate the transition through their choices and influence.

Potential evolver

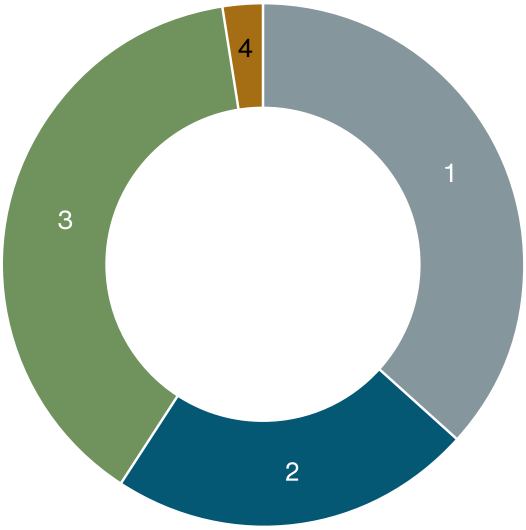
Companies that tend to be carbon-heavy, or strongly embedded in the higher carbon economy, but are beginning to develop viable pathways to transition.

Materially challenged

Companies whose core business is likely to decline through the transition, with their pathway to strategic adaptation to a low-carbon world unclear.

The output of our latest assessments at 31 December 2023 is as follows:

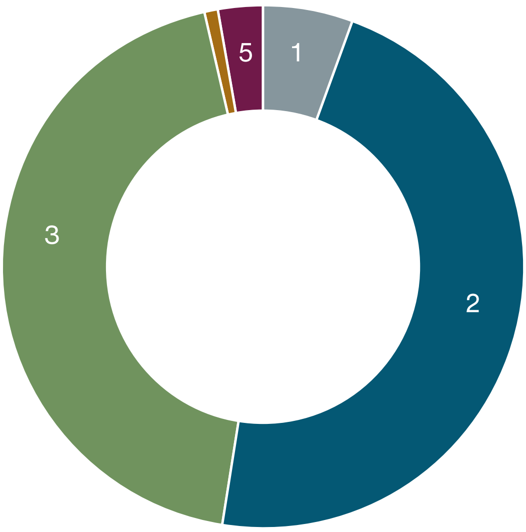
Emissions reduction goals and performance



AUM		%
1	% of total AUM with targets assessed as Leading	**36.7**
2	% of total AUM with targets assessed as Preparing	**22.7**
3	% of total AUM with targets assessed as Lagging	**38.2**
4	% of total AUM with targets not assessed	**2.4**

Figures may not sum due to rounding.

Potential transition role



AUM		%
1	% of AUM assessed as Solutions innovator	**5.6**
2	% of AUM assessed as Potential influencer	**46.9**
3	% of AUM assessed as Potential evolvers	**44.1**
4	% of AUM assessed as Materially challenged	**0.7**
5	Not assessed	**2.7**

Figures may not sum due to rounding.

Climate scenario analysis can also be a helpful way to consider market-wide and systemic climate risks, and their potential influence on holdings in different versions of the future. It can be done quantitatively or qualitatively, but at present we prefer to use qualitative forms of scenario analysis. We believe that such an approach allows better exploration of the complexities inherent in the climate and energy transitions over the varying time frames that are important to us and our clients. We are working with two separate academic partners to develop more detailed qualitative scenario analysis frameworks for use across the firm and within individual investment strategy teams. More details can be found on the Baillie Gifford website and in our **TCFD Climate Report**.

Biodiversity risk

Biodiversity-related risks may include increased raw material or resource costs, regulation and taxation, pressure on resource availability and supply chain disruption. Recognising this risk, we joined the Stakeholder Forum of the Taskforce on Nature-related Financial Disclosures (TNFD) at the end of 2021. We believe that participating in this effort has the benefit of improving our own understanding of biodiversity-related risks and dependencies. More detail on our work on biodiversity can be found in **Principle 7**.

Geopolitical risk

As part of our risk framework, the Group Risk Committee assesses and monitors geopolitical risks, including those impacting investments, clients and our operations, and any action required.

Geopolitical risk remains a prominent feature. Several military conflicts have erupted in recent years that have had a range of consequences for economies and societies globally. The Russian invasion of Ukraine in early 2022 remained active throughout 2023. We continue to monitor the situation and ensure our compliance with international sanctions. Hamas's attacks against Israel on 7 October 2023 and Israel's subsequent military operation in Gaza have increased tensions across the Middle East, straining the stability of the region. Beyond military conflict, mistrust and heightened tensions continue to define the relationship between the world's largest economies. Deteriorating US-China relations is an important global development that is provoking a range of policy responses that have domestic and international implications. Our strategies have reflected on these developments and we are engaging with external experts to understand potential consequences.

Geography

Jurisdictional differences in approach to the consideration of ESG factors continue to create challenges for global managers such as ourselves. In attempting to manage this, we have focused on being transparent about our approach and responsive to clients wishing to understand how we are managing their assets in more detail. We believe that considering material ESG factors is integral to our long-term investment philosophy.

Working with stakeholders and industry associations

We seek to set a positive example as an investor, as an employer and within our own communities. We aim to uphold and promote the highest standards of service and professional behaviours and to enhance the reputation of the investment industry. This also encompasses a responsibility to promote well-functioning financial markets. To support this, we are a member of several groups and industry bodies, as set out below.

Membership organisations	Start date
International Corporate Governance Network (ICGN)	2001
Carbon Disclosure Project (CDP)	2002
Asian Corporate Governance Association (ACGA)	2005
UN Global Compact (UNGC)	2006
United Nations Principles of Responsible Investing (UNPRI)	2007
Investor Forum	2015
Council of Institutional Investors (CII)	2015
Institutional Investors Group on Climate Change (IIGCC)	2016
Investor Stewardship Group (US Stewardship Code, ISG US)	2018
Focusing Capital on the Long-Term (FCLT) Global	2018
Taskforce on Climate-Related Financial Disclosures (TCFD)	2020
Farm Animal Investment Risk and Return (FAIRR)	2020
UK Centre for Greening Finance and Investment (CGFI)	2021
EM Investor Alliance (EMIA)	2021
Taskforce on Nature-Related Financial Disclosures (TNFD)	2021
International Sustainability Standards Board (ISSB)	2021
Net Zero Asset Managers initiative (NZAMi)	2021
Climate Action 100+	2022

The examples below detail how we have contributed to these groups to advocate for well-functioning financial markets and improvements in corporate governance and sustainability regulation.

European Fund and Asset Management Association (EFAMA)

Baillie Gifford is a member of EFAMA, which represents the European investment management industry. As part of our membership, we are part of the ESG & Stewardship Standing Committee. In 2022, a manager in our Compliance Department was re-appointed as Vice-Chair of the committee up to September 2024, recognising the importance of sustainability regulatory developments coming out of Europe. As members of the committee, we are involved in the review, discussion and collation of legislative developments and issues facing the industry from a sustainable finance perspective. Through our membership of the committee, we have contributed to consultations on the fund naming guidelines and the review into the functioning of the Sustainable Finance Disclosures Regulation (SFDR), ensuring that the regulations meet the requirements of the investment management industry and the needs of our clients. As Vice-Chair of this Committee, we have also been involved in discussions with representatives from the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) regarding the proposal to regulate ESG ratings providers.

International Sustainability Standards Board (ISSB)

The ISSB develops sustainability disclosure standards for the IFRS (International Financial Reporting Standards), with the aim of creating a consistent global baseline for capital market sustainability disclosures. Baillie Gifford is a member of its Investor Advisory Group and our membership allows us to engage with different investor perspectives on how these standards can be used and implemented. This includes discussion of the recently launched IFRS S1 and S2 standards and their potential adoption by financial reporting regulators in different jurisdictions around the world.

We also responded to the following consultations during 2023, either directly or through the groups that we are members of:

FCA CP22/20: Sustainabilty Disclosure Requirements (SDR) and investment labels	Consultation	Jan-23
ESMAs consultation on guidelines on funds' names using ESG or sustainability-related terms	Consultation	Feb-23
UK's Transition Plan Taskforce Disclosure Framework and Implementation Guidance	Consultation	Feb-23
FCA 23/1: DP on finance for positive sustainable change	Discussion Paper	May-23
HMT consultation on proposed regulatory regime for ESG ratings providers	Consultation	May-23
ESA's consultation on the review of SFDR Delegated Regulation	Consultation	Jun-23
Consultation on Draft Code of Conduct for Environmental, Social and Governance (ESG) Ratings and Data Product Providers	Consultation	Aug-23
Consultation and discussion paper on vote reporting from the Vote Reporting Group	Consultation	Sep-23
UK Sustainability Disclosure Technical Advisory Committee (TAC) call for evidence on proposed endorsement of IFRS Sustainability Disclosure Standard in the UK	Call for Evidence	Oct-23
European Commission consultation on SFDR Level 1	Consultation	Dec-23
Department for Energy Security & Net Zero call for evidence on Scope 3 emissions in the UK Reporting Landscape	Call for Evidence	Dec-23
FCA Consultation on diversity and inclusion in the financial sector	Consultation	Dec-23

Membership of such groups and industry bodies also enables us to keep abreast of developing market-wide and systemic risks, ensuring that our policies and procedures remain relevant. We recognise, however, the sometimes rapidly changing nature of these risks, and the impact this can have on businesses. Some of the case studies detailed in the **Stewardship in Action** section and under **Principles 9, 10 and 11** in this report demonstrate how we have sought to influence issuers to manage and respond to market-wide and systemic risks.

Alignment of investments: Net zero committed portfolios

Baillie Gifford is a member of the Net Zero Asset Managers initiative (NZAMi). By the end of 2025, we aim to ensure every client has the option, if they choose to pursue it, of investing in specific support of the achievement of global net zero emissions by 2050 or sooner.

Around 25 per cent of the assets Baillie Gifford invests on behalf of clients is managed in this way. This proportion has risen by a quarter, from 20 per cent, over the course of 2023. We take care to ensure that portfolio-level targets meet our clients' wishes and investment objectives.

Each committed portfolio is invested and managed such that by 2030 at least 75 per cent of all holdings, or (for some of our less concentrated portfolios) financed emissions, will have robust targets, strategies and performance that demonstrate company-level alignment with an appropriate fair share of a global net zero 2050/1.5C outcome. By 2040, all holdings will be so aligned. More details can be found on our website and in relevant investment fund documentation.

Assessment of effectiveness in responding to market-wide, systemic risks

In addition to our role as an asset manager, we recognise our responsibility to safeguard and promote well-functioning financial markets. Resilient global financial markets, which are less prone to shocks and can more effectively facilitate long-term growth, will determine long-term investment returns. We engage in the development of regulatory frameworks and industry-wide standards to safeguard the long-term interests of our clients invested in our funds. To do so effectively, we commit sufficient time and resources across all levels of the firm.

Fundamentally, we believe the role of the asset management industry is to act as an active and responsible capital allocator towards assets that add economic value over the long run. We think this is often forgotten amid the increasing complexity of financial markets. We make active capital allocation decisions towards companies, countries and asset classes that we think will prosper over the long run. We do this primarily through buying and holding the listed equities of responsibly run businesses. We think our fundamental analysis, active management and focused business is our best line of defence against systemic risks, and the best way we can promote well-functioning markets.

As a bottom-up, long-term asset manager, our focus tends to be on individual investment cases and those issues that are specific to the assets in which we invest. Market-wide and systemic risks are incorporated as relevant to specific portfolios and we have increased our focus on these in our group-wide risk discussions.

Principle 5 Review and assurance

Our ESG Oversight Group reviews the firmwide policies that support our ability to be effective stewards of our clients' investments. Consequently, their responsibilities extend beyond policies specific to ESG research and stewardship. Record keeping, risk monitoring and fund prospectus terms are all in scope, with relevant items reviewed throughout the year. The Group has partner representation and is supported by Compliance and other teams, such as Business Risk.

The Management Committee can initiate the preparation of new policies or the revision of existing policies. Such policies include, but are not limited to: **Conflicts of Interest Disclosure**, Baillie Gifford's **Diversity and Inclusion policy**, the **Modern Slavery Statement**, our **Supplier Code of Conduct**, and **Group Tax Strategy**. All such policies are publicly available on our website for our clients and other stakeholders to access.

Concerning ESG-focused policies, **Our Stewardship Principles and Guidelines** is reviewed annually to ensure it continues to reflect our approach and incorporates any emerging areas of relevance. As part of our review, we reflect on any actions from the previous 12 months and what we believe may be of importance in future, taking on board feedback from clients, colleagues, relevant experts and other industry participants. Any changes to the policy are discussed and approved by the ESG Oversight Group. The document is then approved by our Management Committee, as well as entity boards, to ensure there is oversight at the highest level within our organisation.

In 2023, we carried out a comprehensive review and update of **Our Stewardship Principles and Guidelines**. While our overall approach remains consistent, we made the following changes:

- Revised our Stewardship Principles
  - Removed 'Constructive and Purposeful Board' principle
  - Removed 'Long-term Focused Remuneration with Stretching Targets' principle
  - Introduced 'Governance Fit for Purpose' principle
  - Updated 'Sustainable Business Practices and Long-term Value Creation' principles
- Simplified our Voting Guidance
- Expanded and updated the section on our approach to ESG integration
- More clearly signposted key policy areas

We also changed the format and structure of the report to allow clients and other interested parties to access individual sections rather than the full document, where that was their preference. We hope the update is helpful to all users.

Internal and external assurance and continual improvement

During 2023, our Business Risk Department continued to establish and embed a robust set of internal controls related to our ESG and Stewardship commitments. These controls are assessed periodically through a qualitative assessment process to determine the ongoing effectiveness of our approach.

In addition, Baillie Gifford's Internal Audit function is well established and provides independent objective assurance over the firm's systems and internal control environment. The annual audit plan consists of thematic audit reviews and continuous assurance over key controls which covers a breadth of activity across the firm. In May 2023, Internal Audit undertook a review of the firm's proxy voting process and controls and noted that some improvement was required in how non-standard voting policies are implemented. Appropriate action has been taken by management to address the findings raised and these have been validated by Internal Audit.

We believe our multilevel approach to assurance is in line with best practice, ensuring that clients' interests continue to be put first.

Reporting oversight

In 2022, Internal Audit performed an independent review of the Investment Stewardship Activities reporting process. The purpose of this review was to assess the processes, controls and governance framework in place for the production and approval of the report and verify the accuracy of the contents and messaging within the report. They noted no material deficiencies with the reporting process. This 2023 report was not subject to review by Internal Audit however the processes, controls and governance framework is consistent with the prior year.

The approval hierarchy for this report remains aligned with the day-to-day governance of our stewardship activities. Our ESG team authors a draft which is then submitted to the Oversight Group for sign-off before it is recommended to the Management Committee and relevant boards.

There is, therefore, the appropriate delineation between those who set the policy and monitor its performance and execution (the Oversight Group) and those who implement the policy (the investment teams and ESG analysts).

Fair, balanced and understandable

We take a deliberate approach to ensure that our stewardship reporting is fair, balanced and understandable. Materials considered financial promotions, which can include proxy voting reports, company case studies and thematic papers, are reviewed by our Financial Promotion Approvals Team. Members of the ESG Core Team also regularly review relevant publications. These reviews are completed to ensure reporting is fair, factual, and appropriately represents relevant views, perspectives, and opinions.

When we publish company case studies, as included in this report, we aim to provide a balanced view. In this report we have included case studies from different sectors, geographic regions, asset classes, with different themes and outcomes.

