

# Baillie Gifford UK Growth Trust plc



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# Introduction

**As active, long-term investors, Baillie Gifford aims to add value to client portfolios by investing in exceptional companies over decades. Not quarters. Therefore, understanding the enduring sustainability of every business invested in is a key tenet of Baillie Gifford's investment research process.**

Effective stewardship is about being thoughtful, active and responsible investors. Therefore, we meet with management and boards regularly, vote thoughtfully at general meetings and advocate for change where needed.

The following pages set out the five key principles behind Baillie Gifford's stewardship framework. We provide three case studies and some engagement examples to help illustrate our efforts.

We hope you find these pages useful and look forward to lots more conversations with you on these important matters.



# Baillie Gifford's stewardship principles

**Baillie Gifford's overarching ethos is that we are 'Actual' investors. We have a responsibility to behave as supportive and constructively engaged long-term investors. We invest in companies at different stages of their evolution, across vastly different industries and geographies, and we celebrate their uniqueness. Consequently, we are wary of prescriptive policies and rules, believing that these often run counter to thoughtful and beneficial corporate stewardship.**

**Our approach favours a small number of simple principles which help shape our interactions with companies.**

## **Prioritisation of long-term value creation**

We encourage our investee companies to be ambitious and focus their investments on long-term value creation. We understand that it is easy to be influenced by short-sighted demands for profit maximisation but believe these often lead to poor long-term outcomes. We regard it as our responsibility to steer companies away from destructive financial engineering and towards activities that create genuine value over the long run. We are proud that our value will often lie in supporting management when others don't.

## **Sustainable business practices**

We believe an entity's long-term success relies on maintaining its social licence to operate and look for companies that work in the spirit, not just by the letter, of the laws and regulations that govern them. We expect all companies to consider how their actions impact society, both directly and indirectly, and encourage the development of thoughtful environmental practices and net zero aligned climate strategies as a matter of priority. Climate change, environmental impact, social inclusion, tax and fair treatment of employees should be addressed at board level, with appropriately stretching policies and targets focused on the relevant material dimensions. Boards and senior management should understand, regularly review and disclose information relevant to such targets publicly, alongside plans for ongoing improvement.

## **Fair treatment of stakeholders**

We believe it is in the long-term interests of all enterprises to maintain strong relationships with stakeholders – employees, customers, suppliers, regulators and the communities they exist within. We do not believe in one-size-fits-all policies and recognise that operating policies, governance and ownership structures may need to vary according to circumstance. Nonetheless, we believe the principles of fairness, transparency and respect should be prioritised at all times.

**A constructive and purposeful board**

We believe that boards play a key role in supporting corporate success and representing the interests of all capital providers. There is no fixed formula, but we expect that boards will have the resources, information, cognitive and experiential diversity they need to fulfil these responsibilities. We believe that good governance works best when diverse skillsets and perspectives are paired with an inclusive culture and strong independent representatives who are able to assist, advise and constructively challenge the thinking of management.

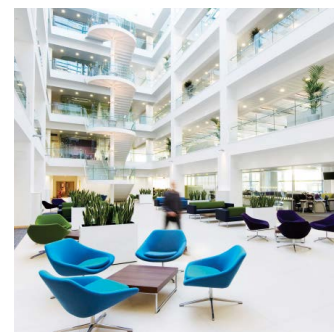
**Long-term focused remuneration with stretching targets**

We look for remuneration policies that are simple, transparent and reward superior strategic and operational endeavour. We believe incentive schemes can be important in driving behaviour, and we encourage policies which create genuine long-term alignment with external capital providers. We are accepting of significant pay-outs to executives if these are commensurate with outstanding long-run value creation, but plans should not reward mediocre outcomes. We think that performance hurdles should be skewed towards long-term results and that remuneration plans should be subject to shareholder approval.

# Engagement highlights

## Hargreaves Lansdown (HL)

Investment platform



© Hargreaves Lansdown Plc.

### Principle(s)

- Prioritisation of long-term value creation
- A constructive and purposeful board

### Engagement note

We had several meetings with relevant stakeholders to discuss the following:

- the chair's appointment to an additional chairmanship
- board changes and investment priorities
- chief executive (CEO) departure and succession management

Regarding the chair's appointment to an additional chairmanship, we met with the general counsel and company secretary in early 2022. They assured us that the board had undertaken a formal assessment process to review the chair's additional appointment. They confirmed that she would not be joining any board committees in her new role and would be giving up several of her private commitments to reduce the risk of over-boarding.

In the second quarter of 2022, we met with the chair to discuss board changes and investment priorities. The non-executive element of the board had changed significantly under her leadership, and additional executives had been appointed. Given the company's significant investment in technology, we were reassured that the new appointments had strengthened technological expertise. However, we suggested that communication about the progress of key investment projects would be helpful to our monitoring of execution and progress.

Later in the year, HL announced that its CEO, Chris Hill, would be stepping down in 2023 after six years in the role. In October, we met with the chair to discuss the CEO's decision, the process for appointing a successor and the implications for the group's strategy.

In December, HL announced that Dan Olley would replace Chris Hill as CEO. Therefore, we engaged with the chair again in December to discuss the reasons for his selection. He has been serving as a non-executive director on the HL board since June 2019, and we were satisfied that he has the skills and experience to accelerate the execution of the group's digital strategy. We expect to meet with him once he transfers to the CEO role.



