

**Baillie Gifford™**

# Our Stewardship Principles and Guidelines



## **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 December 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. Past performance is not a guide to future returns.

This communication contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research, but is classified as advertising under Art 68 of the Financial Services Act ('FinSA') and Baillie Gifford and its staff may have dealt in the investments concerned.

All information is sourced from Baillie Gifford & Co and is current unless otherwise stated.

The images used in this article are for illustrative purposes only.

**[bailliegifford.com](https://www.bailliegifford.com)**

# **Baillie Gifford™**

<b>Contents</b>	Stewardship principles	02
	ESG integration approach	05
	Proxy voting guidelines	14
	Exclusion policy	22
	Sustainable Finance Disclosure Regulation (SFDR) approach	25

# Baillie Gifford's stewardship principles

Baillie Gifford's overarching ethos is that we are 'Actual' investors. That means we seek to invest for the long term. Our role as an engaged investor is core to our mission to be effective stewards for our clients.

Where possible we consider all asset classes within the framework of our stewardship activities, however, the principles are tilted to corporate securities recognising that this represents the majority of our assets under management.

As an active manager, we invest in companies at different stages of their evolution, across many industries and geographies, and focus on their unique circumstances and opportunities. Our approach favours a small number of simple principles rather than overly prescriptive policies. This helps shape our interactions with holdings and ensures our investment teams have the freedom and retain the responsibility to act in clients' best interests.

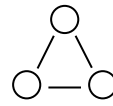
We seek to apply the most appropriate ownership tools to each holding in delivering our objectives.

For more information about how we live these principles please see our **ESG integration approach**.



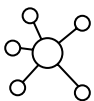
### Long-term value creation

We believe that companies that are run for the long term are 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 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 may sometimes be in supporting management when others don't.



### Alignment in vision and practice

Alignment is at the heart of our stewardship approach. We seek the fair treatment of all holders 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.



### 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 that 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.



### 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.



# ESG integration approach

**Our Stewardship principles (long-term value creation, alignment in vision and practice, governance fit for purpose, sustainable business practices) reflect what we expect of the holdings we invest in on behalf of our clients.**

**This document sets out our general approach to integrating these principles into the management and stewardship of client assets, including:**

- **The integration of environmental, social and governance (ESG) considerations into our investment research and decision-making activities;**
- **The resourcing, governance and oversight of our stewardship activities;**
- **Our approach to transparency and reporting, and;**
- **How we contribute to well-functioning markets and systems for the ultimate benefit of our clients and their returns.**

While our stewardship principles primarily apply to corporate securities (equity and debt), we integrate ESG factors to varying degrees across all asset classes in line with the general approach outlined in this document.

Some regulators may impose additional requirements for products sold in their jurisdiction. More information about how we address these can be found in the relevant sections on our website. In addition, as agents for our clients, we may follow instructions for client portfolios that differ from the approach set out in this document.

## **ESG integration and exercise of stewardship responsibilities**

Our long-term, active approach to investment means looking beyond the narrow scope of traditional financial analysis to consider the range of factors that may affect our holdings' ability to thrive over the long term. We aim to add value for clients by broadening our perspective to understand better what the future might bring and which investments stand the best chance of succeeding.

We believe that, over the long run, financial performance and appropriate management of ESG factors are often intertwined. For example, companies that act as sustainable operators are less likely to face regulatory action, which could harm financial returns. Therefore, we integrate analysis of material ESG factors into our investment process because it strengthens our ability to deliver long-term returns.

Our investment strategies operate with a high degree of autonomy. This document sets out the characteristics that are broadly shared, but differences may exist between strategies and asset classes. In addition, some of our strategies or funds go beyond considering and integrating ESG factors in their investment research and decision-making activities and make specific sustainability-related commitments.

For the majority of our strategies, the focus is on material ESG factors. We define these as factors that we believe are likely to affect the financial condition or operating performance of a holding or a portfolio, with a positive or negative impact on long-term investment returns. For strategies which have made explicit sustainability-related commitments, we may adopt a broader materiality definition that goes beyond the strictly financially material. Where this is the case, it is set out in relevant client and product documentation.

## Research

As an active manager, we conduct deliberate and thoughtful ESG research. Our ESG research is materiality-led. Each holding is different, but most of our efforts will focus on the one or two issues that we believe are relevant to the investment case. Our ESG research considers both the risks of value-destruction and how the ESG characteristics of a holding might contribute to its growth if our investment case proves correct. We also seek to identify how a changing physical environment, shifting policy or emerging social expectations could impact our holdings' performance (positively and negatively) over our investment horizon. The holding-specific factors that we consider are broadly encapsulated within our **Stewardship principles**. In the same way that investment teams may take different views on the prospects of a holding, strategies may take different views on the materiality of identified ESG factors.