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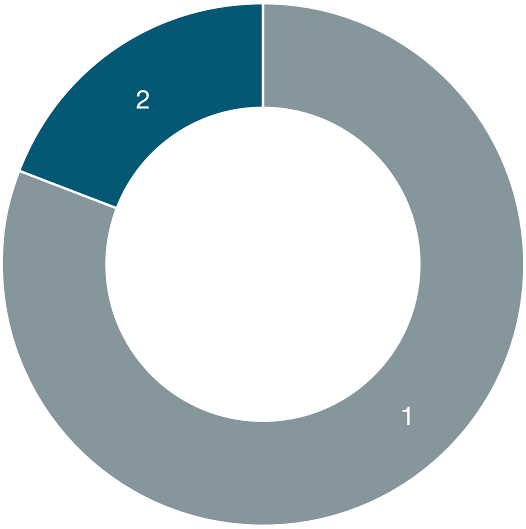
Principle 6 Client and beneficiary needs

As at 31 December 2023, our assets under management and advice totalled £225.7bn. Further details split by client type, asset class and investment region are below:

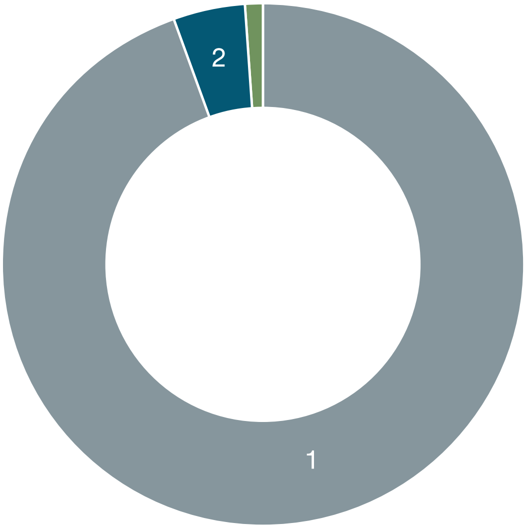
AUM by client type



Client type	%
1 Institutional	80.9
2 Retail	19.1

Figures may not sum due to rounding.

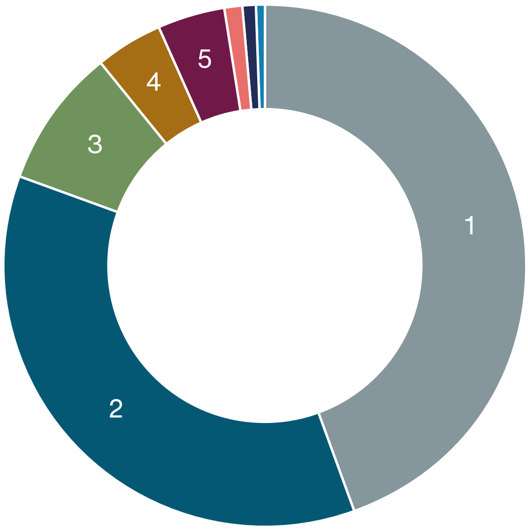
AUM by asset class



Client asset class	%
1 Equity	94.7
2 Balanced and multi asset	4.3
3 Fixed income	1.0

Figures may not sum due to rounding.

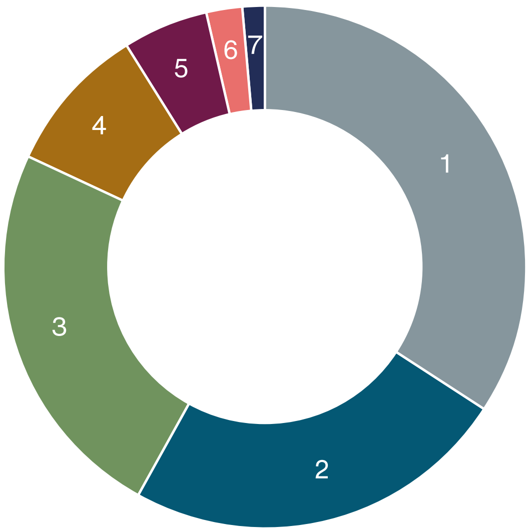
AUM by client region



Client region	%
1 North America	**44.7**
2 UK	**35.9**
3 Asia	**8.6**
4 Europe	**4.4**
5 Australia	**3.9**
6 Middle East	**1.3**
7 Latin America	**0.8**
8 Africa	**0.4**

Data as at 31 December 2023. Figures may not sum due to rounding.

AUM by invested region



Invested region	%
1 North American Equity	**34.2**
2 Emerging Markets Equity	**24.0**
3 European Equity	**23.9**
4 Developed Asia Equity	**9.1**
5 UK Equity	**5.3**
6 Fixed Income	**2.3**
7 Cash and other	**1.2**

Data as at 31 December 2023. Figures may not sum due to rounding.

Length of the investment time horizon appropriate to deliver to the needs of clients and beneficiaries

When we invest in companies on our clients' behalf, we typically do so with a five-year-plus investment time horizon. This is aligned with our long-term, bottom-up investment style. An output of our investment style and time horizon is longer holding periods. Our equity strategies hold companies for an average of almost eight years. This contrasts with an average holding period of between three and four years for active equity strategies globally.

This approach is consistent with the time horizon of clients, the majority of which remain institutions that are ultimately responsible for pensions and other long-term investments. With respect to our retail clients, we are explicit about our long-term approach in our marketing and client materials to ensure clients understand our style of investing and investment time horizon. Almost all our retail investors invest with us via an intermediary, whom we communicate with to inform them of our approach.

Receiving clients' views

Clients may request that we adhere to their own stewardship policies. Examples include specific voting requirements for segregated mandates or enhanced reporting on our engagement activities. Where this is the case, we will discuss this with the client, noting deviations from our **Proxy Voting Guidelines.** Where feasible, we will implement these requests. For voting activities, this can take the form of allowing segregated clients to have a role in directing the voting of their assets (such as retaining voting rights over their own account) or delegating voting rights to Baillie Gifford but retaining the ability to instruct us to vote in a certain direction on specific votes. We have and will continue to explore the feasibility of 'expression of wish' in relation to voting undertaken for pooled fund clients. More details on work undertaken here can be found under **Principle 12** of this report.

Given the importance that we place on effective stewardship, the information we share with clients aims to provide them with a holistic view of their fund performance and our broader approach to managing their assets. This includes providing insight into company engagements and voting activity. We provide all institutional clients with quarterly reports, and an increasing number of our investment strategies also produce strategy-specific stewardship reports. We publish high-level engagement and voting activity details on our website each quarter. We also regularly meet client requests for additional information on our stewardship approach to help them fulfil their own stewardship reporting requirements. During the past 12 months, we have worked on structuring some of our stewardship reporting to meet industry templates, such as the Pensions and Lifetime Savings Association implementation statement template on voting and engagement. This was in response to direct client feedback.

Ongoing dialogue with clients is key to ensuring we understand expectations and are delivering against them. Another method of soliciting client input is our annual client survey, discussed earlier in this report under **Principle 1** and below.

Alignment with clients' stewardship and investment policies

All Baillie Gifford pooled funds are managed in line with fund documentation, which clients must agree to before investment. Where reference is made to relevant Baillie Gifford policies, those are made available to clients. All fund information is also available via the dedicated fund pages on our website. This ensures clients invested in our pooled funds understand and are aligned with our stewardship and investment policies. Segregated client mandates are managed in line with the Investment Management Agreement (IMA) signed by Baillie Gifford and the client before investment. The IMA references either Baillie Gifford's stewardship investment policies or the client's. The relevant documentation is reviewed by both parties and coded onto our proprietary investment restrictions systems to ensure we manage assets in line with our agreement with clients. These processes ensure our stewardship activities align with what we have agreed with our clients.

Baillie Gifford has developed a proprietary corporate governance system (CGS) that combines the team's proxy voting, research and engagement work on one platform. CGS is integrated into our internal investment research systems, ensuring that knowledge, research and engagement information is shared across the investment floor.

CGS uses electronic data feeds with external voting agents to allow straight-through processing of proxy votes. In addition, it connects voting action to our client quarterly reporting. Our preference is to exercise voting rights in line with our policy on behalf of our clients. As noted, for clients with a segregated mandate with us, we are open to discussing a bespoke voting policy, and our CGS system facilitates the application of these client-specific policies.

We have a limited firmwide exclusion policy that includes controversial weapons and screens for cannabis. Our clients dictate any further exclusions based on their preferences or requirements. Some clients choose to include provisions in their investment mandate that preclude us from investing in certain sectors due to environmental, social or ethical considerations, including alcohol, armaments, gambling, adult content, tobacco, thermal coal and tar sands.

Most fund investment restrictions are controlled automatically by our restrictions system, and an order cannot be moved to deal until restrictions have been checked. Restrictions that cannot be automatically checked are added as manually checkable restrictions and are checked pre-trade by the investment manager when orders are created. An investment manager authorises justifiable breaches of client restrictions and an explanation is documented. The ESG Assurance Group monitors restriction breaches linked to ESG criteria, and the Investment Risk Committee monitors other breaches of internal guidelines.

A post-trade compliance check is undertaken for each client by the Mandate Compliance Team daily to ensure that market movements have not moved the portfolio near to or beyond restriction guidelines.

Outcomes

Our annual client survey (referred to in the discussion under **Principle 1**) is a key mechanism for assessing our efficacy in meeting client expectations. As noted, our score declined this year against the backdrop of another challenging year for investment returns. At the time of report publication, we are conducting a more detailed analysis of the survey findings and identifying opportunities to improve client engagement further. We also have several projects underway that we hope will provide clients (and indeed other stakeholders) with easier access to information about the firm and our philosophy and approach.

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Principle 7 Stewardship, Investment and ESG Integration

Baillie Gifford invests in companies at different stages in their evolution, across widely different industries and geographies and we celebrate their uniqueness. Consequently, we are wary of prescriptive policies and rules, as these often run counter to thoughtful and beneficial corporate stewardship.

At the firm level, **Our Stewardship Principles** set out our broad expectations of all our holdings and identify the categories of ESG issues that we believe are likely to be relevant:

01. Long-term value creation

We believe that companies that are run for the long term are more likely to be better investments over our clients' time horizons. We encourage our holdings to be ambitious, focusing on long-term value creation and capital deployment for growth. We know events will not always run according to plan. In these instances we expect management to act deliberately and to provide appropriate transparency. We think helping management to resist short-term demands from shareholders often protects returns. We regard it as our responsibility to encourage holdings away from destructive financial engineering towards activities that create genuine value over the long run. Our value will often be in supporting management when others don't.

- Our case study on **Ambu** sets out our engagement to support the realisation of opportunities that could be a source of future growth for the business.

02. Governance fit for purpose

Corporate governance is a combination of structures and behaviours; a careful balance between systems, processes and people. Good governance is the essential foundation for long-term company success. We firmly believe that there is no single governance model that delivers the best long-term outcomes. We therefore strive to push back against one-dimensional global governance principles in favour of a deep understanding of each company we invest in. We look, very simply, for structures, people and processes which we think can maximise the likelihood of long-term success. We expect to trust the boards and management teams of the companies we select, but demand accountability if that trust is broken. Our case study on **CAR Group** describes our engagement with the board on its remuneration arrangements for the CEO and executive management.

03. Alignment in vision and practice

Alignment is at the heart of our stewardship approach. We seek the fair and equitable treatment of all shareholders alongside the interests of management. While assessing alignment with management often comes down to intangible factors and an understanding built over time, we look for clear evidence of alignment in everything from capital allocation decisions in moments of stress to the details of executive remuneration plans and committed share ownership. We expect companies to deepen alignment with us, rather than weaken it, where the opportunity presents itself.

- Our case study on **Ubisoft Entertainment** presents our engagement with the company on the misalignment of outcomes between the family shareholder group and minority investors following a complex corporate transaction.
- Our case study on **CreditAccess Grameen** sets out our engagement to monitor the fair treatment of key stakeholder groups.

04. Sustainable business practices

A company's ability to grow and generate value for our clients relies on a network of interdependencies between the company and the economy, society and environment in which it operates. We expect holdings to consider how their actions impact and rely on these relationships. We believe long-term success depends on maintaining a 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. Material factors should be addressed at the board level as appropriate.

- Our case study on **Ryanair** presents our engagement on the outlook for sustainable aviation fuel and its importance to group carbon reduction targets
- Our case study on **EnQuest** addresses our engagement on fossil fuel transition planning
- Our case study on **Amazon** reflects our ongoing engagement with the company on Scope 3 emissions reporting and employee relations

Managing material ESG issues

While these principles are valid for all our investment strategies, individual investment strategies determine how to integrate the specific issues they will prioritise based on their investment approach and objectives. For example, in addition to firmwide ESG integration, some of our investment products adopt negative screening, positive selection or have an explicit impact focus. Further details of these products and their approach can be found on our website.

We use a variety of mechanisms to manage material ESG issues across the firm. In some instances, as is the case with Climate, we have a dedicated team which complements climate expertise embedded within investment teams and elsewhere in support functions. In other cases, we have continued to use our internal research groups to tackle particular ESG themes that are global in nature or that require additional technical analysis. We are mindful that material ESG issues can differ by geography, industry, and other factors, but these research groups have proven to be helpful in defining some common ESG risks and opportunities.

Climate

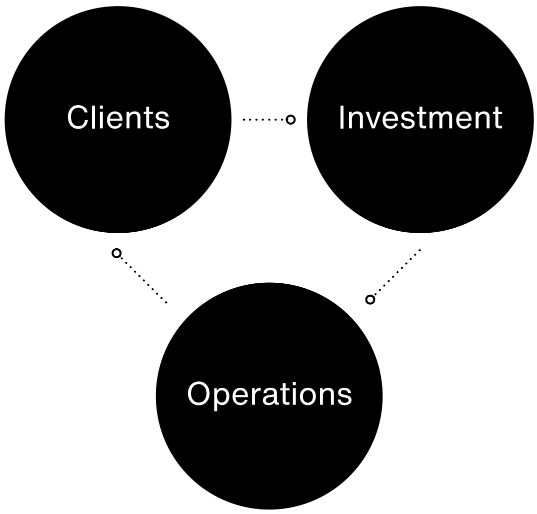
As investors, we are agents of our clients and stewards of their assets. We believe a successful transition that keeps increases in global temperatures to well below 2C and ideally to 1.5C this century offers our clients a better opportunity for strong long-term investment returns than a failed transition. We recognise that climate change is a topic of interest to our clients and also an area where we have influence through the running of our operations.

Our approach to climate change is therefore structured into three broad areas of activity covering clients, investing and our operations. This is described in more detail in our **TCFD Climate Report**. Specific objectives in each area include:

Every client to have the option to invest in a net zero-aligning portfolio by end of 2025

TCFD-aligned climate reports available for all portfolios by the end of 2024

Significant investment in client service capabilities



'Climate audit' assessments of at least 90 per cent of all holdings

Clear expectations of holdings with regard to climate-related disclosure and strategic awareness

Growing our knowledge through external perspectives

Achieve net zero emissions for our own operations by 2040

Deliver our existing 2019 target to halve emissions per full-time employee by 2025 from our 2019 baseline estimate

Set a new 10-year Scope 3 target using a 2023 actual emissions baseline

On investment specifically, we regard climate change as a potential threat to companies' ability to grow if they remain unaware of, or unprepared for, its potential impacts. Companies navigating the transition successfully should benefit from a range of long-term growth drivers, including increasing demand for their products, greater efficiency and regulatory support. Where we think such risks and opportunities are material to financial performance, we engage with holdings to better understand their strategy for addressing them. Our approach with holdings includes the following objectives:

- Completing an annual 'climate audit' assessment of at least 90 per cent of our holdings – counted on an assets under management (AUM) basis – including all 250 largest holdings. More detail on this assessment can be found under **Principle 4**.
- Communicating to all holdings our clear expectation that they provide basic climate disclosures (including Scope 1 and 2 emissions), with material Scope 3 emissions to be included by the end of 2025. We believe this information is important to facilitate effective investment research.
- Communicating to all holdings that are heavy emitters or very large energy consumers our clear expectation that they provide full Scope 1, 2 and material Scope 3 emissions disclosures. And, by the end of 2025 at the latest, our expectation that they will articulate strategies that acknowledge and align with the ambitions of the Paris Agreement, including mid-term milestones, appropriate governance and capital allocation. We know 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 assessments and stewardship activities.