## St. James's Place (SJP)

Wealth manager



© St James's Place Wealth Management Group.

### Principle(s)

- Sustainable business practices

### Engagement note

We engaged to learn about the company's decarbonisation pathway. Particularly how SJP will achieve net zero greenhouse gas (GHG) emissions across its significant investment portfolio.

We spoke with various people from SJP's Responsible Investment (RI) Team, who provided information about its decarbonisation commitment.

SJP is a signatory to several financial industry initiatives, including the Net Zero Asset Owner Alliance and the UN's Race to Zero campaign. These initiatives have encouraged SJP to set both near and long-term targets for reducing emissions from the portfolio of investments managed on its clients' behalf. Along with a commitment to reach net zero by 2050, SJP previously set an interim 2025 target for a 25 per cent emissions reduction, which it has already reached. The company is now considering setting a new emissions reduction target for 2030.

SJP annually reviews the performance of each of its underlying fund managers to determine progress on its decarbonisation pathway for its financed emissions. This process requires an assessment of credible ESG engagement, including climate-related concerns. The RI Team highlighted a recent decision to remove an investment manager it assessed as failing to meet minimum engagement requirements, despite warnings. The company also detailed its clear preference for engagement rather than divestment when considering investments in high-emitting industries. SJP also provided details on the near-term and long-term objectives for recently appointing the company engagement specialist, Robeco.

We were pleased to hear about SJP's thoughtful approach as it seeks to decarbonise the significant emissions footprint from its investment portfolio. We await the setting of a new 2030 reduction target and will review it in due course.

We will also continue to monitor decarbonisation progress, particularly where investments relate to companies with significant emissions that are hard to abate.

## Exscientia

Biotech



### Principle(s)

- Long-term focused remuneration with stretching targets

### Engagement note

We previously supported the company's remuneration policy at the first AGM in 2022 following the IPO at the end of 2021. However, we communicated certain areas of concern and offered to discuss them with the company. This engagement provided the opportunity to articulate specific concerns and encourage the company to be thoughtful in improving alignment.

For context, Exscientia is a relatively young, early-stage biotech company. The structure of previous executive compensation included long-term incentives that, unfortunately, focused on the company's share price over short periods, had minimal holding requirements and no links to the company's operational progress.

Speaking with individuals who work with the compensation committee directly, we encouraged the company to focus on operational metrics as appropriate indicators of operational progress and to involve periods more aligned to an investment horizon of multiple years. The company highlighted the need to remain competitive to attract and retain talent within the biotech industry. In response, we encouraged the company to avoid reverting to industry conventions. We reiterated our willingness to listen to any proposal if there was an interest in speaking with shareholders ahead of the AGM. We recognise the need for the company to attract capable individuals to run the business. However, we emphasised the importance of focusing remuneration on the long-term success of the company's operations rather than on the short-term share price.

We will continue to monitor and engage appropriately with the company when further details are provided of new remuneration proposals.

# Case studies

## Environmental

### Genus

**Genus is a world-leading animal genetics business that analyses DNA to find the strongest genetic profiles to breed 'elite' cows and pigs.**

#### Objective

Our key focus of engagement has been on the following:

- Given the nature of the industry Genus operates in, it has a relatively high carbon intensity. Therefore we have been engaging with Genus on its environmental impact. We recognise that Genus delivers a tangible outcome with animal protein, in line with UN Sustainable Development Goal 2, Zero Hunger, and its products can help farmers produce meat and milk more efficiently. Still, we also recognise that the global farming industry faces significant challenges to decarbonise in alignment with the goals of the Paris Agreement.
- **Decarbonisation:** Fundamentally, meat and dairy production generate a very significant GHG footprint (approx. 15 per cent of global GHG emissions according to the UN's Food and Agricultural Organisation, when considering land use for livestock, crops for animal feed and livestock farms). Radical changes to current practices will be required if the global farming industry is to decarbonise in alignment with a 1.5C scenario by 2050.
- **Food security:** Genus' products are focused on maximising yields, which ultimately supports lowering animal protein costs. This is a clear tailwind for access and affordability (especially in low- and middle-income countries). But stepping further back, there are important questions to be asked concerning the overall stability of the global food system and the role of animal protein.

#### Discussion

In Q1 2022, we conducted an extensive analysis of Genus in line with Baillie Gifford's internal climate audit. This formed the foundation for our engagement with the company on its sustainability ambitions and decarbonisation strategy.

In Q2 2022, we met with management and the head of sustainability to encourage investment in decarbonisation initiatives, given the material emissions footprint for the industry. Encouragingly, it has started a porcine (pig) biogas recapture pilot project in Canada, which, if successful, could be rolled out across its global operations. In addition, Genus could use its position to influence its customers to invest in the same type of mechanisms to capture porcine slurry emissions and thus reduce the impact of porcine emissions globally. We also followed up with a letter to management encouraging it to participate in the science-based target initiative to establish independently validated decarbonisation targets once the new methodology for the FLAG (Forest, Land and Agriculture) industry pathway had been published. Finally, we encouraged the company to measure the impact of its products in reducing carbon emissions within customer operations.

#### Outcome

In speaking with company management in September 2022, we heard about the progress that Genus had made since our engagement earlier in the year. We learnt that Genus has partnered with a satellite monitoring company to track carbon emissions from its own 'nucleus farms'. These are Genus' farm operations (both cows and pigs) that are used to selectively breed desirable traits, which can then be sold to customers. The company currently expects to provide further details about progress with its pilot biogas capture project at their porcine operations in Canada in 2023. We intend to continue monitoring decarbonisation progress over time and encourage the company to act as a leading industry voice in encouraging investment in decarbonisation.