### How do we conduct research?

Our investors undertake fundamental research using a variety of information sources, from company reports and meetings to third-party research and insights generated by academic partners and industry experts. Investors can also access third-party data tools, including ESG data sources as well as a range of proprietary ESG tools and analytical frameworks. Many of our investment teams have an embedded ESG analyst who understands specific client mandates and supports the integration of material ESG factors into the relevant stages of the investment process.

The investment teams also work closely with our dedicated Climate Team. The team provides our investors with thematic and company-specific research and supports the firmwide Climate Audit process. More information about this and our approach to climate change can be found in our annual **Climate report**.

Material ESG factors identified through the research process may inform our portfolio allocations, priority engagements and, potentially, proxy voting decisions.



## Our principles in practice – how we consider ESG opportunities and risks\*

Our **Stewardship principles** are deliberately broad, to accommodate the differing processes and objectives of our investment teams and to acknowledge the evolving nature of the opportunities and risks faced by the investments we make.

The following provides an overview of the issues we may consider when assessing ESG factors. Should our research suggest concerns about a holding's practices or opportunities for improvement, we will consider how best to respond, including engaging or using voting rights, where appropriate.

### Governance arrangements

As a long-term growth investor, safeguarding our clients' interests is largely delegated to the company's board. The board's purpose is to ensure the company's prosperity.

As a minimum, we expect the board to fulfil its responsibilities effectively, including board composition and succession planning, capital allocation parameters, executive remuneration, and its audit and control function. It should support and oversee the executive management team in implementing the business strategy, bringing different views, perspectives and challenge. At the same time, it should protect the interests and investments of the company's shareholders and ensure a business's sustainability.

### Human rights and labour rights

In addition to harming individuals, violating labour and human rights can damage the reputation and value of our holdings.

Consequently, we expect our holdings to respect internationally accepted human and labour rights in line with the United Nations Guiding Principles for Business and Human Rights. At a minimum, this should include:

- Maintaining health and safety systems, particularly in high-risk sectors;
- Managing exposure to labour and human rights risks, especially modern slavery and;
- Encouraging positive relationships with local communities.

### Principles of the United Nations Global Compact

The principles and standards set out in the United Nations Global Compact (UNGC) are an appropriate framework for considering a business' long-term sustainability, covering the areas of human rights, labour, environment and anti-corruption. A company's failure to meet the UNGC may result in a material risk to the long-term performance of the business.

We have several funds that make a binding commitment not to invest in companies that are non-compliant with the UNGC. Our **Exclusion Policy** provides additional information of how we apply this and other norms or sector-based exclusions.

\*Material ESG risk is, in some jurisdictions, referred to as sustainability risk. As noted, ESG risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. For purposes of this document, the term ESG risk also covers sustainability risk.

### Diversity and inclusion

We believe that board diversity is an important issue for all businesses, potentially impacting a company's ability to generate returns over the long term. We consider diversity broadly to include gender and ethnic diversity, diversity of thought, background, skillset, time horizon and risk appetite. We therefore expect our holdings to take steps to understand and, where necessary, improve board-level diversity.

We also expect businesses to manage their organisation's culture to ensure all employees are treated fairly and respectfully in the workplace. Suitable policies and procedures should be in place to ensure that inappropriate behaviour and discrimination are identified and addressed accordingly.

### Climate change

We believe a successful transition that keeps increases in global temperatures this century to well below 2C, and ideally to 1.5C, offers our clients a better opportunity for strong long-term investment returns than a failed transition. We regard the climate transition as a material investment factor and a threat to companies' ability to operate if they remain unaware of or unprepared for its potential impacts. Entities not making enough progress in mitigating climate risks or accessing opportunities are a potential source of risk to our client returns. More information about our approach to climate change and our climate-related expectations of our holdings can be found in our **Statement of climate-related intent and ambition** and our **Climate report**, available on our website.

In response to client demand, we have several funds that limit exposure to fossil fuel holdings. Further details of how this and other norms or sector-based exclusions are applied can be found in the **Exclusion policy**.

### Nature and biodiversity

Nature and biodiversity loss pose a significant risk to long-term business functioning and the well-being of economies. Sources of risk may include increased raw material or resource costs, regulation and taxation, resource availability and supply-chain disruption. The sustainable management of nature and biodiversity should therefore be a priority for businesses and governments, and entities should take steps to limit the destruction of the natural environment as far as possible. We aim to integrate the assessment of such issues into our fundamental research, and have a water and deforestation audit framework that we apply to high impact companies. Our ability to evaluate the significance of these issues improves as we access more data sources and engage with more holdings on these topics. We are regularly engaging with industry initiatives and data providers and continue to explore the usefulness of structured frameworks for investors and our clients.