Biodiversity

In its 2019 assessment, the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services concluded that biodiversity loss is happening faster than at any point in human history. As biodiversity underpins the services provided by ecosystems – from pollination to erosion control – biodiversity loss threatens the societies and companies dependent upon them. Additionally, preventing the further damaging effects of climate change depends on maintaining and restoring land and water ecosystems. While biodiversity has yet to achieve the same traction as climate, we are starting to see increased interest from some clients and other stakeholders in how we are managing biodiversity impacts and dependencies and our approach to deforestation (a primary driver of biodiversity loss and carbon emissions). Following the Biodiversity COP15 agreement in December 2022, the interest and focus on this topic from all industry participants – companies, regulators, asset owners and investors – has continued to evolve. During 2023, while engagement with and disclosure from companies remained uneven, we saw increasing numbers of interesting examples of leading operational practices, disclosures, and mitigation plans.

To enable us to understand our exposure and ability to mitigate this risk, a small group within Baillie Gifford has been exploring and developing approaches to assessing companies and portfolios. Our impact fund, Positive Change, and our central Climate Team has been leading the efforts. For our top priority holdings, we have developed a conduct assessment framework that allows us to investigate a company's approach to managing its impacts and dependencies.

So far, concrete outputs include several biodiversity audits, engagements with companies led by Positive Change, the development of a Deforestation Audit which will be rolled out firmwide in 2024, and the inclusion of water and deforestation flags within our firmwide Climate Audit. Our Deforestation Audit will aim to cover all companies identified by Global Canopy and related organisations as being materially linked to deforestation, all companies we identify as having 'leading' climate targets in our Climate Audit, and all companies within our top 50 investments.

Numerous biodiversity risk metrics and assessment tools are being developed in the industry. Though we currently utilise some of the more general data metrics to inform bottom-up research, we are concerned about the trend towards overly precise, poorly modelled data that claims to offer a level of accuracy which does not exist. We have been engaging with data providers and sharing our perspectives and continue to monitor developments.

Human Rights Research Group

The understanding of how a company affects human rights can improve our investment research and the longer term understanding of opportunities and risks for the business. In 2023, the Human Rights Research Group worked to further develop our thinking, action and integration of human rights in our investment research. A thought piece was commissioned from a leading expert on human rights which provides a framework through which analysts and investors can consider and navigate inherent complexities and tensions when examining companies' approaches to human rights. We engaged other practitioners to share their research and expertise and provide challenge to us. We articulated a set of seven principles to help teams across the firm address human rights questions in their work.

01. We do and must think about investments in their totality. It is short-sighted to think about companies without their social and political contexts and the opportunities and risks those contexts present. Considerations of corporate behaviour can easily become subjective or inconsistent without a structure in which to embed them.

02. Human rights provide a robust structure through which to consider corporate behaviour and social and political context. Internationally, human rights are codified in a series of multi-lateral treaties, as agreed by United Nations member states and as expressed in the International Bill of Human Rights. These are some of the most widely agreed principles in human history. We are expected to respect these rights both in our business and in how we invest on behalf of our clients as set out in the UN Guiding Principles on Business and Human Rights.

03. We are stewards of our clients' assets. Maximising the long-term returns of investments in companies is often not possible if one ignores the rights of those involved. Violation of rights, in addition to the harm they cause to victims, can damage the reputation and value of companies.

04. Human rights are universal. Their implementation, however, must be local and progressive. It is not possible, nor in the spirit of the treaties, to insist on complete uniformity. Investment decisions must take into account local context as well as direct and indirect impacts and distinguish degrees of agency.

05. Our investment decision-making balances a range of factors. How balances are struck will vary between investors and funds, according to the client's mandate.

06. We develop, maintain and apply our own frameworks for thinking about human rights in investment. The purpose of these frameworks is to help us act consistently and transparently.

07. We will, at times, be wrong. We must monitor how we incorporate human rights and how our consideration of them shapes our understanding of the trade-offs where they arise. We have implicitly done this but must continue to develop and refine our approach.

Over the next 12 months we will encourage the integration of these principles into company research, where appropriate. We recognise that these principles may evolve.

Corporate Governance Research Group

The Corporate Governance Research Group is a hub for knowledge sharing on corporate governance considerations within an investment context. In 2023, it initiated a project to reimagine executive remuneration for growth companies. A number of investment strategies within Baillie Gifford expressed an interest in developing generally accepted guidance on features of executive remuneration plans that have been found to be supportive in aligning management with long-term investors. The Group commissioned a leading independent expert to prepare a letter of advice to Baillie Gifford setting out the optimal (hypothetical) remuneration structure for a growth-focused listed company. We intend to use this independent guidance note to shape our thinking on executive remuneration.

The Corporate Governance Research Group is cognisant of the complexity and possible incompatibility of remuneration as a tool for both incentivisation and alignment. We will report our research findings, and next steps in our design and development of remuneration guidance for growth companies.

In addition to focusing on specific governance topics, we recognise that Baillie Gifford is one participant in the wider financial markets ecosystem. It is in our clients' interests that our actions instil trust from peers and stakeholders in the investment industry. We attend a range of industry events to ensure we participate in debates about well-functioning markets. As discussed under **Principle 4** we have also fed into a number of relevant industry consultations.

Diversity and Inclusion Research Group

This research group was initiated in mid-2023 as a sub-group of the Corporate Governance Research Group. Its formation was driven by a number of overlapping client, regulatory and investor questions on some practical aspects of the consideration of diversity and inclusion in the investment research process. Understanding that this subject is multidimensional, it is helpful to think about how, why, and when this subject becomes material to investee companies or portfolios. The group has proven to be a useful forum to gather, consider, and challenge our views. The group is a diverse mix with ESG team members and Human Resources represented. We anticipate that the group will conclude its work in early 2024.

Differences in approach to integration of stewardship

Across all our strategies, our approach can be broken broadly into three stages: investment research, investment decision-making and ongoing stewardship, including engagement and proxy voting. Relevant ESG factors are incorporated into each of these stages. How this is done and the specific ESG issues prioritised will vary depending on fund objectives, asset classes and the specific holding, including where the asset is located.

Mainstream equity strategies

We continue to advance the integration of ESG considerations into the pre-buy research process across investment strategies, as is appropriate to the strategy and research framework. As noted in our **Stewardship Principles**, we invest in companies at different stages in their evolution across different industries and geographies. We recognise that a company's approach to managing risks and opportunities associated with ESG indicators differs according to its and the market's stage of development. We tailor our stewardship approach to reflect these development phases and to incorporate an understanding of country-specific cultural norms.

For example, company disclosure on ESG issues such as water use, diversity or carbon emissions is likely to be poorer for small cap companies due to a lack of resources to capture this information. For emerging markets' companies disclosure may also be limited, partly in response to less developed market standards. While it is still important to encourage these companies to improve, we may give them more time to meet our disclosure expectations if we believe the company is engaged with and understands the material ESG issues that affect its business.

Our investment teams incorporate ESG issues in different ways though all undertake thoughtful ESG integration in line with our views that this is supportive of us delivering long-term investment returns. Below we present examples of how different investment teams integrate ESG considerations depending on their fund commitments:

01. A diversified global equity portfolio

- The strategy's investment managers and analysts spend most of their time researching stocks. ESG and broad sustainability considerations are a fundamental part of our investment research. Still, we also leverage the expertise of our ESG analysts for deep and specialised analysis on a case-by-case basis. This might range from a focused study on raw material supply chains and human rights issues to analysing board member experience, skills, competencies and qualifications.
- The key ESG question asked as part of all pre-buy research is: Is it sustainable? This is deliberately broad, designed to identify any aspect of the investment case that may impact a company's ability to compound growth, including the behaviours and actions of management towards ESG factors and whether they are likely to be good stewards of our clients' capital.

Consideration of these ESG factors does not stop at the point of investment. Ongoing engagement and development of our insight is a critical part of the process for generating long-term investment returns.

02. A concentrated global equity portfolio

A strategy-specific 10 Question Stock Research Framework is used to identify the companies that can unlock long-term sustainable growth opportunities.

The ESG questions include:

- What happens over 10 years and beyond?
- Is your business culture clearly differentiated? Is it adaptable?
- Why do your customers like you? What societal considerations are most likely to prove material to the company's long-term growth?

In response to the third question, our research typically considers factors such as the nature of the product or service, tax, environmental impact and labour relations.

Beyond those mainstream strategies, our equity strategies with ESG-specific commitments may consider additional ESG matters when researching securities.

03. A responsible global equity portfolio

The strategy focuses its research on identifying companies with business models that are sustainable over the long-term, avoiding those that cause harm. To identify these companies, the team considers:

- The impact, positive or negative, of a company's products and operations on society
- Its ambition to either further or address that impact, and whether this is best-in-class
- The level of trust the team should have in the management team and the board

04. An impact global equity portfolio

The strategy aims to contribute to a more sustainable and inclusive world. It seeks to do this by undertaking an independent analysis of a company's products and/or services to assess whether they contribute to one of the impact themes identified by the strategy and deliver financial returns over a five-year period.

The analysis of a social and/or environmental contribution of a company is carried out using a proprietary qualitative framework that is based upon assessing three factors:

- Products and/or services: the impact assessment considers the relationship between the products and/or services and the relevant critical challenge. There is an analysis of the breadth and depth of the environmental and/or social contribution including the materiality of the product and/or services, both in the context of the business and the relevant critical challenge
- Intent: the analysis of a company's intent towards delivering a positive social and/or environmental contribution, to determine how likely it is that the company will deliver on the expected impact. This includes considering a company's mission and how it is implemented; its strategy, actions, commitments and structures; and its influence in the wider society
- Business practices: the analysis of a company's business practices to determine whether it can achieve sustainable growth. There is an analysis of the company's actions across the full value chain and its relationship with all stakeholders

This analysis determines which companies make it into the portfolio and highlights priority companies and areas for engagement.

Once we have invested in a company for our clients, our investors will monitor the investee companies' performance and their progress towards delivering positive social and/or environmental contributions and investment returns.

Multi Asset

Our Multi Asset portfolios have dual objectives focusing on return and risk. We actively consider all potential opportunities and vulnerabilities associated with each position throughout the investment process. We also conduct thematic macro research incorporating material ESG factors. This includes incorporating climate-related scenarios into our long-term return exercise and climate-specific scenarios in our forward-looking (risk management) scenario analysis.

Summary of approach

01. Firmwide Shared Beliefs, principles and policies

- Shared Beliefs, Stewardship Principles and guidelines
- Dedicated and embedded Multi Asset ESG analysts

02. Top down: ESG – risks and opportunities

- Thematic macro research
- Climate-informed long-term return expectations for various asset classes
- ESG-related scenario analysis

03. Bottom up: A case-by-case approach

- ESG materiality scoring assessment
- External relationships, industry memberships
- Identification and monitoring of ESG milestones
- Company engagement

04. Portfolio construction: an active approach

- Position sizes
- In-house proxy voting
- Stewardship research and engagement

05. Reporting

- Engagement and proxy voting
- Firmwide TCFD report
- Annual Stewardship report
- Fund-level carbon footprinting

One question in the multi asset investment research framework – 'Is this investment compatible with a sustainable economy?' – focuses on the sustainability of the investment and the positive contributions that it is making. We assess the portfolio holdings against our proprietary framework, which references the Sustainability Accounting Standards Board's (SASB) five dimensions of materiality.

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

Fixed Income – corporate bonds

All of our corporate bonds are subject to ESG analysis before investment and ongoing review. Our current approach was formalised in the fourth quarter of 2021, with the formal introduction of embedded ESG analysts in the different investment teams (described further under **Principle 2**). The research is structured around our sustainability assessment, which is a key pillar of the resilience analysis at the core of our research process for corporate bonds and the starting point for engagement activity.

The overall objectives of company engagement are to fact-find, assess, and influence. We focus our efforts on higher-risk holdings. These are companies categorised as adapting to a sustainable future through sustainability assessment and those that have a high climate impact. Here, we apply objective markers, or milestones, against which to measure and monitor the progress of companies. Our goal is to clearly signal to management where we seek improvement. If expectations are not met within an appropriate timeframe, we will, unless there are clear mitigating circumstances, escalate or divest the lagging holding. As long-term investors within the asset class, we believe we are well-positioned to influence and monitor corporate holdings over time.

Fixed Income – government debt

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

Engagement channels are rapidly evolving for bondholders, where there is a growing recognition that engagement can not only improve the communication barrier on sustainability challenges for the investor but also the issuer. Corporate bondholders have naturally followed the equity owner approach to engagement. However, there has been no natural path to follow for sovereign bondholders. This leads to the question: how can a sovereign bondholder engage, and what is the objective?

We seek to engage with sovereigns through various channels: feedback at primary issuance, investment trips where we meet with the Ministry of Finance, the Central Bank and representatives from the government more broadly, and collaborative engagement through groups such as the Emerging Markets Investors Alliance (EMIA). The EMIA is a not-for-profit organisation that brings together government issuers, asset managers and policy experts to encourage good governance and support sustainable development. Using all these engagement channels is integral to our mission to lend responsibly to countries creating a sustainable future.

When considering our objectives, an essential starting point is to recognise the difference between engaging with a corporate versus a sovereign. We recognise the main stakeholders of a government are its people. However, as bondholders, we can signal to a government that not aligning with our sustainable objectives is a barrier to investment. The message is simple: policies can improve the business environment, lower credit risk, and support growth and sustainable development. Sovereigns that show a willingness to engage and are clear on their objectives form a powerful feedback loop back into our research process, milestone monitoring and, ultimately, capital allocation.

Utilising our engagement channels, we are leading a collaborative engagement with Costa Rica to improve public participation in its budgetary process. We have ongoing engagements with Cameroon, Chile, Colombia, Hungary and Paraguay to improve budget transparency. To advance our approach to sovereign climate engagement, we are participating in the EMIA Sovereign Decarbonisation programme and are currently working with other asset managers to engage with Egypt, Indonesia and Saudi Arabia.

In 2023, we participated in the Institutional Investors Group on Climate Change (IIGCC) sovereign bonds and country pathways working group, engaged with development banks and joined a working group to improve emerging market-labelled debt standards.

Private companies

We believe that the best returns over the 15-year-plus periods over which our Private Companies Team invests will come from well-managed businesses which address the challenges and meet the needs of society.

We use our ‘10 Question’ framework for all new investments, and environmental and social impact will often be woven into our questions on sales growth, competitive advantage and returns. We have a specific question around leadership and culture. Typically, we will have many conversations with management, employees and board members before investing and continue these after investment. We also have a question aimed at identifying environmental and social opportunities and risks. We will often follow up our reading on material topics with conversations with industry experts and academics to inform our analysis. We also have an additional question that encourages us to think about how we might help the company.

When we make investments, our Legal Team reviews the investment documents and involves Baillie Gifford investors in key decisions and negotiations. Our general aim on the legal side is to have clean, simple structures that encourage alignment with the company's future over the long-term – rather than giving certain investors conflicting incentives that might harm the company's long-term trajectory. If appropriate, given our cheque size and legal restrictions, we will also ask for a board observer seat or access to board papers.