## Social

# Rio Tinto

**Rio Tinto engages in exploring, mining and processing mineral resources worldwide.**

### Objective

Following the destruction of the Juukan Gorge site in Western Australia, our engagement is perhaps the most acute example of the importance we place on a company's social licence to operate. However, rather than just seeking action to rectify the impact of the site's destruction, we sought to address the serious governance failings which led to it.

### Discussion

Our engagement focused on strengthening the board and its ability to provide oversight and direction to the business. Through extensive and prolonged engagement, board change was achieved by appointing a new CEO in January 2021 and then, in May 2022, appointing a new chair. We strongly believed that these personnel changes were essential to reset the culture and drive change throughout the group in the approach taken to heritage matters. Building relationships with indigenous people is critical for Rio Tinto to maintain its social licence to operate in sensitive regions and deliver sustainable long-term financial returns.

We engaged with the new chair, shortly after his appointment in 2022, to share thoughts on heritage matters and were encouraged by the high priority he attached to improvement. Our engagement also included a discussion of a Workplace Culture Report published early in 2022, which criticised Rio for unsafe and unacceptable practices in its mining operations, including sexual harassment, bullying and racism. While reputationally damaging, the report acknowledged that Rio Tinto had already begun improving transparency and accountability. Our monitoring of Rio Tinto's progress also involved

participating in events hosted by Rio Tinto board members and senior managers, including the CEO of Australia. In October 2022, for example, we joined the Communities and Social Performance Update meeting to learn more about the approach to rebuilding community and social relationships. Our impression from this meeting was that the company appeared much more focused and purposeful in managing stakeholder relationships since the blasting of the ancient caves in the Pilbara region. For example, in 2022, it gathered feedback from seven of the ten Pilbara Traditional Owner groups (up from four in 2021). It also increased indigenous representation on management teams in Australia from 7 to 41 and appointed its first female indigenous general manager in its global audit team in Australia.

Later in the year, we joined a similar call hosted by Rio Tinto covering progress in heritage and safety and provided more detailed information regarding the climate-related challenges and opportunities that the business manages.

### Outcome

Rio Tinto is a complex business with a global footprint. From our 2022 engagements, we were encouraged by how the CEO and chair are working together to rebuild the trust and confidence of indigenous people and make Rio Tinto a safer place to work. On the latter, Rio Tinto has published an external review of its workplace culture with 26 detailed recommendations and committed to a follow-up review of progress in the next two years. On climate, Rio has committed to reducing its operational footprint by 50 per cent by 2030. Our ESG specialists will therefore continue to work alongside the portfolio managers to monitor progress.

## Governance

### Abcam

**Abcam provides antibodies and other biological tools for scientific research.**

#### Objective

To assess the challenge to the board from a founder who is a shareholder but is no longer a board member.

#### Discussion

We engaged with both the founder and the Abcam board. The founder, Dr Jonathan Milner, was deputy chair when he chose to leave Abcam's board in 2020. Having founded Abcam in 1998, he served as CEO until 2014, when Alan Hirzel, the current CEO, was appointed as his successor. We discussed with Dr Milner his challenge to the board's performance which is focused on governance, execution of strategy and costs. As part of this, we covered his thoughts on changes that have taken place at Abcam since he left. These have included board composition, a reshaping of executive pay to accommodate the tilt of the business to the US market, Abcam's listing on Nasdaq and progress on implementing the strategy adopted in 2019. We also discussed an IT project that has not gone smoothly and has been unexpectedly costly to shareholders. With Abcam's chair and CEO, we established that the board was responding appropriately, including, for example, giving Dr Milner access to all non-executive directors. We were told that, following proper consideration by the Nomination Committee, Dr Milner was offered a board position. This offer was rejected by Dr Milner, who stated his intention to call an EGM to have himself elected executive chair, replacing the current chair.

#### Outcome

We begin this type of engagement with an open mind and consider what is presented in the context of our investment research and engagement. Two of our investors recently visited Abcam's US headquarters in Boston. We included in our discussion of their trip the points raised by Dr Milner. Shortly after our engagement, Dr Milner delivered the required EGM notification from which it was clear that he was seeking wider board change. We were disappointed that the situation had escalated rather than a workable solution being achieved. However, in an unexpected twist in late June, it was announced that the challenge from Dr Milner had led to the board receiving strategic approaches from multiple parties. Dr Milner then suspended the July EGM pending the outcome of the board's review of the strategic alternatives. We engaged with five members of the board following the latest disclosure and will consider the outcome of the board's deliberations in due course.

# Let's talk climate

Baillie Gifford is of the opinion that climate change poses a severe threat to our environment, society, economies and companies around the globe. In addressing this, high carbon emitters are likely to face greater societal and regulatory scrutiny and higher costs to account for the true environmental impact of their activities. We recognise that measuring the carbon emission levels of investment portfolios is far from an exact science. It is made difficult by a lack of disclosure, standardised reporting of emissions and limitations in the universe of companies covered by data providers. Furthermore, it is backwards looking. However, it can act as a starting point to enable investors to gain a reasonable picture of carbon emissions at the overall portfolio level.