### Respect for legal and regulatory guidelines and consideration of stakeholder perspectives

We expect our holdings to operate in a way that takes account of all relevant legal and regulatory guidelines and supports good stakeholder relations. Relevant practice areas include:

- Responsible marketing.
- Data privacy and security governance.
- Responsible taxation approaches.
- How the company manages product and service issues, such as product quality and integrity, complaint handling, safety recalls and compensation.

## Engagement

Engaging with the assets we hold on behalf of our clients is core to our role as effective stewards of our clients' capital and is an extension of our research process.

### Why do we engage?

- **To fact-find:** As investors, our responsibility does not begin and end with the investment decision. Before allocating our clients' capital, we must decide whether a particular investment meets our criteria and will continue to do so over our investment horizons. We may meet with a leadership team many times before we decide to take a position. After investing, our meetings with the company may involve asking for more information on topics or seeking to clarify certain points.
- **To assess:** Once we have invested, we will continue to monitor our holdings to ensure we remain aligned. Where our holdings have committed to certain actions or if we have previously raised an issue with the company, we will engage to assess progress.
- **To influence:** There will be instances when our reason for engaging is to seek change. We have high expectations of the investments we make on behalf of our clients. When they do not live up to these, or where we have identified a specific objective for change, our starting point (where possible) is to see if the leadership team is willing and able to address the issues we believe may impact the ability to deliver long-term returns for our clients. Sometimes, the influence we seek is to encourage a holding to be more ambitious in seizing new opportunities. Where strategies have specific sustainability commitments, engagement may be integral to meeting that commitment.

Over our investment time horizons, it may also be helpful (and even necessary) for us to communicate our support to the leadership of the investments we've made. We may encourage them to remain focused on the long term and occasionally offer the chance to learn from other investments that have faced similar challenges. Occasionally, this will include public support for a holding, eg through pre-declaring voting intentions.

Engaging to achieve a defined set of outcomes can be a time consuming and resource-intensive exercise. Even though we run relatively concentrated portfolios, we recognise the need to prioritise and, where appropriate, coordinate engagements across our investment teams. We are likely to do this when:

- We consider the issues to be particularly material to a holding's long-term investment performance and of a nature where more concerted engagement is required;
- We are a major shareholder or lender;
- We believe we can offer particular insight and guidance.

We believe that this approach maximises our chance of success.

### How do we engage?

Our patient approach, focused on building long-term relationships, means we often occupy a privileged position in terms of our access to leadership. We do not take this privilege lightly. We aim to ensure that our engagements are research-led and, particularly when the intention is to influence, focus on the issues we think are most material to a holding's long-term success.

We generally prefer to engage one-to-one with our holdings. However, we recognise that, at times, working with like-minded investors and broader stakeholder groups has benefits. Collaborative approaches can increase the influence that we bring to bear on our clients' behalf and may, in some instances, be necessary to achieve our engagement objectives. For some asset classes (such as sovereign bonds) collaborative engagements may be our primary means of influence.

### Voting

Voting is an integral part of our responsibility to act as responsible stewards of our clients' capital. Our voting analysis and decisions are driven by what we consider will promote the company's long-term prospects thereby supporting long-term financial outcomes for our clients. In line with our investment philosophy, our voting analysis is bottom-up and led by the investment case. This means we assess every resolution on a case-by-case basis.

For more details about our voting approach, see our **Proxy Voting guidelines**.

### Escalation

We may escalate if we fail to see meaningful improvement in what we believe is a material issue. This can include taking voting action and/or suggesting changes ranging from minor process improvements to a change in senior leadership. Ultimately, we may divest if improvements are not made in areas of material importance.

An escalation pathway may include some or all of the following

- Engaging with management, Investor Relations or board members
- No progress – voting action against appropriate AGM resolution
- Escalation to the chair or senior independent director
- Collaboration with other investors or relevant industry initiatives
- No progress and no reasonable prospect of progress – divest

There are additional escalation options, such as filing or co-sponsoring shareholder proposals, attending AGMs, or articulating views publicly via different media outlets, which we may use if circumstances require.

## Resourcing, monitoring and oversight

Effective ESG integration and stewardship of client assets require appropriate resourcing and oversight. Responsibility for ESG integration sits with the investment teams (supported, in many cases, by an embedded ESG analyst). Dedicated central teams, such as our Voting Team and our Climate Team, provide technical support across the firm and assist us in meeting client and regulatory requirements, including monitoring ESG risk. The diagram following shows how our ESG resource is structured and its integration and oversight within the firm.