After investment, we aim to have close relationships with management and the board of companies. This is principally for our monitoring of the investment case, to help companies, or engage on issues that matter. Where appropriate, we help companies develop corporate governance practices, through direct input or linking them with Baillie Gifford's governance experts to discuss topics like dual class share structures, board composition and pay. In 2023, we hosted a forum for the CFOs of a number of our private companies investments. During that two-day event we ran sessions on ESG strategy and governance. Following the session, we produced a short note helping private companies which may be preparing for listing to understand the baseline expectations of listed equity investors. This note will now be shared, as appropriate, with our private equities investments.

The process to ensure alignment with client time horizons

Clients select us for our active investment approach. We are consistent in our process, philosophy and timeframes, and we communicate clearly and transparently with clients on an ongoing basis, proactively and in response to client queries. Our continued interactions with clients – whether through our annual survey or regular client meetings – ensure we remain aware of client expectations as these change over time. Our client survey is discussed in **Principle 1**.

Our long-term, fundamental investment philosophy aligns well with that of our institutional clients, who also have long time horizons. Our investment processes, from idea generation through to stewardship activities with our holdings and finally divestment are all a result of long-termism. Our average ownership period of seven years is clear evidence of this. Our case studies presented in our **Stewardship in Action** section also reflect the length of our relationships with companies, our sustained engagement and our responsible stewardship.

Alignment with different geographies

In line with our active, long-term investment approach, we analyse companies from a bottom-up perspective. However, we also consider investment-relevant geographic factors, whether related to geopolitical risk and country-specific fiscal and monetary factors (such as inflation, tax rates and foreign exchange rates); or business norms and corporate governance factors, (such as CEO duality, unitary or two-tiered boards, and typical levels of board independence). While our regional strategies exhibit comparatively less geographic diversity, our Global and International strategies hold companies across a broad geographic universe.

Processes to ensure service providers have received clear and actionable criteria to support the integration of stewardship and investment, including material ESG issues

As noted elsewhere in this report, we do not outsource any direct stewardship responsibilities to third-party service providers. Where we use third-party sources for indirect purposes, we appraise the research and data they provide to ensure it is accurate and useful in supporting our stewardship and ESG integration activities.

Stewardship informing acquisition, monitoring and exit

Our **Stewardship in Action** case studies, which follow in the next chapter, demonstrate a variety of engagement activities. The following examples highlight how our ESG integration has shaped our investment outcomes during 2023.

Acquisition

Our case study on **CreditAccess Grameen** is an example of an engagement which informed our increased ownership of the company. Since increasing our stake, the company has continued to perform well for our clients.

Monitoring

Our case study on **Amazon** is an example of an engagement which illustrates the value derived from ongoing monitoring of material ESG factors. This is a significant holding for our clients. We believe that maintaining a holistic understanding of emerging risks and opportunities is key.

Exit

Our case study on **Ubisoft Entertainment** is an example of an engagement which informed our decision to exit as an equity investor. Prior to exit, we will ordinarily consider engaging as a means of safeguarding our clients' assets. In this case, it was our conclusion that the best course of action for our clients was to sell our holding.

Stewardship in action

In our 2022 report we presented case studies of active engagements undertaken during the year. Feedback from clients and wider readers of the report was positive so we are pleased to do it again. Our discussions with companies span various topics, from operational updates and strategic outlooks to management changes, market conditions, and more explicit ESG factors. These conversations are tied to our investment theses and broadly align with one or more of our Stewardship Principles. In this section, we have highlighted a few of our ESG-focused engagements to illustrate how we consider these as part of our overall investment approach.

We have identified the ESG focus areas for each company as we see them, based on our qualitative analysis of stock-specific materiality. While we do not seek to measure the quality of our stewardship activity by the volume of engagements with any one company, we tend to see a correlation between the duration of our active shareholding period and the quality of our engagements. We can evaluate these through our access to management and boards and our ability to exercise positive influence on companies. Naturally, each engagement builds upon the last and informs subsequent objectives, which we capture in our case studies under the 'Next steps' sub-heading.

Engagement timelines

A fundamental tenet of our long-term focused investment style is that we look to develop strong ties with boards and company management, and wider stakeholders, based on mutual trust and respect. We have attempted to reflect the extent and duration of our active approach to stewardship through non-exhaustive timelines. We haven't included every interaction with issuers, but we hope to communicate how our stewardship philosophy aligns with our long-term investment focus.

Engagement highlights

Amazon

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Background

Amazon engages in the retail sale of consumer products and subscriptions through online and physical stores in North America and internationally. It provides storage, database, analytics, artificial intelligence (AI) and other services to enterprise customers around the world. The global scope and scale of Amazon's business model introduces material sustainability considerations for its owners. As long-term, active shareholders we are well placed to discharge our stewardship responsibilities with this holding.

Focus areas

Employee welfare

Amazon has become one of the world's largest employers, making attraction and retention of workers a critical challenge. How it manages this task, while continuing to introduce technological innovations, is material to its future success.

Digital governance

Amazon's products and services are at the forefront of advanced computing and machine learning. Not only is governance critical to effective operation, but it must manage the integration of these advancing technologies into society. This requires effective partnerships with a wide range of stakeholders.

Climate strategy

Amazon has positioned itself as a climate leader by setting ambitious decarbonisation targets for itself and establishing The Climate Pledge to accelerate climate action by the world's top companies. With one of the largest value chains in the world, Amazon's sustainability initiatives can mitigate risk of supply chain disruptions, support its brand and reputation, and contribute to operational efficiencies and long-term cost savings. We believe its approach to decarbonisation is a material engagement focus.

Amazon

- **1999** First meeting
- **2004** Purchase
- **2009** Pre AGM call about disclosure
- **2012** Compensation discussion
- **2016** Met first sustainability executive
- **2017** Corporate culture, data privacy, tax and working conditions
- **2018** Discussion on board diversity
- **2019** Corporate reporting, human capital management
- **2020** Shareholder resolutions – supported gender pay gap and climate change reporting
- **2021** Labour rights
- **2022** Engagement on climate strategy, unionisation and employee health and safety
- **2023** Met with Head of ESG to discuss sustainability initiatives

2023 – what's changed this year?

In September 2023, we engaged with the company on progress in decarbonisation, including the decision to step back from its previous commitment to establish Science Based Targets initiative (SBTi)-approved targets. Amazon referred to methodological differences with SBTi regarding business complexity and differentiated pathways made particularly pertinent by its high rate of growth. While recognising the significant, accumulating efforts in renewable energies and logistics, we repeated our long-standing encouragement that Amazon broadens the scope of its current targets to include upstream emissions from first and third-party sellers on its platform.

Later in the year, we met with two of the non-executive directors and a number of senior managers in Washington DC. The conversations covered employee relations, decarbonisation, board effectiveness and AI governance.

Engagement snapshot – December 2023

Objective

We were invited to attend in-person meetings with non-executive directors and senior management in Washington DC. We took the opportunity to raise questions in relation to our ESG focus areas.

Engagement

A representative of Amazon Workplace Safety presented convincingly on efforts to make the company an exemplar for safety excellence and transparency. There is similar ambition for the 'career choice' training programme, which some 150,000 employees have joined so far. Ensuring good workforce conditions and employee relations is critical if Amazon wishes to maintain the operational flexibility it thinks it needs for continuous improvement in process and automation.

On climate, there is continued progress in renewable fuels. Company representatives also acknowledged a need to respond to our long-standing request for expanded Scope 3 disclosures and we hope that this will be addressed in the forthcoming release of expanded supply chain standards. The use of AI was also raised. We discussed the advance of AI as a tool for both Amazon retail and enterprise customers, and gained some insight into the company's interaction with regulators. We also sought to understand how the board plans to educate itself on this fast-moving topic.

Outcome

Amazon's main agenda for the meeting came across as twofold: to demonstrate the engagement of the independent directors and the efforts being devoted to employee satisfaction. We reiterated our expectation on expanded supply chain engagement and the opportunity for Amazon to lead on responsible and transparent AI.

Next steps

We will continue to engage with Amazon across the range of ESG topics we believe are material to long-term financial success. Advanced computing and AI governance will be a particular area of focus for the coming year, alongside encouraging greater transparency in supply chain decarbonisation and monitoring of employee relations.

EnQuest

© EnQuest.

Background

EnQuest is an oil and gas exploration and production company with operating assets predominantly in the North Sea. Formed in April 2010 by a combination of the demerged assets of Petrofac and Lundin Petroleum, the company has subsequently acquired additional North Sea assets from BP, including the Sullom Voe Terminal (SVT) in the Shetland Islands. While the company's proven fossil fuel reserves will support continuing extraction for at least a decade, we believe EnQuest can potentially become an industry leader in providing CO_2 storage, creating long-term value for shareholders.

Focus area

Climate transition strategy

Companies operating in the oil and gas sector are faced with choices with respect to the energy transition. Will they take a long-term view and adapt their business accordingly, ultimately strengthening financial prospects, or will they seek to maximise short-term returns?

2023 – what's changed this year?

We had an on-site engagement in September 2023, following the completion of an internal climate transition analysis. Management outlined proposals to transform the SVT into a carbon capture and storage hub, aiming to ultimately become carbon negative by repurposing infrastructure and reducing legacy operational capacity, while also switching to a 100 per cent renewable power supply.

EnQuest

2010

First acquired in certain Baillie Gifford funds

First acquired in UK funds

2015

Environment engagement on climate change risks with management and Chairman

2019

Governance engagement with board on change of Chairman

2020

Governance engagement with new Chairman on EnQuest approach to climate change risk

2022

March
Engagement with management including discussion about its New Energy and Decarbonisation division

October
Governance engagement with board regarding appointment of new Chairman

2023

June
Internal climate transition framework analysis

September
EnQuest established scope 1 and 2 net zero commitment by 2040

Climate engagement with site visit

Engagement snapshot – September

Objective

We spent a day with operational leaders across the business at the headquarters in Aberdeen. This provided an opportunity to understand how the company is addressing different aspects of the energy transition. We discussed various challenges faced with existing oil and gas production as well as opportunities for new revenues from providing large-scale carbon storage.

Engagement

Sullom Voe Terminal (SVT) is one of Europe's largest oil terminals. EnQuest operates SVT on behalf of 19 different companies. We spoke to management about current projects at SVT, including decommissioning the power plant by 2025 as the terminal connects to the local onshore wind farm that will begin operation in 2024. EnQuest is also planning to reduce operational capacity at the terminal to match declining anticipated throughput volumes. Consequently, the company will create brownfield opportunities at SVT which can be repurposed to generate commercial revenues aligned to the energy transition. The company believes that the most significant is the potential to develop SVT as a carbon capture and storage (CCS) hub.

We learned about EnQuest's ambition to receive up to 10 million tonnes of captured CO_2 every year from UK and European customers. The terminal would take delivery by vessel, provide temporary storage and sequester the CO_2 through repurposing existing pipeline infrastructure that connects depleted offshore fields to the terminal. The company was recently awarded four CCS licenses by the UK Government to explore this commercial opportunity. If successful, this project would enable EnQuest to substantially reduce its operational emissions footprint and potentially become carbon negative. In contrast to all other CCS projects that have received early-stage approval from the UK Government, EnQuest intends to provide a merchant operation at SVT, which could reduce the time taken to secure regulatory approvals.

Outcome

EnQuest has now established a net zero decarbonisation commitment for its direct emissions by 2040, substantially ahead of the UK government's 2050 target. The company has also recently created a wholly-owned subsidiary, Veri Energy, to focus on commercialising potential energy transition opportunities. We are encouraged by various initiatives undertaken by EnQuest to reduce the company's direct emission footprint. However, we recognise that many significant challenges remain given the company is currently at an early stage in the development of the large-scale infrastructure projects.

Next steps

Since 2015, when we first engaged with EnQuest concerning climate change, we have observed substantial change in the company's approach to managing climate risk, in terms of both governance and operations. We are encouraged by the progress that EnQuest has made, particularly in establishing a 2040 net zero emissions commitment and pursuing the substantial CCS opportunity. For the company to manage the risks and opportunities from the energy transition, it is important that EnQuest delivers on both. We will continue to monitor the company's progress and engage with the management on these topics.

Ambu

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Background

Ambu is a Denmark-based medical device company focusing on single-use endoscopes. medtech (medical technology) innovations are successful when companies address healthcare challenges while generating net positive utility eg by introducing easy-to-use devices and facilitating access to the latest technology. Ambu is an innovator in medtech and the investment case is based on continued improvements to its existing product portfolio, and the move into emerging markets.

The industry move to single-use devices will support Ambu's entire product pipeline across Pulmonology, ENT (ear, nose,and throat), Urology and Gastroenterology. The benefits of single-use endoscopes are clear and include: reduced device wear and tear, so less chance of operation failure; reduction in time and cost for the cleaning and repair process; reduction in infection and re-admission rates; and improved ease of use. These result in an increased number of procedures and fewer cancellations.

Focus area

Strategy for growth

There is a strong business rationale to move away from reusables, which, if managed well, will support the growth case for this company. In addition, new opportunities in emerging markets become available.

Ambu

2022

April
Meeting with CEO, CFO and Head of Sustainability on environmental impact and access

September
Call with the new CEO to discuss strategy

October
Call with the Chief Risk & Compliance Officer

2023

February
Call with the CEO to discuss strategy

March
Call with the Chair of the Board to discuss governance

June
Call with the CEO and Chief Marketing Officer to discuss strategy

October
Meeting with the CEO and board members on Ambu's growth potential and governance

October
Call with the Chair of the Board on remuneration and upcoming changes to the board

2023 – what's changed this year?

We had several engagements with Ambu in 2023, including email exchanges, video calls, and in-person meetings with their leadership team. Management presented more detailed, actionable plans for growth over the next three-to-five years. We added insight to the growth strategy in support of geographic expansion ambitions by highlighting the role of supranational buyers and their long-term approach to costs and health systems strengthening.

Engagement snapshot – June 2023

Objective

Having analysed and assessed these geographic expansion opportunities we wanted to discuss our research with management.

Engagement

We met Ambu's CEO and Chief Marketing Officer to present research showing that the better product-market fit in emerging markets may suggest a lower hurdle to scaling up and higher rates of product adoption. Ambu were interested to see the outputs of our research and the fact that the benefits of single-use endoscopes (listed above) are more significant in the context of emerging markets than developed economies. The implication of the engagement for our investment case is that successful geographical expansion will improve Ambu's financial resilience.

Outcome

Management was receptive to our suggestions and indicated that it will explore the creation of a dedicated role overseeing geographic expansion into emerging markets.

Next steps

We will continue to engage with Ambu, on this growth potential providing support and networking with supranational buyers if needed.

CreditAccess Grameen (CAG)

Background

CreditAccess Grameen (CAG) is the largest pure-play microfinance (MFI) firm in India and has around 6 per cent market share. Its focus is on providing microloans to female customers predominantly in rural areas. It has approximately four million customers. We recognise that the fundamental offering of the business has a strong role to play in reducing poverty, as it serves those with limited, or otherwise sub-optimal access to capital. The majority of branches are located in South India, where the company was founded.

Focus areas

Fair treatment of stakeholders

We have had concerns over a possible disconnect between the promotion of business practices in investor materials versus the reality on the ground. Our research into the broader MFI sector has identified some common behavioural risks. These include:

- Borrowers being encouraged to take loans by their husbands or in-laws for personal consumption purposes, such as dowries
- Borrowers missing payments facing threatening behaviour or violence from either loan officers tasked with collection, or within their communities from the borrowing groups they belong to, leading to social ostracism
- Borrowers being insufficiently educated on the obligations of the loans

Gender diversity

Given that CAG's customers are female, we might expect to see this reflected in the composition of the board, executive management, and the employee base. Currently only around 8 per cent of staff are female. Management attributes this to the demands of the loan officer role. Loan officers are not deployed in their hometowns, but 80 to 100km away, which can require overnight separation from the family unit.