To help interpret the data, scope 1, 2 and 3 is a way of categorising the different kinds of carbon emissions a company creates in its operations and wider value chain.

- Scope 1 emissions are those produced directly by the company, for example, through burning fuel to run vehicles.
- Scope 2 emissions refer to emissions being produced indirectly on the company's behalf, for example, through generating electricity to light company buildings. Scope 1 and 2 emissions are generally considered to be under the company's control.
- Scope 3 emissions are where it gets more complicated because they are more difficult for a company to quantify and control. Scope 3 emissions occur up and downstream of a company's activities and are also known as its value chain emissions. They include emissions produced when a company purchases products from its suppliers (upstream) and the emissions its products create when customers use them (downstream). Scope 3 emissions are important indicators of potential carbon risk, and we endeavour to include what information we can gather in our research process.

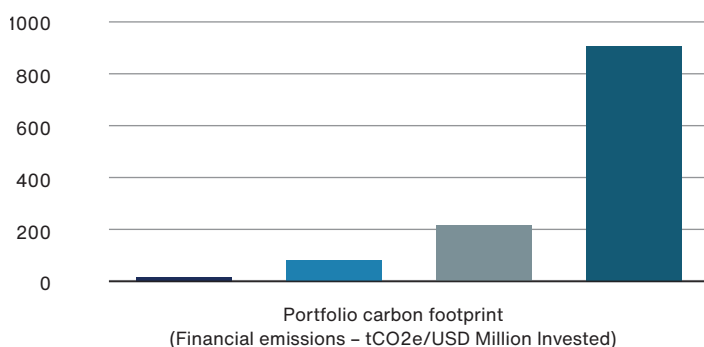
The following charts show that Baillie Gifford UK Growth Trust's (BGUK) portfolio has a significantly lower carbon footprint than the benchmark. The first two blue bars show how the portfolio compare to the FTSE All-Share index on scope 1 and 2 emissions. The second two grey and blue bars show how the portfolio compare to the FTSE All-Share index regarding scope 1 and 2 emissions, plus scope 3 emissions from companies in 'material' sectors. This is defined as companies operating in oil and gas, mining, transportation, construction, buildings, materials or industrial activities.

The pie chart delves into this data in more detail by splitting out the top 10 biggest contributors to carbon footprint in the portfolio, considering scope 1 and 2 emissions, plus scope 3 emissions from companies in 'material' sectors. Therefore, it is unsurprising that the dominant contributor to emissions is Rio Tinto, which operates in the mining sector.

In our voting section, we have provided more detail regarding how we have been engaging with Rio Tinto on its significant scope 3 emissions. More information can be found in the BGUK's report which is available on our website at [bgukgrowthtrust.com](https://www.bgukgrowthtrust.com)

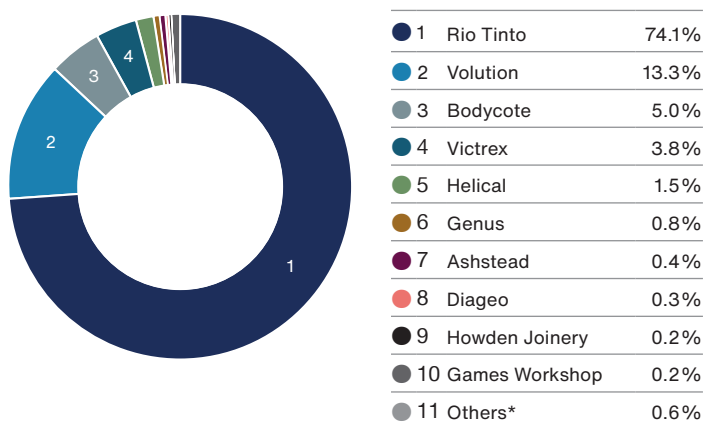
### BGUK carbon footprint

Relative carbon footprint (tCO<sub>2</sub>e/GBP million invested)



- Portfolio (Scope 1&2)
- FTSE All-Share (Scope 1&2)
- Portfolio (Scope 1, 2 and 3 Material)
- FTSE All-Share (Scope 1, 2 and 3 Material)

### Top percentage contributors to carbon in the portfolio



Source: Baillie Gifford & Co, MSCI ESG Research, FactSet, FTSE.

As at 30 June 2023. Sterling.

Based on a representative UK Growth Trust portfolio. \* Approximated data.

These numbers have not been adjusted for an inflation in enterprise value.

This data is provided on a 'best endeavours' basis using the available market information, which includes estimated data and unverified company disclosure, so it is therefore open to challenge. Please note that the following stocks are not covered in the supplier's database so do not form part of the carbon analysis: 4imprint Group plc, Baltic Classifieds Group Plc, Exscientia ADR, Farfetch Ltd. Class A, FDM Group (Holdings) plc, Molten Ventures PLC, Oxford Instruments plc, PureTech Health PLC, Wise PLC Class A.

### **Engagement with one of our top contributors to carbon in the portfolio:**

We are not naïve to the complexities of the energy transition, nor do we think we have all the answers. However, we believe we can add value by having open and robust discussions with company management teams and industry experts to deepen our understanding of the challenges companies are facing in the transition to net zero. We will then use these insights to strengthen our in-house company analysis.