### Monitoring of ESG Risk

ESG risk metrics are incorporated into investment risk reports periodically provided to investment managers. These metrics help investment managers identify emerging risks across the portfolio. Additionally, our ESG Assurance Group (ESGAG) monitors ESG risk metrics via exceptions-based reporting. The ESGAG, in consultation with the ESG Oversight Group (the group responsible for the firm's ESG strategy, which includes partner-level representation) as appropriate, can escalate concerns to either the Equity or Multi Asset and Fixed Income Investment Risk committees, who will then escalate issues to the Group Risk Committee.

A purely quantitative approach does not fully capture the underlying complexities faced by our holdings or provide a complete picture of risks and opportunities across portfolios. Still, it can indicate a need for deeper assessment. Therefore, we supplement metrics with bottom-up, qualitative information from our investment research and stewardship activities to provide a richer, more accurate picture.

Our approach to monitoring ESG risk may also differ by investment strategy or by asset class where data availability may be limited,

for example in relation to private assets, or where specific metrics maybe more appropriate to corporates. We continue to develop our approach.

## Transparency and reporting

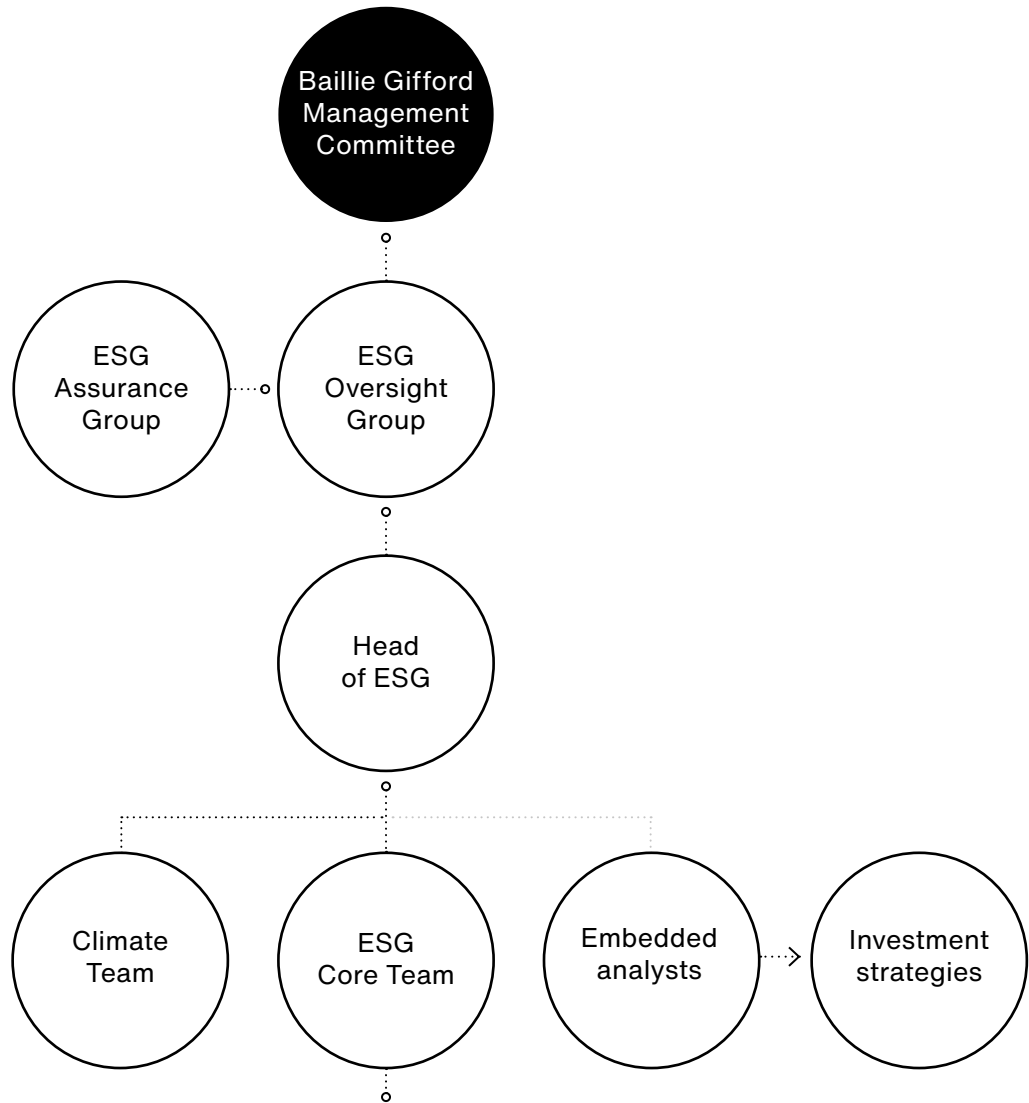
We make voting and engagement reporting available to institutional clients. We also disclose voting and engagement information on our website and prepare an annual **Investment Stewardship Activities Report** (as per the UK Stewardship Code) and **Climate Report** (in line with the recommendations of the Task Force on Climate-Related Financial Disclosures, per Financial Conduct Authority regulation). Many of our strategies also provide strategy-specific stewardship reporting. Additional regulatory reporting is available on our **website**.