CAG

2021

August
Internal research note written

October
First acquired in certain Baillie Gifford funds

2023

January
Meeting with Investor Relations at broker conference

March
Management meeting and site visit in Bangalore

Management meeting in Edinburgh

July
Further additions to holdings by certain Baillie Gifford funds

Employee incentivisation

We consider there to be risks, both in operational and reputational terms, of loan officers being incentivised (either formally or informally) on collection rates, or new loans written. In our view, company incentive structures should encourage behaviours focused on quality, not just quantity, of loans and there is a clear requirement for good visibility into the social impact of loans based on a robust audit process.

2023 – what's changed this year?

In March 2023, two investment managers and an ESG analyst met with management at its corporate headquarters in Bangalore. We conducted a site visit with the company's Chief Audit Officer in a rural village, where we met with local loan officers and CAG borrowers. We also met with the local and regional branch managers at their offices nearby. Following this site visit we met with the CEO and CFO at its headquarters.

Engagement snapshot – March

Objective

To address outstanding concerns regarding the social impact of lending practices at CAG.

Discussion

Our engagement focused on two key topics: fair treatment of stakeholders and gender diversity across the organisation. We explored company culture and gender representation, as well as incentive structures. We took the opportunity to set out our expectations in relation to these topics.

Outcome

Our site visit was helpful in furthering our on-the-ground understanding of CAG. The field visit allowed us to gain a more holistic view of the company, and we were left with the impression of a mission-driven organisation.

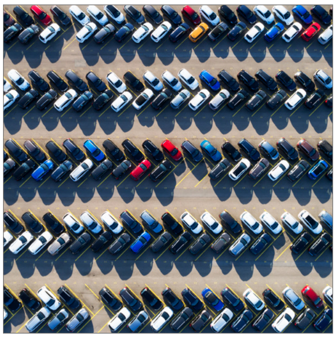
As a result, our conviction in the overall investment case has been strengthened. The satisfactory resolution of these concerns was a critical factor in some Baillie Gifford funds deciding to increase the size of our existing holding in July 2023.

Next steps

As CAG continues to scale, regulatory changes may become increasingly important. Deepening our understanding of the Indian financial system – and the role within this for MFIs – is an avenue for more exploration.

Physical risks arising from climate change are also a pressing concern. Management acknowledge that adverse climate impacts are increasing (flooding, soil quality, unpredictable rainfalls). To limit the risk, district exposure limits have been set to 1 per cent. CAG already operates a measure of services in disaster relief in which the company works with those affected by weather events to see what can be done to support them. We expect that this area will increase in importance in the coming years.

CAR Group



Background

CAR Group operates online automotive, motorcycle, and marine classifieds businesses, primarily in Australia. It is expanding into a number of other overseas markets. We believe the company is strongly orientated toward technological innovation, with this having enabled the company to build the most effective platform for vehicle sales in Australia. In turn, we believe this attracts more sellers and buyers than any of its competitors. Our analysis of the company's corporate governance structures and executive remuneration practices at the time of purchase flagged several concerns. We believe these concerns, when remedied, should increase the chances of better outcomes for our clients.

Focus areas

Executive remuneration

Around the time of purchase, on review of CAR Group's remuneration practices, we observed an over-complicated structure, with historical evidence of excessive use of discretion. We also viewed what we considered to be a lack of stretch in targets. Taken together, it was our belief that CAR Group's remuneration structures were not designed to effectively incentivise long-term decision making and were not sufficiently ambitious for executive management.

Board independence

CAR Group's classification of director independence has been a focus of engagement. While long tenure and affiliation does not necessarily mean a director does not bring independent challenge, a lack of ongoing refreshment, however, can contribute to a deterioration in board effectiveness as this can result in a reduction of robust independent challenge to executive management's decisions. Such independent challenge and external insight can be important components in fostering better long-term decision making within companies, to the betterment of outcomes for our clients.

CAR Group

2019

August
Purchase

October
Abstained on remuneration at AGM, due to concerns with the stretch of targets in the long-term incentive plan (LTIP)

2020

April
Meeting with CEO

October
Supported remuneration at AGM, due to positive improvements, albeit specific concerns on LTIP remained unaddressed

2021

October
Supported remuneration at AGM, however revaluated stringency of variable pay targets

October
Communicated to the company our view that remuneration targets should be more stretching

2022

October
Communicated our intention to oppose remuneration ahead of voting, due to continued concerns with the stretch of LTIP targets. Recommended improvements

October
Opposed remuneration at the 2022 AGM

2023

April
Meeting with Investor Relations

October
Meeting with Chair

October
Supported remuneration at the 2023 AGM due to company committing to increase the stretch of targets reflecting our previous engagement requests

2023 – what's changed this year?

Following a lack of target stretch in the company's long-term incentive plan (LTIP) at the 2022 AGM, we entered the year reiterating our request to see CAR Group increasing the vesting threshold for adjusted earnings per share (EPS). Throughout 2023, we had a number of interactions with the company. In April, we spoke with Investor Relations to discuss opportunities in the Australian market. In October, prior to the AGM, we met with the company's Chair.

On remuneration, at the company's 2023 AGM, we were pleased to see that our feedback regarding the stretch of remuneration targets had been taken on board. We considered our concern to have been resolved due to the company committing to increase threshold vesting from three per cent to five per cent from FY2024. Consequently, we supported remuneration at the meeting.

Engagement snapshot – October

Objective

We wanted to gain a deeper understanding of CAR Group's approach to remuneration and board succession planning. We also aimed to better understand how the board solicited external insights to bring challenge to executive management.

Discussion

Prior to CAR Group's 2023 AGM, we arranged a call with CAR Group's Chair, a non-executive director and General Counsel. On board succession, the company recognises that its increasing internationalisation requires it to evolve to ensure its board's composition to reflect the diversity of markets in which it now has operations. The board actively and frequently travel to CAR Group's markets, meeting with executive management there to ensure they understand regional context and challenges. CAR Group shared that the board aims for a balance in identifying suitable internal candidates who could step into board roles given their knowledge of the business. On remuneration, CAR Group highlighted proposed changes to its remuneration structure that, positively, had been changed to reflect our engagement requests made to the company following the preceding two AGMs.

Outcome

Our meeting provided us with insight into a board that appears actively and fully engaged with the business. While we can understand the company's position on looking at internal candidates for board positions, we hope to learn more about how CAR Group works to ensure independent challenge. This will be the focus of our next scheduled engagement. It was encouraging to see the board amend remuneration targets to reflect our previous feedback, thus leading us to support executive remuneration at the 2023 AGM.

Next steps

The concern we identified regarding board independence has shown signs of improvement over the course of our investment. We have agreed with the company to engage again on this topic.

Ubisoft Entertainment

© Ubisoft.

Background

Ubisoft Entertainment produces, publishes and distributes video games for consoles, PC, smartphones and tablets in both physical and digital formats in Europe, North America and internationally. The company designs and develops software, including scenarios, animation, gameplay, layouts and game rules, as well as develops design tools and game engines.

Focus area

Corporate governance

The founder Guillemot family group retains a significant equity and voting interest in Ubisoft. The family also represents a significant proportion of the board of directors. The interest of minority shareholders is a key ESG focus for Baillie Gifford. In September 2022, Ubisoft announced a transaction in which Chinese media company Tencent would acquire an additional stake through the controlling Guillemot Brother's holding company. This was an indirect transaction which would allow Tencent to increase its ownership beyond a 9.99 per cent limit. The family was able to sell shares at an implied value of €80 per share compared to a prevailing price of €40 per share. We had three concerns with this transaction:

01. The deal structure of the Ubisoft transaction raised concerns as it treated one group of shareholders preferentially, allowing the family group to partially sell out at a price of €80 while minorities were not offered the same price.

02. This created a potential conflict of interest as the founders sold their shares to Tencent at a premium.

03. The substantial premium paid by Tencent to the family raised the risk of the Ubisoft management team being unable to negotiate objectively with Tencent in the future.

Ubisoft Entertainment

2022

September
Meeting with CFO to discuss treatment of minority shareholders

October
Meeting with Lead Independent Director, Didier Crespel, to discuss treatment of minority shareholders

December
Meeting with Didier Crespel, CFO and Investor Relations to discuss treatment of minority shareholders

16 December
A further meeting with Didier Crespel

2023

March
Meeting with Investor Forum representative to discuss letter from investors

April
Investor Forum letter sent to the company

September
Pre-AGM call to explain our dissenting votes

December
Baillie Gifford exits equity holding due to unresolved governance concerns

2023 – what's changed this year?

During the latter part of 2022 we engaged extensively with both management and the Lead Independent Director to set out our fundamental governance concerns regarding the treatment of minority shareholders. During these meetings we set out our ownership expectations and suggested changes to the board of directors to improve oversight and ensure that there was adequate expertise and effective challenge. At the AGM in 2023 we escalated our concerns by opposing eight resolutions.

As part of this escalation, we opposed the deal itself (Resolution 4). However, Ubisoft has a classified board, which means directors are not up for election every year. As we were unable to register our opposition on the election of the Guillemot Brothers directly, we decided to oppose the compensation of all Guillemot Brothers (Resolutions 6,7,8,9,10) to register our dissatisfaction with their link to the deal. We also opposed two independent directors who were members of the Governance and Remuneration committees that approved the transaction for failing to adequately consider the perspectives of minority holders. The resolution encountered notable opposition, with 43 per cent of votes cast against it.

Engagement snapshot – September 2023

Objective

To communicate our escalation of engagement via the use of our voting rights at the AGM.

Discussion

Having previously spoken with Ubisoft management and the Lead Independent Director to express concerns about the Tencent deal, we looked for concrete actions evidencing the improved treatment of minority shareholders. In addition to the expectations set out by the Investor Forum collaborative engagement letter, on which we were consulted, we continued to independently seek changes to improve board oversight.

Outcome

Baillie Gifford voted against a number of resolutions at the AGM. Notably, this included the resolution to approve the Tencent transaction. That resolution encountered significant opposition. Ubisoft elected a new independent director, Katherine Hays, bringing corporate finance expertise to the board.

Next steps

While we were pleased to see some changes made to the board of directors in line with our communicated engagement objective, we do not feel that the company went far enough. Recent news around the issuance of convertible bonds suggests signs of further financial engineering which we feel demonstrated minority shareholder concerns were not being listened to. Consequently, and cognisant of the unresolved governance challenges, we considered it to be in the best interest of clients to sell the equity position.

Ryanair

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Background

Ryanair is a low cost airline headquartered in Dublin, Ireland. Based on passenger numbers, the company is the leading airline in Europe, carrying 182 million passengers in 2023 and aiming to grow passenger numbers to 300 million over the next 10 years. Globally, aviation accounts for 2 per cent of total greenhouse gas emissions and if the sector was a country, it would rank in the top 10 emitters, equivalent to Japan's total annual emissions. It is one of the most challenging sectors to decarbonise, with a combination of technological, operational and policy innovation required. Accordingly, Ryanair's efforts to decarbonise its business are crucial to ensuring its business model is sustainable and to mitigating risks to long-term value creation for its shareholders.

Focus area

Climate transition

Ryanair has made progress with its climate strategy over recent years. The company has set a Net Zero 2050 goal, which includes a 74 per cent cut in Scope 1, 2 and 3 emissions, supplemented by 26 per cent removals. In the short term, Ryanair targets a 5 per cent cut in Scope 1 emissions by 2026 versus 2023. It also targets a 35 per cent cut in Scope 2 emissions by 2030 versus 2022 levels, and a 50 per cent cut in Scope 3 emissions over the same period. On a carbon intensity basis, it is targeting a 26 per cent cut in Scope 1 and Scope 3 emissions by 2031 versus 2022 levels. This goal is considered science-based, 1.5 degree aligned and, at the time of writing, is undergoing validation by the Science Based Targets initiative (SBTi). Increasing the use of sustainable aviation fuel (SAF) is an important part of Ryanair's wider transition strategy. The company has set the goal for 12.5 per cent of all fuel used by 2030 to be SAF.

Ryanair

2009
March
Baillie Gifford first purchased Ryanair

2014
2014 to 2019
Ongoing engagements with company on governance practices

2019
Opposed the remuneration report due to concerns over the long-term equity award granted to CEO

2020
March
Engaged with newly appointed sustainability director to discuss reducing carbon emissions in the short and longterm

Meeting with incoming Chair

2021
September
Engaged with the Chair, non-executive directors and director of sustainability

2022
April
Attended Ryanair shareholder forum

July
Ryanair commitment letter submitted to SBTi

2023
May
Meeting with management to discuss strategy

2023 – what's changed this year?

Dialogue with the company has provided reassurance that meaningful steps are being taken to deliver on the company's climate transition strategy. Notably, the company has made progress towards its 12.5 per cent sustainable aviation fuel (SAF) supply target. Discussions have also provided reassurance that managing employee relations remains a key priority for management.

Engagement snapshot – November 2023

Objective

To learn more about how Ryanair's sustainability initiatives are supporting the business's long-term strategy.

Discussion

We met with the Director of Sustainability and the Chief People Officer. Among other issues we focused our engagement on Ryanair's strategic need for SAF in coming years. Management confirmed that contracts have been agreed with suppliers but that the 12.5 per cent target remains stretching.

We also discussed employee relations. The majority of employees are now under collective bargaining agreements. The Chief People Officer outlined the company's flexibility during the pandemic, protecting jobs and accelerating the restoration of pay.

Outcome

Ryanair's adoption of SAF and its sustainability efforts demonstrate its leadership in the industry. Despite its current strong position, the company must strategically handle future challenges such as succession planning and competition.

Next steps

Ongoing monitoring. We believe the company has set industry-leading targets with clear milestones to achieve its long-term objective of lower case. But this relies heavily on future technological improvements and the greater availability of SAF. To this end, we will actively monitor the company's progress in signing further SAF agreements with suppliers and the progress it makes integrating it into its fuel blend. We will also look for validation of its targets by the SBTi and the ongoing decarbonisation of the business towards its 2026 and 2030 goals.

Case study follow-ups

Drawing on a selection of case studies included in last year's report, the table below outlines how engagements have progressed year-on-year.

Company	Focus area	Next steps outlined in 2022 Stewardship Report	Summary of 2023 engagement and outcomes
Albemarle	Water use and community relations, Independent assurance	We intend to follow up with the company to learn more about its efforts to manage its impacts on the hydrology of the Salar de Atacama and speak to independent third-party experts on the efficacy of the Initiative for Responsible Mining Assurance framework.	**Engagement:** Following our research into the hydrogeology of the Salar de Atacama, we wanted to understand how Albemarle worked alongside other industries in the Salar on water monitoring. Regarding water monitoring, Albemarle has ~150 monitoring wells around the Salar and shares data with local government; the company is also collaborating with others in its industry on a more standardised approach to lifecycle assessments. **Outcomes:** We are pleased to see the company's continued progress towards industry-leading standards in mitigating the environmental and social impact of its operations. We believe this will give the company an important competitive advantage in the long term as customers look to ensure its lithium is responsibly sourced.
Genus	Decarbonisation	We intend to continue monitoring decarbonisation progress over time and encourage the company to act as a leading industry voice in investment in decarbonisation – particularly in emerging markets.	In March, we spent a full day with the management of Genus' beef and dairy division. The carbon reduction benefits associated with genetic improvement were set out by the company. **Outcomes:** We are cognisant of the long-term nature of decarbonisatiion of livestock chains. However, our engagement with Genus supports its focus on acting as a leading industry standard-setter.
Li Ning	Supply chain management	We will continue to monitor the company's adherence to human rights commitments and encourage further disclosure and supply chain transparency.	We have used Li Ning as one of the companies to test our Human Rights Framework developed during the year. It has aided our understanding of Li Ning's supply chain management process and choices.
Richemont	Governance	Given the Chair's influence, assessing and monitoring the resilience of corporate governance practices at Richemont is a key engagement priority.	During 2023, we engaged with senior representatives of the board of Richemont. Separately we sought direct engagement with the appointed representative of the A class shareholders, the class carrying lower voting rights than the B-class held by the controlling shareholders. **Outcomes:** These meetings have deepened our relationship with the company.
Wayfair	Supply chain management	Sustainability efforts are focused on the Shop Sustainably relaunch, so this should mark a natural point for us to re-engage with Wayfair in the second quarter of 2023. It would be helpful to get more clarity on the company's work with logistics – there's likely to be a real 'squeeze for green' in freight, so if Wayfair doesn't have the relationships or ambition, it may fall behind.	It took until July to move forward with our engagement – but we met with the recently-appointed head of global sustainability for an update on Wayfair's progress in embedding environmental issues into its business strategy. We perceive its impact and influence in this area to be an important element of long-term success with suppliers and customers. **Outcomes:** We are encouraged by Wayfair's use of an Executive Impact Council led by its Chief Technology Officer to drive progress and accountability across sustainability issues.