For example, to help bring this to life, Ashtead is a relatively high emitting company which we have categorised as 'lagging'<sup>1</sup> on its current climate commitments. Ashtead rents out industrial equipment, from small power tools to large forklift trucks and loaders. It predominantly caters to the non-residential US construction market, and its long-term growth has been supported by a structural shift from buying to renting large, expensive equipment. From an environmental perspective, it is in an interesting position. Fundamentally, for customers to rent products from Ashtead rather than buying them outright intuitively leads to a more efficient allocation of resources, as less equipment sits idle. However, as a beneficiary of this environmentally welcome trend, Ashtead's emissions, in the short term, are likely to rise as they grow and rent out more equipment – a significant part of its rental fleet is reliant on diesel engines. In addition, to support business growth, it must transport its inventory, which also currently relies on diesel engines. Therefore, we engaged with the company throughout 2022 to gain a greater understanding of the challenges it faces in decarbonising its transportation fleet and its portfolio rentals.

### **Discussions**

- In Q2 2022, we had a helpful dialogue with the CEO and CFO to better understand the challenges faced in decarbonising Ashtead's business. Ashtead expects to decarbonise along a non-linear pathway, and emissions will rise near-term as the business grows. Significant reduction in Ashtead's emissions will require breakthrough battery technology for both plant equipment and long-distance vehicles. In addition, considerable investment is needed to establish a national electric charging infrastructure.
- In Q3 2022, we engaged with an experienced managing director responsible for the company's approach to ESG. It was a very open discussion covering various emission reduction initiatives that Ashtead is spearheading. These include the trialled use of HVO (hydrotreated vegetable oils) in the company's diesel engines for the transportation fleet. It has chosen to trial the use of HVO in particular states in the US where the adoption of HVO is being incentivised through subsidies (ie California). HVO fuel is manufactured predominantly from renewable materials and is a 'drop in' fuel that can replace diesel with no changes required to the engine. It is also estimated to reduce up to 90 per cent of lifecycle carbon emissions when compared to a traditional diesel engine.

<sup>1</sup> As part of Baillie Gifford's 'climate audit' process, the portfolio manager assesses all holdings in the portfolio for their emissions reduction goals and performance. Holdings are categorised as 'leading', 'preparing', or 'lagging' based on an assessment of their ambition and related strategies to reach net zero emissions by 2050 or before.

More information can be found in the **UK Growth Trust TCFD report** which is available on our website at [bailliegifford.com](https://www.bailliegifford.com)



- We also discussed the company's collaboration with its key suppliers to develop alternative electrified versions of its rental plant equipment. Following this discussion, we engaged with one of these suppliers (Doosan Bobcat) to learn about its research and development initiatives to electrify its portfolio. Ashtead's key suppliers are choosing to focus their research and development budgets on innovation and electrification. However, it is still at a very early stage, and the consequent pricing is approximately three times the cost of the incumbent diesel equivalent.
- Finally, we encouraged the company to engage with the Science Based Targets initiative to gain independent validation of the company's decarbonisation pathway.

### **Outcome**

While it is expected that the company's carbon emissions will continue to increase in the near term, it is clear that the company is working towards setting science-based absolute emission reduction targets as it determines credible timeframes for scaling and adopting novel reduced carbon technologies.

Therefore, the company has invested in a couple of battery technology start-ups (both in the US, one based in Silicon Valley and the other in Buffalo, New York), and it has encouraged its original equipment manufacturer (OEM) suppliers (such as Doosan Bobcat) to work with these start-ups to provide feedback with their developments. Having Ashtead on the share register helps to develop credibility with OEMs and potentially supports their order books.

Over the past twelve months, the company has published its inaugural sustainability report. Whilst this was a welcome update, we have encouraged increased disclosure of the various efforts being undertaken to reduce the company's carbon footprint across all carbon emission scopes. Therefore we are pleased that the company has also committed to publishing an audit of its scope 3 emissions.

We will continue to monitor the company's progress and regularly engage as we encourage the company to lead its industry to decarbonise.

# Proxy voting

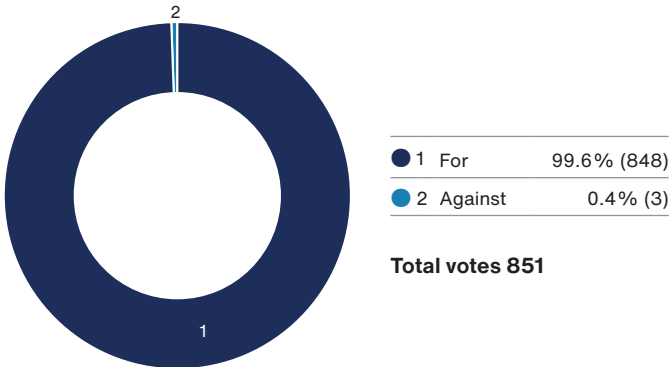
Exercising the voting rights attached to the holdings in the portfolio is integral to our stewardship responsibilities. Coordinated internally by our dedicated voting analysts, our voting decisions are investment-led and focused on what we believe is in the portfolio's best interests. The portfolio managers are actively involved in this process. We do not outsource any of our stewardship activities and routinely communicate any votes against management to the company to maintain an ongoing dialogue. The ability to vote supports our ability to build long-term relationships with investee companies and strengthens our position when engaging with them.