## Contributing to well-functioning markets

We aim to uphold and promote the highest standards of service and professional behaviours and to enhance the reputation of the investment industry. This encompasses a responsibility to encourage well-functioning financial markets.

To support this, in addition to responding to relevant regulatory and other consultations, we are a member of several groups and industry bodies aimed at supporting well-functioning financial markets and making improvements in corporate governance and sustainability. It is important to note, however, that where membership of these groups involves commitments, as agents of our clients, our ability to meet these commitments will always depend on client mandates. In addition, regardless of any memberships or participation in collaborative initiatives, we act independently in the exercise of our investment and stewardship activities. Our **website** contains information about our memberships and activities.

### Baillie Gifford ESG organisational structure



- Corporate governance
- Voting
- Projects, policy, and regulation
- Operations
- Data
- Client communication



# Proxy voting guidelines

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 company's long-term prospects, 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 case-by-case. We believe that a prescriptive approach can lead to unwarranted and, in some cases, perverse outcomes that may not be in the best interests of a particular company, given its stage of development and the wider geographical and industrial context.

These guidelines are aligned with our **Stewardship principles**. They provide insight into our voting process and approach to matters routinely presented for a vote at shareholder meetings at public companies. Regarding our private company assets, these guidelines are used to inform our position as appropriate, recognising that different shareholder approval mechanisms, such as written consent, may apply to private assets. These guidelines do not indicate how we will vote on specific topics.

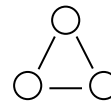
## Our Stewardship principles



Long-term value creation



Governance fit for purpose



Alignment in vision and practice



Sustainable business practices



## How we exercise voting rights

We prefer to take direct voting responsibility for our clients to strengthen our stewardship effectiveness. We do not outsource voting analysis or recommendations, we use proxy advisors for information only. Instead, voting analysis and execution are carried out in-house by our central Voting Team in collaboration with investment teams. This approach allows for more effective integration of voting into our investment process and broader stewardship activities. Most votes are submitted electronically using our proprietary in-house system, which enhances efficiency and accuracy.

## Reporting

Being transparent about how we vote on behalf of our clients is a vital aspect of our stewardship responsibility. We make vote reporting available to institutional clients and we also publish high-level voting information on our **website**\*.

## Split voting

Our investment teams will occasionally 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 specific investment strategy. Split votes are reported in the proxy voting disclosure on our website. They are communicated to the company, along with the rationale for the different voting decisions.

\*This does not, at this point in time, include information about engagements or voting in relation to private investments.

# Voting guidance

## Refraining from voting

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

01. Share blocking – in certain markets, voting shares can prevent us from trading for a set period, 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 them. If we deem a meeting to be significant or contentious, we may request that the client recalls the stock on loan so we can vote.
03. Conflicts of interest – we have processes to identify and prevent or manage potential proxy voting-related conflicts of interest to ensure that the firm always acts in our 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.

## Significant votes

In response to disclosure requirements for UK and European Union pension scheme clients under the Shareholders' Rights Directive II, we have created our Significant Vote framework. Whether a vote is considered significant is necessarily subjective. Here is 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 received 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 ratification or election of directors.
- Where we identified material environmental, social or governance (ESG) factors\* that resulted in Baillie Gifford opposing management.

\*Per our **ESG Integration Approach**, we define material ESG factors as those that we believe are likely to affect the financial condition or operating performance of a holding, with a consequent positive or negative impact on long-term investment returns.

# Voting guidelines



## Long-term value creation

### Anti-takeover devices

Anti-takeover devices are designed to defend companies from a hostile takeover. As these devices can potentially entrench management, we generally prefer that companies do not create them. However, we recognise that there may be certain growth-oriented companies and sectors where some protection from short-term market priorities can support long-term shareholder value creation.

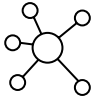
### Multi-class share structures

There is no optimal ownership structure. While the one share, one vote principle aligns voting rights and economic rights for all holders, multiple share structures and differential voting rights can also be a strength. Different voting rights can enhance long-termism, protect the culture and offer greater strategic certainty for some organisations. When reviewing a company with a multi-class structure, our primary consideration is whether it has worked for the long-term benefit of all shareholders and is likely to continue to do so over time.