Principle 8 Monitoring managers and service providers

Our Third Party Oversight Team ensures effective relationships and operational interactions with key third-party providers. We recognise that effective use of third party vendors can support our client service and stewardship activities. Also, we understand the importance of ensuring that these relationships reflect our commitment to delivering a high level of professional service both internally and externally.

Monitoring activities

Our Vendor Management Framework provides a risk-based approach to managing vendor relationships within the firm. It sets standards for the management and oversight of vendors, which are proportionate and relevant to the size, scale, nature and importance of the services or activities provided, ensuring an effective operating environment is maintained. Third Party Oversight coordinates vendor assessments with the relevant relationship managers to review service delivery, relationship status, strategic outlook, commercial arrangements and due diligence outcomes for all critical vendors. Service level agreements (where relevant) are reviewed annually, and due diligence is conducted annually or semi-annually, as determined by the nature of the relationship.

Our vendor due diligence questionnaire covers a comprehensive list of areas including, but not limited to, information security, business continuity, financial health and conflicts of interest. Should we be dissatisfied with the due diligence results or the vendor performance, we would rectify any lacking areas through ongoing service reviews, site visits and an escalation process. If we consider the issue was material and undermined our ability to rely on the service provider, we would terminate our contract with the provider. We have not taken any such action during 2023.

Assessment activities

We predominantly use MSCI as a source of raw ESG data for reporting purposes. This is due to the wide range of metrics available across different regulatory reports and MSCI's transparent methodology. We implement a data quality checking process that allows us to investigate any discrepancies and raise these with MSCI where necessary. We supplement data from MSCI with data from other providers such as Sustainalytics and Bloomberg.

We recognise the need to develop a wider pool of data sources to allow for more robust reporting. To this end, we maintain relationships with various third-party data providers to allow us to monitor enhancements to the ESG reporting metrics we require. In 2023, we participated in two ESG data roundtable events with two separate data providers (MSCI and Bloomberg) to provide feedback on planned methodological developments and proposed new solutions with the aim of improving the data solutions available in the market. Internally, we continue to invest in improvements to our systems.

Principle 9 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. Portfolio managers working with the ESG analysts will select and prioritise engagement issues. Our ‘prime contact’ system for our largest holdings helps us to coordinate engagements where a holding is in multiple portfolios. The contact is an individual who has primary responsibility for relationships with the companies we invest in. From a proxy voting and engagement perspective, they exist to help direct and coordinate queries relating to AGM voting and other stewardship activities. Where there is not a prime contact, we coordinate among the teams that own the stock to ensure all parties are consulted. Our 150 largest holdings also have a prime contact from within the ESG function. This helps to better facilitate knowledge sharing across investment strategies, and to deepen our stock-specific understanding through more consistent engagement with company management and boards.

The starting point for any engagement is to establish objectives. The following is a simple structure for considering the degree of coordination, prior approval and care necessary for any given interaction.

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

Fact-finding

Information requests or points of clarification. This is often the first contact on a particular issue and is directed towards Investor Relations or other non-executive management.

Assessing

Monitoring progress against an issue that has previously been raised with the company.

Influencing

Engaging with company management or board directors to encourage a particular behaviour or course of action.

Priorities

We engage with companies for many reasons and the topics we prioritise will vary by individual issuer and investment strategy. Our proprietary investment research will inform this, supported and often facilitated by the prime contact. Often, the larger a position we hold in an entity and the longer our holding history, the greater our ability to engage with a realistic ability to influence. However, we engage with issuers on key issues across a range of market capitalisations, geographies and holding sizes. When we look at engagements in isolation, we can broadly categorise them as proactive, reactive and ongoing. However, we view this interplay as more nuanced, particularly as our relationships lengthen in duration, deepen our understanding and build trust.

The following sections highlight examples of proactive, reactive and ongoing engagements.

Proactive

Where our investment strategies have made net zero emissions commitments or holdings have committed to decarbonisation, we monitor progress and check in with companies for updates. Our case study on **Ryanair** is relevant here.

Reactive

Our case study on **Ubisoft Entertainment** and **CAR Group** are examples of our preparedness to engage in a reactive manner to safeguard the interests of our clients.

Ongoing

We highlight our ongoing, multi-year dialogue with **Amazon** as an example of our approach to long-term, trusted ownership.

Developing objectives for 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 seeking meaningful change when needed. We prefer engagement but will divest as a tool of last resort where we have lost confidence in management's alignment with our clients. As discussed above, we have three primary reasons for engaging with a company: to fact- find, to assess progress and influence. It is important to note that influence is only one of these three aims. We firmly believe that taking the time to understand companies and making our long-term expectations known to management is an important foundation for our work as responsible investors.

We expect our dialogue with companies to be constructive. All conversations with a company should have a purpose. In keeping with our long-term investment horizon, we see value in engaging on issues of systemic relevance, such as climate change and diversity. In all cases, we look for the focus of the dialogue to cover internally-agreed and prioritised matters of interest. An engagement agenda item will be connected to the investment case and have a focus on matters of strategic importance or have material environmental or social relevance we consider to be linked to the long-term investment case. If, after a protracted period, we have been unable to exert any influence over a company on a material issue, our investment managers may consider reducing or selling the holding. Our case studies illustrate the value of our sustained engagement with companies over significant time periods. We see this approach as fundamental to the delivery of ultimately meaningful engagement outcomes.

Engagement methods

Throughout 2023, we have continued to meet with companies in-person wherever possible. We value the opportunity to witness company operations directly and gain insights from interactions with management and employees. However, we are encouraging companies to engage with us via video and telephone meetings rather than visit our offices, where appropriate. We are cognisant of the time, financial cost and environmental budget that such meetings entail for companies. We welcome the opportunity to have planned and ad-hoc dialogues with companies through virtual channels, as well as through written communication and collaboration (more detail under **Principle 10**). We also continue to engage via email and letter.

We maintain an audit trail of our dialogue with companies by recording engagements and voting activity in our in-house systems. This enables us to monitor the effectiveness of our engagements and facilitates prioritising future engagements.

Reasons for our chosen approach

The importance of our patient approach to engagement 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 to influencing change. We believe that ongoing dialogue between investors and companies on strategic issues can protect and enhance our clients' long-term returns, which aligns with our investment beliefs, company culture, and client needs as outlined under **Principles 1 and 6**. Our position as a meaningful, patient investor for many of the companies in which we invest means we are well-positioned to influence management on material issues. 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 teams from their core role of running the business for the long term. We will trust the management teams with which we invest, but will seek accountability if that trust is broken.

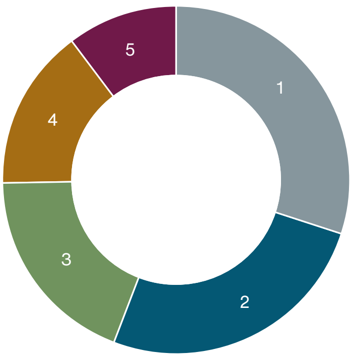
Differences across funds and geographies

Engagement is fundamental to every fund at Baillie Gifford. Our engagements are typically investment-led and coordinated. Our Shanghai office has been particularly useful in coordinating many of our meetings with Chinese companies providing the language, essential cultural framing and local knowledge to facilitate effective dialogue.

In 2023, our ESG and investment teams engaged on ESG matters with 526 companies across our portfolios, engaging on 744 separate occasions. Not all engagements are equal, and these engagement numbers include fact-finding, assessing and influencing type engagements. We understand that the volume of engagements means little, so we don't set a target. The chart below shows ESG engagements broken down by asset class and region:

Engagement by region and asset class

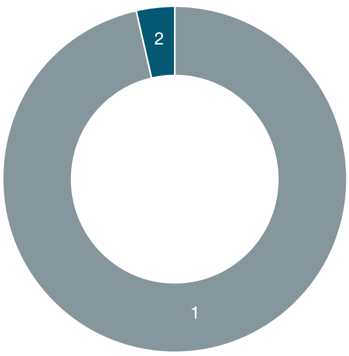
Region



		%
1	North America	30.0
2	Developed Asia	26.0
3	Europe	18.8
4	Emerging Markets	15.0
5	UK	10.1

Figures may not sum due to rounding.

Asset class



		%
1	Equity	96.6
2	Fixed Income	3.4

Figures may not sum due to rounding.

Engagement outcomes

Engagement with companies, industry bodies and standard setters is a vital component of investment stewardship. This is generally accepted, however, the measurement of outcomes can be challenging. We believe it is important to establish clearly defined objectives for each engagement, suitable measurement metrics and appropriate time horizons.

The **Stewardship in Action** section of this report provides a sample of company-specific engagements within our existing relationships with issuers. Depending on the objectives of each specific meeting, we typically see a range of outcomes. These can broadly be split into tangible and intangible outcomes. Tangible outcomes can be viewed as more measurable and can include shareholder voting and the passing or failing of resolutions; increased sustainability disclosure and target-setting; reduction in greenhouse gas (GHG) emissions; and other outcomes related to specific objectives. These kinds of outcomes are easier to measure over shorter periods.

Intangible outcomes encompass a wide spectrum, from behavioural changes to cultural and strategic transformation. These outcomes are also typical of longer periods of sustained engagement, in which the attribution of our own engagement activity is difficult to isolate from specific company operational developments and broader changes in the investment environment. Nevertheless, we see intangible outcomes as no less meaningful than tangible outcomes.

The table below highlights the topics discussed with companies over the range of ESG issues.

		Number of times discussed
Environment	Climate change	217
	Environmental dependencies	17
	Environmental impacts	55
Social	Employee rights	33
	Customer experience	39
	Supply chain	33
	Human rights	24
	Diversity & inclusion	33
	Community relations	18
Governance	Board effectiveness and leadership	232
	Remuneration	170
	Shareholder rights	32
	Proxy voting	121
	Risk management	66
	Governance of strategy	111
	Business conduct	66
	Corporate culture	83

We record the broad themes and topics of discussion when we interact with issuers. While we are not driven by targets or increasing the year-on-year quantum of our interaction with companies, we do find that the collection and evaluation of this information internally helps us to refine our engagement philosophy, as well as measure which topics feature most prominently in our interactions with issuers. We have an ongoing project to improve the data we capture around engagement to allow more effective reporting on our stewardship activities.

Our most successful engagement outcomes are often correlated with the duration of our shareholding and active ownership. In our **Stewardship in Action** section, we have shown engagement timelines for a small sample of companies we have engaged with. For some of these companies, our ownership period dates back more than a decade, and while management and investor contacts change over time, we strive for consistency in our relationships with issuers.

Principle 10 Collaboration

Our approach to collaboration

We recognise the benefits of working with like-minded investors and broader stakeholder groups on policy and company-specific matters. Doing so can increase the influence that we bring to bear on our clients' behalf. In some instances, collaboration may be necessary to achieve our engagement objectives. We generally engage with companies individually but, subject to analysis around concert party regulatory rules, we participate in collective engagement on critical issues that could have a material impact on the value of a holding. Collaborative engagement can be an important part of our engagement escalation. When appropriate, we work with a range of industry organisations and associations. The ability to collaborate also promotes the idea of one voice – the organisation hears one message from its investors rather than (potentially) conflicting views from multiple parties.

Our collaboration activity in 2023

Below we highlight a selection of collaborative activities undertaken in 2023.

Climate Action 100+

Climate Action 100+ (CA100+) is an investor-led initiative. The main purpose of CA100+ is to facilitate informed engagement between shareholders and the world's largest listed greenhouse gas emitters. We became a member in April 2022. Baillie Gifford is currently leading the engagement with **CRH** and supporting engagement with Petrobras. We highlight the CRH engagement below.

Case study – CRH

We originally invested in CRH in June 1995 on behalf of our clients and are currently a top 10 shareholder. Over the duration of our investment, we have maintained an ongoing dialogue with management and the board of directors. Our discussions have spanned a broad range of strategic and operational topics, including environmental and governance related items, and have focused on supporting long-term value creation.

At the end of 2022, we joined the lead CA100+ engagement team for CRH alongside other long-term investors. The company has a large carbon footprint and climate change presents material risks and opportunities to its long-term strategy. Our decision to join the lead engagement team of the CA 100+ was to support the company's strategic commitments in this area.

In 2022, CRH announced a new absolute emissions reduction target to cut Scope 1 and 2 emissions 25 per cent by 2030. Then in early 2023, the company strengthened its target to a 30 per cent reduction in Scope 1, 2 and 3 emissions over the same period. This revised goal was validated by the Science-Based Targets initiative (SBTi) to be 1.5C-aligned and the company simultaneously joined the 'Business Ambition for 1.5C' initiative, which aims to achieve net zero global emissions by no later than 2050.

While we welcomed the new, stronger emissions targets, we wanted the company to better explain how it intended to achieve these goals and what impact they would have on CRH's operations. Our collaborative engagement with CA100+ sought to encourage more detailed disclosure within the Report and Accounts regarding the consideration of climate-related issues by the board and the company's external auditor. Specifically, we were seeking more detail on assumptions, including future costs and plausible policy interventions, accounting judgements, and scenario analyses for possible pathways.

In February 2023, we engaged alongside other members of the lead engagement team of the CA100+. We spoke to the board Chair and the Chair of the audit committee. The focus of our discussion was encouraging more specificity in the annual accounts of the potential impacts on CRH's business of meeting its long-term emissions targets. We also asked how climate risks are examined by the board and how it determines materiality in terms of the company's accounts. We explained that given the carbon intensive nature of CRH's business, alongside its potential exposure to physical change, it would be useful for investors to have insight into how the company was thinking about the value of the business and assets under various climate change scenarios. We stressed that more comprehensive disclosure in its annual accounts and auditors' report, are important for shareholders to make informed investment decisions.

The 2022 annual report, published at the start of March 2023, demonstrates a significant improvement in the disclosure of how, when and by whom climate-related issues are considered in the discussion of strategy and against existing financial assessments. CRH reported consideration of the costs and risks associated with its 2030 climate strategy, including the incremental capex required to meet its decarbonisation goals. It also reports the general climate-related risks for its most relevant assets and liabilities.

We consider CRH's enhanced financial disclosure to be sector-leading. We believe the improved disclosure helps investors understand whether and how climate has been factored into CRH's financial statements and used to inform its long-term strategy. We remain members of the lead CA100+ engagement group for CRH and look forward to developing our discussions in 2024, when we will monitor progress towards decarbonisation targets and how this may impact on long-term shareholder returns.