We invest in high-quality management teams where we believe the governance structure supports the long-term investment opportunity. We seek to avoid investments where corrective action is required to generate value. Accordingly, we support most resolutions put forward by investee companies, voting against proposals on the few occasions where we disagree with decisions taken by management or where our ability to influence through engagement has either been unsuccessful or not possible. We understand the nuances of responsible stewardship and therefore use abstentions when we think voting decisions are not black or white. We review the merits of each proposal on a case-by-case basis, considering the broader context in which companies operate. This approach enables us to maintain constructive relationships with management and the board as part of a gradual, long-term engagement process.

The following charts summarise the proxy voting activities of BGUK for the one year to 31 March 2023.

## Proxy voting statistics

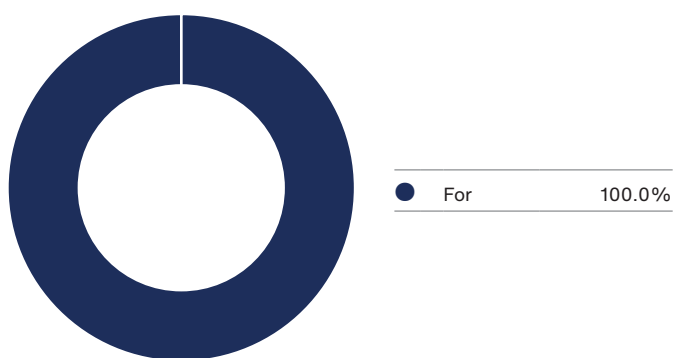
12 months to March 2023



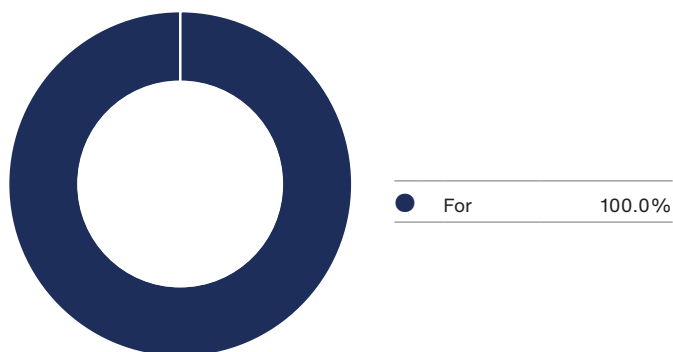
Source: Baillie Gifford.  
Figures may not sum due to rounding.  
Based on the Baillie Gifford UK Growth Trust portfolio.

## Management resolutions: breakdown of voting activity

### Remuneration



### Director elections



We would typically support most resolutions proposed by management. This should not be a surprise as we seek to invest in management teams that we trust and respect and have a shared vision for the company's long-term future. A vote against a management resolution is not something we take lightly. To help illustrate the types of situations where we would not be able to support management, we have outlined two examples overleaf of where we have voted against company resolutions over the past year.

## Rio Tinto

**Voting subject:** Climate Action Plan

**Voting decision:** Against

**Voting rationale:**

Following our participation in a climate consultation in late 2021 and further engagement with the outgoing chair, Simon Thompson, in early 2022, we opposed the inaugural advisory resolution to approve the group's Climate Action Plan at the May 2022 AGM.

Although the plan had been strengthened over our engagement (the company is now aiming to reduce its operational footprint by 50 per cent by 2030), our view was that it lacked ambition about addressing the company's scope 3 emissions from the downstream processing of materials it supplies, such as iron ore, which is used in steel making.

**Voting outcome:**

The majority of shareholders supported the advisory vote, which was therefore approved.

In addition to engaging with the company ahead of the vote, we raised our concerns in our first conversation with the new chair, Dominic Barton, after the annual general meeting (AGM).

While we understand the difficulties in addressing indirect emissions, we have encouraged the company to set scope 3 emissions targets, develop partnerships and fund research to help find solutions. We have clarified that we would support greater financial investment to future proof this part of the business.