### Equity issuances/repurchases, mergers and acquisitions

Matters relating to equity and corporate restructurings, such as additional equity issuances and mergers or acquisitions, can significantly impact shareholder value. When executed appropriately and successfully, they can accelerate a company's growth prospects.

However, they can also be destructive to long-term value creation. When reviewing these matters, we consider whether the request is aligned with the company's long-term strategy and is fair for shareholders.



## Governance fit for purpose

### Board

A board that is fit for purpose is fundamental to long-term value creation. As long-term growth investors, we are responsible for playing an active role, via our stewardship activities, in the proper functioning of boards.

We seek unique leadership styles and are open to unconventional governance structures. There is no global standard for the size or structure of a board of directors. Each board must consider the business's needs, which will be influenced by:

- The industry and region in which it operates.
- Its scale and level of maturity.
- Its ownership structure and.
- The expectations of its shareholders.

## Board composition

We expect board composition to underpin the board's effectiveness. Our key expectations of board members relate to independence, qualification and diversity.

### Independent

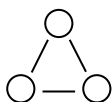
We expect a meaningful proportion of the board to be independent, which varies by market practice. We discourage non-executive directors from receiving performance-based remuneration but support them in having some share ownership to align with shareholders' interests. We expect disclosure of how the directors are paid and whether there are any material related party transactions. We also expect other demonstrations of independence, including considerations such as tenure and other affiliations of non-executive directors.

### Qualified

We expect directors to be qualified to set a credible, purposeful strategy while providing appropriate oversight and constructive challenge to management. Different sectors, geographies, and stages of growth all require different skills and backgrounds. We expect comprehensive director biographies to be disclosed, so we can consider whether the board has the necessary range of skills and industry expertise. We also expect directors to have sufficient time to dedicate to their role at the company, considering their other commitments.

### Diverse

We believe a diverse board is less likely to fall into the trap of groupthink. We expect a balance of experience, backgrounds and perspectives that give the company the best chance of succeeding in the long term.



## Alignment in vision and practice

### Remuneration

Executive remuneration is a core component of a company's corporate governance. It is crucial for attracting, retaining, and incentivising key management personnel who lead our clients' holdings. We firmly believe a thoughtful, well-structured remuneration policy focuses executives on long-term value creation and aligns their interests with shareholders.

Our remuneration principles fit hand-in-glove with our distinctive investment philosophy. They embody the attributes we look for in current and prospective remuneration policies and are supported by industry research and our experience of delivering outstanding long-term returns for clients. We analyse every remuneration plan based on its merits, in the context of the specific company.

Full details of our Executive Remuneration Principles can be found on Baillie Gifford's [website](#).

### Our Executive Remuneration Principles

01. Executive remuneration plans should be radically simple.

We support the adoption of simple, easy-to-understand pay structures that prioritise long-term share price as the basis for executives' rewards. We do not believe prescriptive or complex performance conditions necessarily make an incentive plan more robust or effective.

02. Equity ownership and pay duration matter.

Based on industry research, we believe equity ownership and lengthening the time horizon of executive pay are the most effective features for incentivising management and providing long-term alignment with shareholders.

03. The amount should reflect management quality and long-term value created.

We support generous payouts when management creates significant value, but do not support remuneration plans that fail to provide appropriate pay for performance, such as rewarding long-term underperformance.

04. Executive remuneration should be tailored to each company's requirements.

While our research concludes that there is clear merit in simple structures such as time-based restricted share plans, there is no single optimal model for executive remuneration. We encourage our holdings to be bold and implement bespoke incentive policies that fit their culture, situation and strategy.



## Sustainable business practices

We consider ESG risks and opportunities in the context of our overall focus on long-term investment performance (see our **ESG integration approach** for more information). Where we think a company is not adequately managing material ESG factors, we may use voting action to escalate matters. On climate, we exercise our voting rights to support the commitments and expectations set out in our **Statement of climate-related intent and ambition** and **Climate report**.

For our strategies that have made sustainability and/or net zero commitments, we may place greater weight on ESG factors in our consideration of voting decisions, in line with the investment approach outlined by these strategies.

### Shareholder proposals

Shareholder proposals are a mechanism permitted in some markets that 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 the following:

- Whether we believe the 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 aim of generating good long-term returns for clients.

We do not support proposals designed to frustrate or distract a company.