Emerging Markets Investors Alliance (EMIA)

The Emerging Markets Investors Alliance is a not-for-profit organisation that enables institutional emerging market investors to support good governance, promote sustainable development, and improve investment performance in the governments and companies in which they invest. The EMIA seeks to lead collaboration among investors, companies or governments, and public policy experts.

Case study – Costa Rica

Throughout 2022 and 2023, we led a group of investors alongside EMIA to engage with the Costa Rican government. The group was formed through the EMIA Debt & Fiscal Governance Working Group (DFG) programme, which seeks to improve country-level budget transparency and public procurement standards. As part of the DFG working group, we sought improvement in Costa Rica's budgetary process.

The group initially engaged with the International Budget Partnership (IBP) and Global Initiative for Fiscal Transparency (GIFT) to identify key areas where Costa Rica could improve its budget transparency. Through the IBP Open Budget Survey, it was recognised that Costa Rica scores well on transparency and oversight but scores poorly on public participation. Representing the investor group, we contacted the Ministry of Finance to flag the potential improvement areas, as recommended by the Open Budget Survey and offer examples of best practices from other countries.

Outcome

We continue to engage with representatives of Costa Rica on issues of budget transparency alongside their commitments to the International Monetary Fund. We hope that, over time, improvements in budget transparency will lead to their IBP Open Budget score being upgraded. The IBP Open Budget score is part of the sovereign rating calculation for some rating agencies. The result of the score upgrade could potentially reduce the cost of financing for Costa Rica.

Collaborating with multilateral organisations

Through our exposure to many issuers and stakeholders we are sometimes able to connect parties where we believe mutual value can be created. This has led to meaningful collaborative engagements, one of which is summarised below.

Case Study: Baillie Gifford and UNICEF

Background

UNICEF is an agency of the United Nations. UNICEF states that it "works in over 190 countries and territories to save children's lives, to defend their rights, and to help them fulfil their potential." UNICEF is the largest single vaccine buyer in the world, procuring more than two billion doses of vaccines annually for routine immunisation and outbreak response on behalf of nearly 100 countries[1].

Moderna is a US-based biotechnology company. It has developed an innovative approach for treating diseases, using messenger RiboNucleic Acid (mRNA) molecules. On behalf of our clients, Baillie Gifford has been an investor in Moderna for a number of years.

Engagement

In 2023, we took the opportunity to bring our long-standing relationships with UNICEF and Moderna together. We recognise that collaborating with a stakeholder, such as UNICEF, rather than a peer investor or asset owner is somewhat unconventional but we believed we had a useful role to play in the intersection of pharmaceutical biotechnology, investment and healthcare distribution. Our objective was to advance our shared understanding of building distribution capacity by local partners and the private sector for the delivery of primary healthcare services.

One such project is the DRIVE Initiative from UNICEF. It is designed to scale last-mile supply chain delivery solutions in 20 high-priority countries within Africa's most underserved and unreached populations. This initiative aims to ensure high supply chain efficiency, increase vaccine availability at service points, and reinforce the implementation of better-executed last-mile delivery activities. Providing immunisation services to children and others has been identified as one of the most cost-effective development interventions, with both health and economic benefits.

It is clear to us that initiatives such as DRIVE can benefit the broader healthcare industry and markets, and therefore, sharing its knowledge can be pivotal to healthcare companies, many of them in our portfolios. Therefore, it was the entry point for a tailored relationship of knowledge sharing between UNICEF, Baillie Gifford and Moderna.

Outcome

We are encouraged that through our network, we have initiated an innovative and collaborative engagement with UNICEF that enables us to better support our partnership with a publicly listed company. We will take learnings from this engagement and consider further opportunities to bring aligned stakeholders together in the future.

[1]About UNICEF | UNICEF.

Principle 11 Escalation

Across our equity strategies, issues will be prioritised at a company level. The issues we prioritise, the specific objectives and the likely escalation path will differ depending on the company and our detailed knowledge of the investment case.

Once we have identified an issue of material relevance to the investment case, we will monitor progress and, if we fail to see meaningful improvement, we will escalate through a variety of stewardship tools at our disposal: we may take voting action, or we may suggest changes ranging from minor process improvements to a change in board membership. Ultimately, we will divest if improvements are not made in areas of material importance.

A typical pathway for escalation may be:

- Research identifies an area for engagement requiring attention
- Engage with management, investor relations or board member
- If no progress – voting action against appropriate AGM resolution
- Escalate engagement to Chair or Senior Independent Director
- Collaborate with other investors or relevant industry initiatives
- If no progress and no reasonable prospect of progress – divest

We note that there are additional escalation options, including filing or co-sponsoring shareholder proposals, attending AGMs, or articulating views publicly via different media outlets. As we have used these sparingly, we have not recorded these as a typical pathway. However, we are fully prepared to use any tool if circumstances require.

Our preference is to have direct discussions with companies, which enables us to build effective relationships with boards and management teams. Regardless of the method of escalation, we will always communicate a clear objective to the company.

The escalation pathway described above does not vary significantly between funds, assets or geographies. However, as our ownership rights for fixed income investments differ in legal contract from those of equities, our stewardship tools are different. In the case of a corporate bond investment, we will engage with management but, naturally, without the recourse to voting rights. So, while the conversations will differ across asset classes and geographies, the escalation path will be broadly consistent.

Given the sensitivity surrounding our escalation activities with companies, much of this occurs in private correspondence, and the public disclosure tends to take place at the more advanced stages of escalation. Please refer to **ESG integration approach** for further detail on why engagements may take place in private.

Case study: Wix

Background

Wix is an Israeli company offering a cloud-based platform enabling the creation of websites and web applications. Alongside website editing, logo generation and support infrastructure, Wix also provides a range of complementary services. We have held Wix since October 2015.

Escalation activity

In advance of the 2023 AGM, where there was a binding vote on the new executive remuneration policy, Wix asked us for a meeting to discuss proposed changes to the policy. The company proposed some positive changes to its remuneration approach, including the introduction of performance share units to the long-term plan. We provided feedback on areas that we would like to see improve, such as the proportion of award vesting for hitting various thresholds within the long-term plan which we felt was generous, and discretion to amend performance targets annually.

Progress

During a second meeting, Wix confirmed several positive changes to the proposed remuneration policy including some directly in response to our feedback. Changes included:

- Reducing the proportion of the pay-out executives would receive upon hitting certain targets in the long-term incentive plan, which should result in a less generous vesting schedule
- Removing board discretion to make salary and equity increases during the life of the policy, and
- Committing to using the same key performance indicators across all three years of the long-term incentive plan.

While there remains room for improvement in some areas of the remuneration policy, we were satisfied with the changes made. We voted in favour of the policy at the AGM and the resolution passed.

Case study: Iida Group

Background

Japanese company, Iida Group, designs, constructs and sells residential properties in Japan. Iida Group has been held since 2015.

Escalation activity

The Japan Corporate Governance Code suggests at least two independent outside directors. However, we encourage our holdings to go beyond this basic requirement and strive for a board that is at least one-third independent. Beginning in 2019, we have been encouraging Iida to increase board independence to meet this expectation. Where we have had the opportunity to do so, we have voted against the Chair of the board and new non-independent directors to support our engagement on this issue.

Progress

At the 2023 AGM we were pleased to see the nomination of two additional independent non-executive directors to the board which increased the overall level of independence to more than a third, and so we supported the election of all directors. Japanese companies failing to meet our expectations on independence are becoming increasingly rare so it was positive to see this progress after several years of engaging for improvement.

Principle 12 Exercising rights and responsibilities

Voting is integral to our role as responsible stewards of our clients' capital. Our voting analysis and decisions are driven by what we consider will promote the long-term prospects of the company, thereby supporting the outcomes we aim to deliver to our clients. In line with our investment philosophy, our voting analysis is bottom-up and led by each investment case. Rather than applying prescriptive policies, we assess every resolution on a case-by-case basis. We believe that a prescriptive approach can lead to unwarranted and, in some cases, perverse outcomes which may not be in the best interests of a particular company, given its stage of development and the wider geographical and industrial context. We prefer to take direct voting responsibility for our clients to strengthen our stewardship effectiveness.

We do not outsource voting analysis or recommendations, using proxy advisors for information only. Instead, voting analysis and execution is carried out in-house by our central Voting Team in conjunction with investment teams. This allows us to improve the integration of voting into our investment process. Most votes are submitted electronically using our proprietary in-house corporate governance system (CGS), which enhances efficiency and accuracy. Our proxy voting guidelines detail our proxy voting policy and is reviewed annually. It applies globally across all our holdings, considering varying geographic practices where appropriate. Unless directed otherwise (see below), we will exercise voting rights in line with our policy on behalf of our clients. A significant majority of clients elect to follow our house voting policies. We view this as an indication that we are carrying out these responsibilities well.

We endeavour to vote all our clients' holdings in every market. However, this may occasionally be impossible for regulatory reasons or operational constraints:

01. Share blocking – in certain markets, voting shares can prevent us from trading for a period of time, which may not always be in our clients' best interests.
02. Share lending – we cannot vote on a client's shares if they have lent the shares. If we deem a meeting significant or contentious, we may request that the client recalls any stock on loan so we can vote.
03. Conflicts of interest – we have processes in place to identify, prevent and manage potential proxy voting-related conflicts of interest to ensure that the firm always acts in clients' best interests. In some cases, the appropriate resolution is not to vote. Baillie Gifford's firmwide conflict of interest disclosure is on our website.

Occasionally, our investment teams will vote differently on the same general meeting resolution. This aligns with our decentralised and autonomous investment culture: investment teams make decisions in clients' best interests, according to the aims of their investment strategy. Split votes are reported accordingly in the proxy voting disclosure on our website. They are clearly communicated to the company, along with the rationale for the different voting decisions.

Ability of clients to override house policy

Segregated clients

Segregated clients can request that we follow a bespoke voting policy where we vote on their behalf. These clients are able, in effect, to override our house policy and/or our intended voting decision.

Our proprietary CGS platform facilitates the application of these client-specific policies. Information regarding client requirements is captured and retained on the system and therefore flagged at the time of voting.

Pooled vehicles

Baillie Gifford retains voting rights for all pooled vehicles that we manage. As explained above, we believe that our ability to vote clients' shares strengthens our position when engaging with investee companies.

We do not currently offer underlying investors in pooled funds the ability to exert their voting rights (commonly referred to as 'pass-through voting'), as we believe that voting these assets is part of our overall responsibility as the manager of our funds. As responsible stewards of our clients' capital, we do not outsource the responsibility for voting to third-party suppliers, who can often take a tick-box approach. Rather, we have developed our own internal voting system, which allows us to analyse all votes within the context of a deep understanding of the companies in question.

While it is our preference to retain voting rights on behalf of our clients, we recognise increasing calls for asset managers to provide underlying investors in pooled funds with the opportunity to exercise their voting rights if they choose to do so. As a result, we have been, and are continuing to, explore the options available to us to take this forward. This has involved engaging with our clients and a wide range of internal and external stakeholders over the past two years. For example, to this end, we are keeping a close eye on regulatory developments and have engaged with the UK Pensions Minister and Occupational Pensions Stewardship Council.

In order to develop our understanding of the operational feasibility of facilitating this for our clients, we have engaged with providers of third-party systems such as ISS, Broadridge, Tumelo and Minerva Analytics. There are a range of operational issues we are investigating to ensure preparedness for any regulatory changes, though our main concerns with pass-through voting are philosophical. As active stewards of capital we think we are best placed to discharge these responsibilities for our clients. Losing voting rights weakens our ability to influence management and outcomes on the occasions when our voting power can be decisive.

We welcome the opportunity to discuss any specific requests from pooled clients on a case-by-case basis to inform our position on this matter going forward and explore opportunities to support pass-through voting in pooled accounts. We will continue to keep all our clients informed of our investment philosophies, our principles and information on the companies in which we invest.

Stock lending

Baillie Gifford does not engage directly in stock lending. As stated, we believe that voting is a core element of effective stewardship. When shares are on loan, we lose our voting rights. We believe that stock lending comes into conflict with the principle of stewardship through complicating, and even impinging on, voting, and it almost certainly adds to warping share prices. Where segregated fund clients have opted to lend out their shares and we deem a meeting to be significant or contentious, we will consider requesting that clients recall any stock on loan so we can vote on their behalf.

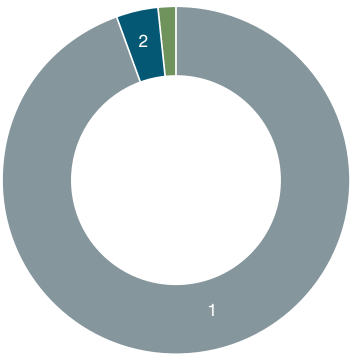
Proportion of shares voted in past year

The following chart summarises Baillie Gifford's proxy voting activity in 2023. As discussed above, we endeavour to vote all our clients' shares, but there will be occasions when we cannot for regulatory reasons or operational constraints. In 2023 we continued not to vote at shareholder meetings of our remaining Russian holdings in order to avoid any potential breach of international sanctions connected with the conflict between Russia and Ukraine.

In 2023, we voted at 1,205 company meetings out of a possible 1,248. This represents 96.5 per cent of the total meetings we were eligible to vote at.

It is no surprise that as long-term owners seeking to invest in a relatively small number of exceptional companies, we generally support management. When opposing a management recommendation, we ensure we have received all the relevant information. Whenever there is any question of opposing a management resolution, the investment manager will always be involved in the discussions and decisions. Following a voting decision, we will inform the company of that decision, along with our rationale. This can often lead to productive conversations with companies on governance and sustainability matters. We are also regularly consulted by companies on our thoughts, particularly on remuneration and sustainability strategy, where we seek to provide constructive and thoughtful feedback.

Baillie Gifford proxy voting activity 2023



	%
1 For management (12,640)	94.7
2 Against management (527)	4.0
3 Abstain (180)	1.4

Figures may not sum due to rounding.

All our proxy voting activity is disclosed quarterly on our website. In addition, in response to disclosure requirements for UK and European pension scheme clients under the Shareholders' Rights Directive II, we have created our own Significant Vote framework. Whether a vote is considered significant is necessarily subjective. However, we can set out a non-exhaustive list of potentially significant voting situations:

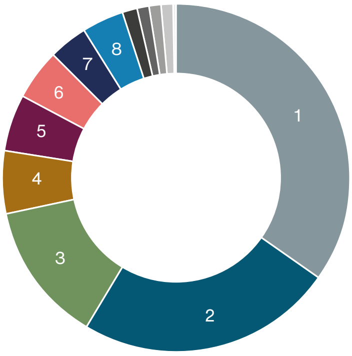
- Baillie Gifford's voting decision had a material impact on the outcome of the meeting
- Management resolutions that receive 20 per cent or more opposition
- Misaligned remuneration
- Contentious equity issuance
- Shareholder resolutions that received 20 per cent or more support from shareholders
- Where there has been a significant reported 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 ESG factors that result in Baillie Gifford opposing management

For clients that have delegated their voting discretion to Baillie Gifford, we include a portfolio-specific proxy voting report in their quarterly report.

Rationale for voting decisions: votes against management

As already stated, we hold a relatively small number of holdings as compared to our investable universe and we invest a significant amount of time in pre-buy analysis and post-buy dialogue. Therefore, it is no surprise that as long-term owners, we are generally supportive of management. However, this does not prevent us from voting against a management recommendation when we believe it is in our clients' and investee companies' interest to do so. As the chart below illustrates, our opposition falls into four main categories: remuneration[4], capital management[5], director elections and voting in favour of shareholder proposals.