## Boohoo

**Voting subject:** Remuneration Incentive Plan

**Voting decision:** Against

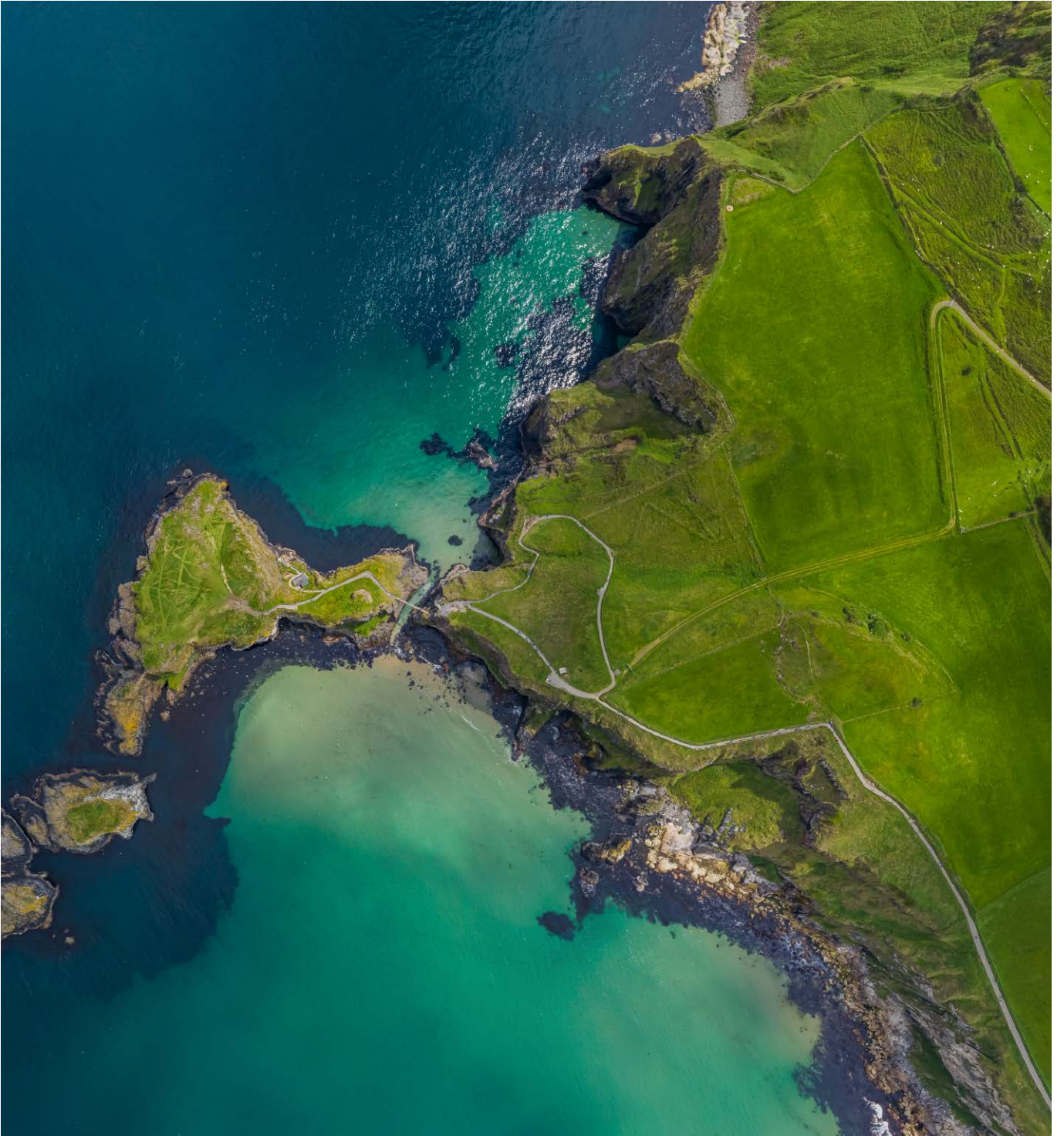
**Voting rationale:**

We have engaged extensively with Boohoo regarding the new 'Growth Share Plan' proposed by the company. As mentioned in the previous section on our Stewardship Principles, we believe that remuneration plans should support management in prioritising long-term value creation. Whilst we do recognise that big improvements have been made to the original proposal, we have concerns about the structure of the Plan particularly in terms of its long-term alignment, given the first two tranches would vest shortly on the first anniversary of achieving the relevant share price performance condition. Secondly, the absence of an operational key performance indicator (KPI) or a stretching operational performance target and having only share price hurdles is also a significant weakness of the proposed Plan. As such, we have decided to oppose it.

**Voting outcome:**

Around 37 per cent of shareholders voted against the resolution. However, they still passed with a majority of support.

The company has expressed that they will consider the feedback gathered throughout the consultation process regarding the 'Growth Share Plan' and continue to engage with shareholders regarding its remuneration policy.



# Appendix

## Our Response to FCA Consultation on UK Listing Reforms

### A stock market fit for purpose

To finish this stewardship report, we wanted to provide you with an update on something we have been working on with our ESG team, as we believe this is an important matter for all clients investing in the UK stock market.

The desirability or not of the UK stock market has been a topic raised in recent years by clients, investors, asset allocators and inevitably politicians. This has led to a recent consultation by UK regulatory, the FCA on listing reforms to make the UK market more attractive. Such concerns it should be said are not new, and some of us in the team are sufficiently long in the tooth to have helped contribute to previous reviews. The topic of the attractiveness of the UK for investors itself is a minefield of self-interest (we are of course hopelessly biased on this topic) so it's best to stick to relatively uncontroversial facts that the UK has seen a shrinkage in the number of companies listed over time, has seen a major shift in ownership away from UK institutions and the regulatory burden on companies has inexorably increased.

You might think that as bottom up stock pickers we would shun the opportunity to contribute to such top-down, thematic reviews, and leave it to a separate ESG operation we rarely speak to. This is not how we operate. Our two dedicated UK ESG analysts sit beside the investors in the UK equity team and attend our meetings. Proper integration if you like, because if you are long term, ESG really does matter. We quickly agreed that the issues raised in the reforms were important and required a joined up approach. We therefore spent a fair amount of time carefully reviewing the FCA consultation. As long-term active investors we share the ambition of the FCA to attract high quality growth companies to list on the London market. So surely, we are fully on board with the proposed adoption of more 'American', dynamic reforms?

The answer is 'no', and our thinking is shown in the letter we sent to the FCA, reproduced in full on page 21. In short, while we do acknowledge that there are some practical reasons why these proposals have been suggested, on the whole we think that the combined effect of these changes would make it harder for asset managers to fulfil their stewardship responsibilities by weakening shareholder rights. These rights are not something we believe UK shareholders should give up lightly. The experience of both the ESG team and the investors was helpful in recalling instances where 'lighter touch' listing rules led to some unedifying abuses of shareholder rights in the UK (thankfully not in companies we owned in the portfolio, but the point remains).