## Routine shareholder matters

At a minimum, we expect companies to comply with applicable local laws and regulations about routine matters such as timely publication of shareholder reports. More than this, we consider whether companies are acting in the best long-term interests of shareholders, even where this may mean going further than local market practice. For example, in some markets, companies may not be required to disclose the fees paid to the external auditor. We nonetheless expect that they should, as this best serves the long-term interests of shareholders.

### External auditors

External audits are integral to well-functioning financial markets and the corporate governance framework. We expect external auditors to be independent and avoid conflicts of interest such as providing and paying for corporate services other than the audit, and length of tenure.

### Political donations

We expect the board to have a policy on its approach to making political donations and contributions to 'politically exposed' charitable organisations and be transparent about these activities.

# Exclusion policy

This policy sets out Baillie Gifford's approach to implementing exclusions as part of our investment activities. Further details of individual fund-specific exclusions are available in relevant fund documentation on Baillie Gifford's website.

## **Firmwide exclusion**

### **Controversial weapons**

Certain types of military weapons are considered controversial because of their potentially disproportionate or indiscriminate effects. International treaties and conventions exist to limit their production and use, though this is an inherently complex area that continues to evolve.

Baillie Gifford seeks to avoid investment in holdings directly involved in producing controversial weapons, or the components or services that are essential to and tailor-made for them. This policy applies specifically to the following types of weapons:

- Anti-personnel mines
- Biological and chemical weapons
- Cluster munitions
- Depleted uranium weapons
- White phosphorus incendiary weapons
- Nuclear weapons (where such weapons are likely to be in breach of the objectives of the Treaty on the Non-Proliferation of Nuclear Weapons).

This firmwide exclusion applies only to companies held directly within portfolios we manage on behalf of our clients. Exposure obtained indirectly (e.g. through an investment fund not managed by Baillie Gifford) will not automatically take account of this exclusion. We use external research providers to help us identify excluded companies and, where appropriate, supplement this with our research to determine our position on individual companies.





## **Fund-specific exclusions**

Some of our investment funds will exclude holdings with more than a defined level of exposure to specific sectors or business practices. Full details are available in relevant fund-level materials on Baillie Gifford's website.

These 'threshold-based' (or sector-based) exclusions may include:

- Adult entertainment
- Alcohol
- Fossil fuels (oil, gas and thermal coal)
- Gambling
- Tobacco
- Military weapons
- Civilian firearms

Investment funds may apply 'Principles-based' exclusions on holdings deemed inconsistent with the United Nations Global Compact (UNGC) Principles and related standards. The UNGC Principles are shown on the following page.

## **Client-specific exclusions on request**

For segregated clients, we can accommodate specific exclusion requests. Clients wishing to request additional exclusions should speak to their main Baillie Gifford client contact.

## **Exclusion monitoring and divestment approach**

Exclusion monitoring is done for prospective holdings being considered for a portfolio and existing holdings within a portfolio. Prospective holdings are screened for breaches before being added to a portfolio. For existing holdings, we carry out periodic monitoring for any breaches that may occur due to changes in holdings' activities.

We use independent data provider screens to carry out these assessments. These screens may be supplemented with other data, information from the holding itself, and our research. If breaches are identified we may conduct further analysis to understand a holding's current position and the likely future trajectory. We may also engage to seek clarification.

### Threshold breaches\*

If a threshold breach is identified in a prospective holding, the holding cannot be added to the portfolio. If a threshold breach is identified in an existing holding, and no immediate change is anticipated, we will divest from the holding:

- At the first opportunity where it is possible to do so without causing significant financial harm to clients and taking due account of their interests.
- At a maximum within one month from the date we identified the threshold as being breached, based on our internal research.

### Principles-based breaches\*

Funds that apply 'Principles-based' exclusions will not invest in prospective holdings (equities and/or corporate bonds) that, in the investment manager's judgment, are inconsistent with the Principles and/or do not have a positive trajectory following identification of a historical issue (ie not showing clear time-bound intent and evidence to improve).

If we determine an existing holding's activities are inconsistent with the Principles (which is informed by our internal research alongside data feeds from third-party sources) we implement a formal engagement and monitoring process. We would expect to see material improvement within a reasonable timeframe (a maximum of three years), and should a holding fail to demonstrate progress, then we would divest:

At the first opportunity where it is possible to do so without causing significant financial harm to clients and taking due account of their interests.

At a maximum, within one month from the date the formal engagement process is deemed to have failed based on our internal research.

\*This approach applies to those funds within the Irish UCITS, UK OEICs, US Mutual Funds, Collective Investment Trusts, Canadian Pooled Funds and Investment Trusts (together the 'Baillie Gifford Funds'), which apply specific sector-based exclusions and principles-based evaluations, at the time of purchasing an investment. This policy applies to the Baillie Gifford Funds only and does not relate to segregated mandates. Should there be any conflict with the rules of a particular jurisdiction in which a Baillie Gifford Fund is established and this policy, the rules of that specific jurisdiction will prevail.