Breakdown of votes against management



		%
1	Remuneration	34.9
2	Capital management	23.9
3	Director related	13.1
4	Other business	5.7
5	Shareholder proposals voted in favour, (excluding climate related)	5.3
6	Appoint/Pay auditors	4.6
7	Articles of association	3.8
8	Routine business	3.8
9	Allocation of income	1.3
10	Related party transactions	1.3
11	M&A activity	1.1
12	Climate related	1.0
13	Annual report	0.2

Figures may not sum due to rounding.

[4] Includes employee equity plans and directors' remuneration.

[5] Includes amendment of share capital and share repurchase.

Remuneration

Effective remuneration policies help recruit, retain and motivate employees. Our principal consideration when reviewing executive remuneration is that the structure and outcomes should provide alignment between management, particularly executives and shareholders. For this reason, we favour simple, transparent remuneration structures with a long-term focus. We are prepared to support structures which do not necessarily fit within conventional practices when they are appropriate for a company's circumstances and underpin the delivery of long-term shareholder value.

During 2023, the predominant reason for opposing or abstaining on pay was insufficiently stretching targets. Examples include: Adobe Systems, Nestlé, Ocado, Eaton, First Quantum, Howden, Walt Disney, Xylem, Alphabet, UPS and Delivery Hero. We continued to take action on remuneration proposals at 3Peak, Neoen, Brunello Cucinelli, Brembo and KGHM Polska Miedz.

The rationale for our votes against was based on the lack of disclosure on performance conditions, remuneration framework terms or unclear rationale for extraordinary pay decisions. In 2023, we renewed our focus on adequately challenging targets with a long-term focus and took action on remuneration at Blackline, Cardlytics, Equinix, Thermo Fisher, Nemetschek, 10X Genomics, Pacira BioSciences, Upwork and Zuora.

Director elections

We expect board composition to underpin the board's effectiveness. A meaningful proportion of the board should be independent, which varies by market practice, and have a balance of experience, backgrounds and points of view. We expect directors to be qualified to set a credible, purposeful strategy while providing appropriate oversight and constructive challenge to management, and also to have sufficient time to dedicate to their role at the company, considering their other commitments.

Particularly in recent years, given the turbulence of the pandemic, we have recognised the need for stability. In 2023, we took a more stringent approach on director elections where external directorships and attendance records raised concerns. We opposed the election of directors at Addlife, Cemex, Hua Medicine and Zillow Group on that basis. We also place strong emphasis on director accountability for addressing our concerns or meeting our expectations communicated during engagements. We did not support relevant directors at Nickel Mines, PDD Holdings, Petrobras, Tokyo Tatemono and Vedanta due to accountability for the lack of sufficient independence or gender diversity; and took an action on relevant remuneration committee members at Dolby Laboratories, Nestlé, Allbirds and Harmonic Drive Systems due to our continuing unaddressed concerns on pay practices. This was also the first year where we started taking action on director elections in protest for companies lagging on climate ambition or insufficient progress on environmental disclosure (Denso, Woodside Petroleum and Aerovironment).

Capital management

When considering capital requirements, we do not apply rigid guidelines. Requests for authority to issue shares are considered on a case-by-case basis, with factors such as the company's size, level of pre-emption rights attached, the industry it operates in, the country of incorporation and the rationale for the requested authority to issue capital. A company can request authority to issue capital should it need it. However, we would prefer companies to call a general meeting stating how they intend to use the additional capital. We will consider supporting higher levels of capital issuance if we believe it will benefit the company and is in our clients' best interests. For example, an early-stage small capitalisation company may require extra flexibility to issue capital.

With the revision of the Pre-Emption Group guidelines in late 2022, we reviewed our stance on UK-listed companies using the relaxation of the market expectation and asking for larger authorities to disapply pre-emptive rights. While we assess every company on a case-by-case basis, we scrutinised the specific circumstances for the higher limits requested and did not support the 10 per cent authority to waive pre-emptive rights for specified capital investments at Boohoo, Melrose Industries, Informa, Just Group, Breedon Group and others.

Shareholder proposals

Shareholder proposals are a mechanism permitted in some markets which enable shareholders to submit resolutions at company general meetings. They can be a valuable tool to highlight companies' wider impact on stakeholders. When reviewing shareholder proposals we consider:

- Whether we believe implementation of the requested action would further strengthen the long-term prospects of the business
- Relevance and materiality of the issue to the investment case
- How impactful the requested action would be, if passed, in making progress on the issue
- Whether we believe that the proponent's intention in submitting the proposal is aligned with our priority to promote the company's long-term prospects

We witnessed a surge in the volume of shareholder proposals filed in 2023 compared to previous years and have continued to analyse these on a case-by-case basis guided by the above considerations. We believe it is important that shareholders can have meaningful engagement with the board, and in advance of this year's proxy voting season, we reviewed our thoughts on the appropriate threshold for shareholders to call a special meeting, lowering our expectation from 25 per cent to 10 per cent. We subsequently supported proposals calling for this at Texas Instruments and Elevance Health. Conversely, we opposed a similar proposal at Netflix to lower the threshold from 20 per cent to 15 per cent and remove the requirement to have held the stock for at least a year, as we considered that the existing conditions were adequate and sensible.

Climate and environment-related proposals continued to appear on the ballot this year. We saw several proposals calling for more reporting on lobbying alignment with climate goals and commitments. We supported such proposals at Amazon, Meta and Alphabet, as we believed that shareholders would benefit from increased transparency around this topic.

We continued to see a range of social-related issues surfacing at AGMs in 2023, including pay equity, working conditions and workers' rights to freedom of association and collective bargaining. On this latter issue, we supported proposals at Netflix, Amazon and Starbucks (see Examples of outcomes in resolutions section). Full disclosure of our rationale for all votes against, all abstentions, and all shareholder proposals related to listed equity assets can be found on **our website**.

Monitoring of shares and voting rights

Our proprietary system (CGS), discussed elsewhere in this report, combines the proxy voting, research and engagement work on one platform. CGS utilises electronic data feeds with external voting agents, Broadridge and ISS, to allow straight-through processing of proxy votes. In addition, it connects voting action to our client quarterly reporting. The system highlights 'exceptions'. For example, if a ballot has not been received or has been received in error, our ESG Core Team investigates this with our client's custodian banks and voting agents to ensure we vote all eligible ballots. This exception-based system ensures that our voting instructions are processed daily, as instructed, with confirmations or rejections received directly from external proxy voting agents. This also enables us to monitorour holding and voting rights at a firmwide and strategy level.

CGS also allows the team to record research and engagements and is integrated into our internal investment research systems, ensuring that knowledge and research are shared across the investment floor. Access to CGS is controlled as part of our firmwide systems access controls. Access is limited to relevant parties and is tiered by role, with different access rights dependent on the role or level of experience.

Approach to seeking amendments to terms and conditions in indentures or contracts

When looking at our fixed income assets, as part of our bottom-up investment style, our investment analysis comprises significant due diligence to determine the resilience of a company, focusing particularly on prospects, capital structure and sustainability. Where relevant, this involves a thorough review of the documentation associated with a transaction, such as trust deeds and a bond's prospectus. On occasion, during the structuring phases of primary debt placements, we may participate in market soundings where deal terms, covenants and security packages are actively negotiated. If material information is missing or access has not been granted, we will engage with the company to ensure all applicable information is disclosed. As investors in resilient fixed income issuers, we seek to avoid holding impaired debt. If a holding becomes impaired, we seek to monetise it in the market and allow more specialist distressed debt investors to enforce impairment rights. We focus our investment efforts where our expertise allows us to provide the best outcomes for our clients.

Examples of outcomes of resolutions

Starbucks

Founded in 1971 and based in Seattle, Washington, Starbucks has grown to become one of the world's most recognisable coffee retailers. At the 2023 AGM we supported a shareholder proposal calling for an assessment of Starbucks' adherence to its commitment to workers' freedom of association and collective bargaining rights (as contained in the International Labor Organisation's Core Labor Standards and as explicitly referenced in the company's Global Human Rights Statement). The proponent claimed that Starbucks had interfered with these rights, undertaking retaliation, intimidation, firing, captive audience meetings, undue surveillance and illegally excluding unionised employees from worker benefits. A number of these claims had received significant media attention prior to the AGM, and the issue was a topic in our engagement with the company over the prior year. It was our assessment that the proposal, clear in its ask, was addressing a material issue and thus we supported the request.

Outcome

We were pleased that the proposal passed after receiving 52 per cent support. After voting, we explained to Starbucks why we thought this was in the company's best long-term interests, and welcomed the subsequent completion of the third party assessment in October 2023. In responding to the findings, the company has made a number of commitments to improve how it manages tensions with employees who wish to unionise, and how the board oversees labour relations issues. We believe these should lead to substantive improvements, and there have been some promising developments in early 2024. We will continue to monitor progress against these commitments.

Masimo Corporation

Masimo Corporation is a US-based global medical technology company. During 2023, the company became a target of the activist campaign by Politan Capital, a 9 per cent shareholder in the company. The activist sought to appoint two directors to the five-member classified board: Quentin Koffey, the managing partner of Politan, and Michelle Brennan, an independent director subsequently endorsed by the Masimo board. In contest to this, the board nominated two incumbent directors: Michael Cohen, the Lead Independent Director, and Julie Shimer, independent director and Chair of the nomination and governance committee. Shareholders were permitted to support only two of the four nominated directors. Due to the classified board structure, the three other board positions remained occupied.

The proponent's rationale for the proxy contest was twofold: poor operational performance, due to undisciplined capital allocation and an unfocussed strategy; and concerning corporate governance practices leading to poor oversight of management.

We voted in favour of one management candidate (Mr Cohen) and one dissident candidate (Ms Brennan), withholding support from Mr Koffey and Ms Shimer. Our decision reflected our concerns with governance practices and tactics employed by the board, both in the context of this proxy contest and more broadly. For example, the company previously introduced change-in-control provisions for the Founder/CEO & Chair which served to further entrench an already classified board. There has also been a general lack of willingness to engage with shareholders on corporate governance topics such as executive compensation, something which we had been trying to engage on over the past three years.

Outcome

We were pleased to see that Ms Brennan, the dissident nominee whom we supported, was elected to the board. In addition we noted that the activist's second nominee, Mr Koffey, also received the requisite level of support to join the board. We hope that these board changes will help strengthen the board's oversight and effectiveness, which will in turn support the long-term success of the company.

PDD Holdings

Formerly known as Pinduoduo, PDD Holdings is a multinational commerce group. We have previously engaged with the board on the lack of female directors and have even suggested potential female candidates. As the board remained entirely male at the 2023 AGM, we decided to oppose the Chair of the Nomination Committee.

Outcome

The Chair of the Nomination Committee received almost 15 per cent dissent at the AGM. We communicated our voting rationale to the company, which acknowledged our decision and committed to keeping us informed of its progress on this topic. We were pleased to see that PDD appointed a female director in August 2023.

Kering

Kering is a French-based multinational company specialising in luxury goods. Ahead of 2023's AGM, we arranged a call to discuss the remuneration paid for the 2022 financial year with the Kering Group Legal Director. Our concerns with remuneration related primarily to the ESG metrics within the annual bonus, which paid out at 100 per cent. We have previously raised concerns with the stretch of these targets and continued to believe that the vague wording of the metrics and lack of connection to Kering's sustainability strategy were a weakness. We were also surprised to learn that the remuneration committee did not consider the Balenciaga controversy to be a material consideration in determining the achievement rate for the 'compliance and ethics' or 'organisation and talent management' components of the ESG metrics. As a result, we decided to oppose resolutions relating to the remuneration paid to executives for the 2022 financial year.

Outcome

The three backward-looking proposals on executive compensation received varying levels of support ranging between 77 to 92 per cent and ultimately passed. We will continue scrutinising pay outcomes, based on financial and non-financial performance, and assessing the appropriateness of measures used and hope to send a strong signal to the company on our expectations.

Prysmian

Headquartered in Milan, Italy, Prysmian S.p.A. produces, distributes and sells cables for the electronic and telecommunications industries worldwide. At this year's AGM we decided to oppose the remuneration report due to the remuneration committee's inconsistent use of discretion. The committee used discretion to neutralise the negative impact of the Covid-19 pandemic on one of the metrics determining the level of award under the long-term incentive plan (the three-year cumulative adjusted earnings before interest, taxes, depreciation and amortisation). As a result, that portion of the plan was awarded at the maximum amount. While this was consistent with a similar use of discretion in relation to the annual bonus in 2021, crucially, the committee made no corresponding reduction in the number of shares awarded as a result this year, resulting in a windfall gain. Before voting we spoke to the company which explained that it was deemed fair and consistent to make the same adjustment as it had in 2021, and that the adjustment only resulted in a small increase to the 2023 long-term award. We were not convinced by this rationale and took the decision to oppose the remuneration report at the AGM.

Outcome

Our opposition was ultimately driven by our assessment that discretion had been applied to remuneration outcomes in a way that was inconsistent with shareholder experience. The resolution attracted significant dissent at the AGM, with approximately 43 per cent opposition to the remuneration report. We will continue to monitor the company's application of discretion to future incentive awards.

Definitions

Greenhouse Gas (GHG) Protocol Emissions Scopes

Metric	What it tells us	How we use it	Source, and our assessment data quality and availability
Scope 1 emissions	Measurement of direct GHG emissions from operations that are owned or controlled by a company. Typically relates to the combustion of fossil fuels on-site and in direct control of the company.	Emissions metrics at asset, portfolio and firm level.	Collated by MSCI from company reported data and MSCI activity-based estimates. Generally accepted to be of good quality, albeit some examples of misestimation reinforce the urgency for company reporting.
Scope 2 emissions	Measurement of indirect emissions of a company associated with the generation of purchased electricity, steam, heat, and cooling. It gives an indication of a company's energy usage and can be useful for highlighting energy intensity and efficiency.	Emissions metrics at asset, portfolio and firm level.	Collated by MSCI from company reported data and MSCI activity-based estimates. Generally accepted to be of good quality, albeit some examples of misestimation reinforce the urgency for company reporting.
Scope 3 emissions	Measurement of indirect emissions from a company's value chain, both upstream and downstream. It is therefore useful in understanding wider emissions exposure and determining spheres of influence.	Emissions metrics at asset, portfolio and firm level.	All estimated by MSCI given lack and inconsistency of company-level reporting. MSCI estimation model remains under development, with a particular weakness around emerging market companies. We are engaging with MSCI on future development, and with companies on direct reporting.
Material Scope 3 emissions	Measurement of Scope 3 emissions from certain material sectors, in accordance with guidance from the Portfolio Carbon Accounting Framework (PCAF). As of 2021, material Scope 3 emissions include those from the oil, gas and mining sectors. Coverage will expand in 2024 to include other industrial sectors, and again in 2026, when all sectors will be included.	Emissions metrics at portfolio and firm level.	All estimated by MSCI given lack and inconsistency of company-level reporting. MSCI estimation model remains under development, with a particular weakness around emerging market companies. We are engaging with MSCI on future development, and with companies on direct reporting.

Science Based Targets initiative (SBTi)

- Defines and promotes best practices in emissions reductions and net zero targets in line with climate science.
- Provides target setting methods and guidance to companies to set science-based targets in line with the latest climate science.
- Includes a team of experts to provide companies with independent assessment and validation of targets.
- Serves as the lead partner of the Business Ambition for 1.5C campaign, an urgent call to action from a global coalition of UN agencies, business and industry leaders that mobilizes companies to set net zero science-based targets in line with a 1.5C future.

Taskforce on Climate-related Financial Disclosures (TCFD)

Created by the Financial Stability Board in December 2015 to improve and increase reporting of climate-related financial information.

Taskforce on Nature-related Financial Disclosures (TNFD)

The TNFD's goal is to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.

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