## UN Global Compact Principles

### Human rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

### Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

### Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

### Anti-corruption

Principle 10: Businesses should work against corruption in all forms, including extortion and bribery.

# Sustainable Finance Disclosure Regulation (SFDR) approach

SFDR requires asset managers to disclose how they integrate sustainability risks in the investment process for products sold in the European Union. Our **ESG integration approach** sets out how we consider and manage sustainability risks, and opportunities, as part of our investment process. That document serves as our Sustainability Risk Policy. Under SFDR, investment products can disclose under:

- Article 6 (mainstream products which may or may not integrate sustainability risks).
- Article 8 (products that promote environmental or social characteristics).
- Article 9 (products with sustainable investments as an objective).

Baillie Gifford has a range of funds disclosing under Articles 6, 8 and 9 of SFDR. Please see the fund selector on the Baillie Gifford website for more details.

**Good Governance for the purposes of SFDR**

SFDR requires that Article 8 or Article 9 products do not invest in companies that do not follow good governance practices. This policy describes how we determine good governance in the context of SFDR and for those funds and segregated accounts that fall under the scope of the regulation. It covers the areas of sound management structures, employee relations, staff remuneration and tax compliance.

In assessing investee companies against this definition, both third-party and internal research are used. Companies are monitored periodically to ensure ongoing compliance. The table below sets out the minimum expectations of good governance as required under SFDR; however, all holdings may be subject to other governance and stewardship elements set out in other Baillie Gifford policies.

<b>Good Governance Indicator</b>	<b>SFDR element</b>	<b>Minimum standard</b>
Accurate Financial Statement Reporting	Sound Management Structures	We will not own companies that have been found guilty of fraudulent financial statement reporting unless the company has taken appropriate steps to rectify an issue where it has occurred.
Corruption	Sound Management Structures	Compliance with Principle 10 of the UN Global Compact in line with the principles-based approach outlined in the Exclusion Policy.
Employee Relations	Employee Relations	Compliance with Principle 3 of the UN Global Compact in line with the principles-based approach outlined in the Exclusion Policy.
Remuneration Concerns	Remuneration	There are no ongoing remuneration concerns at the company that Baillie Gifford believes undermine the investment case.
Tax Behaviour	Tax Compliance	The company has not been found guilty of tax evasion, or has taken appropriate action to rectify concerns and prevent these convictions.

### **Defining sustainable investments within Baillie Gifford**

For SFDR purposes, this section outlines our approach to determining whether a holding can be classified as a ‘sustainable investment’ under Article 2 (17) of SFDR. This definition is relevant for our Article 9 products and those Article 8 products that commit to investing a proportion of assets in sustainable investments.

A sustainable investment is defined under SFDR as:

An investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

To arrive at a firmwide definition, the SFDR definition is broken down into three elements:

01. An investment in economic activity that contributes to an environmental or social objective.
02. That does not significantly harm any of those objectives.
03. Follows good governance practices.

The proportion of sustainable investments, including the level of taxonomy alignment, will be disclosed in annual reports.

### **Investment in economic activity that contributes to an environmental or social objective**

We define this as one, or a combination, of activities which, in our opinion:

- Are aligned with the broader sustainable objectives of society as currently best defined by the UN Sustainable Development Goals, evidenced through third-party data (based on a pre-determined revenue threshold) or internal research frameworks; and/or,
- Are aligned with the EU Taxonomy\* or other regional taxonomies as appropriate; and/or,
- Contribute to reducing absolute greenhouse gas emissions with a view to achieving the long-term global warming objectives of the Paris Agreement as evidenced through internal research frameworks.

\*The EU Taxonomy is a classification system that helps companies and investors identify “environmentally sustainable” economic activities to make sustainable investment decisions.

### **Do not significantly harm any of those objectives**

To be considered a sustainable investment, the investments that have been assessed to contribute to an environmental or social objective must demonstrate that they do not significantly harm either objective through:

- Alignment with responsible business codes and internationally recognised standards, including the United Nations Global Compact principles and related standards, including the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights; and
- Threshold-based exclusion\* of business activities associated with certain indicators for adverse impacts on sustainability factors.

Other indicators of adverse impacts on sustainability factors not mitigated through threshold-based exclusions are considered through controversies monitoring and/or stewardship activities.

### **Follows good governance practices**

As detailed in the section on “Good Governance for the purposes of SFDR” above.

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

\*Details of threshold-based exclusions can be found in relevant fund documentation.



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