We recognise that it's too easy to complain in such consultations. It is also important that, on behalf of our clients, we propose some constructive suggestions to try to improve matters. In our response, we did set out our views on where we believe some of the problems are. These views have been reinforced in a large part by the regular and extensive interactions we have with the boards of companies, where we have tried to build candid and open dialogue. Usually this is company specific but there are themes that keep bubbling up from companies and individuals that we respect. In particular, the ever-increasing reporting requirements (of dubious benefit) that follow a London listing are likely to be a greater disincentive than the Listing Rules or market structure. Whether the authorities are really willing to tackle this Japanese knotweed of well meaning, piecemeal requirements, which when added up in their entirety are a blight on sensible and proportionate governance in UK boardrooms, remains to be seen.

Dear Primary Markets Policy Team,

Re: Consultation Paper 23/10 – Primary Markets Effectiveness Review

We welcome the opportunity to engage in this consultation paper ('CP').

### **Background**

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In fulfilling our role, it is our duty to take into account material factors which affect our ability to exercise informed investment judgement on behalf of our clients. We invest using a long-term horizon, focusing on deploying clients' capital into tangible activities which we believe will generate significant future cashflows and returns. The material factors we take into account are open-ended and wide ranging, including items such as addressable market, management and financial strength, competitive position, potential for technological disruption, and sustainability-related risks and opportunities.

### **Executive summary**

As long-term active investors we share the ambition of the FCA to attract high quality growth companies to list on the London market. We agree that this is a multifaceted challenge and that the UK listing rules are unlikely to be a sole determinant in a decision to list. We note, for example, that relaxation of the Listing Rules in 2018 and 2021, and the introduction of a High Growth Segment in 2013, have not had a discernibly positive impact. Listing Rule proposals (CP23/10) of particular concern to us are:

- removal of the vote on Class 1 transactions
- removal of the vote of independent shareholders on related party transactions
- removal/loosening of the guardrails around dual class shareholder structure (DCSS)
- removal of the requirement for a controlling shareholder agreement

These shareholder protections were put in place for good reason. If the FCA proposals are implemented, there is risk that any success in attracting new companies to London may not attract companies of the quality desired by investors, the FCA and Government. We think that the combined impact of their removal would be to make it harder for investors to hold companies to account and to fulfil stewardship responsibilities. In this respect we are mindful of the importance that our clients and wider stakeholders attach to our engagement activity and voting decisions. We value greatly the engagement opportunities that exist in the UK market but there is risk that companies may engage less, consult less and respond less to our views if they do not need our clients' votes.

We are not yet persuaded of the merits of merging the premium and standard listings into a single segment. More generally, our view is that ever-increasing reporting requirements that follow a London listing are likely to be a greater disincentive than the Listing Rules or market structure. In this respect we note that the FCA's proposals may necessitate additional disclosures.

We strongly believe from candid conversations with quoted UK companies where we are long term shareholders, that to make it attractive for businesses in the UK there needs to be a significant paring back of the increasingly onerous and often unhelpful disclosure requirements noted above. We also believe that the tax system is overly complex and an exercise in tax simplification would be beneficial. Neither of these radical suggestions would be easy to implement as they would require a degree of courage to fend off vested interests and would require much hard and unglamorous work. However, the prize of straightforward and transparent governance and tax regimes for companies could be significant in making the UK a more attractive place to do business and to encourage long term investment.

We have not responded to the questions included in the consultation. However, we have included in the next section our key concerns on certain aspects of the policy proposals being consulted on.

### **Key policy considerations**

- Proposal for a single listed segment. We are not yet persuaded of the merit of this proposal. It is difficult, for example, to assess the challenge that standard listed companies might have in meeting the additional requirements and how this higher hurdle for them squares with reducing the perceived burden on premium listed companies. Additionally, having the premium and standard listing segments acts as a clear flag to all investors – professional and otherwise – of the relative investor protections offered by constituents.
- Removal of Class 1 transactions vote. Given the potential for such transactions to erode shareholder value, the loss of this voting right would be the loss of a significant investor protection. The discipline of a shareholder vote may also be a factor in the due diligence conducted by boards when considering such transactions and their willingness to engage with investors. We would be supportive of efforts to reduce complexities and cost provided that the vote is preserved.
- Removal of the vote of independent shareholders on related party transactions. We are strongly opposed to this proposal. This vote is a vital investor protection and promotes discipline and integrity on the part of boards. These can be highly complex cross-border transactions with material value at risk. Without the discipline of a vote, our engagement opportunities may be restricted and our ability to conduct due diligence correspondingly reduced. In the event of a bad outcome, seeking redress could be a long, resource intensive process with an uncertain outcome.



- Removal/loosening of guardrails around dual class share structures (DCSS). Our investment style favours long-term, early-stage investment in founder-led businesses. Our clients have benefitted from the investment returns such companies can generate over time. We are investors in certain standard listed companies with DCSS structures and were supportive of the targeted and restricted DCSS arrangements introduced to the premium segment. We are not supportive of the significant changes now proposed. Removing the ratio cap, extending the sunset clause and the resolutions on which preferential voting rights can be exercised would significantly undermine the ability of investors to hold companies to account. In extremis, there would be no incentive for boards to consult, engage or be responsive to our views if they have no need of our votes for ten years. Our strong preference is therefore for maintenance of the status quo on DCSS, particularly as the amended rules were only recently introduced.
- Removal of the requirement for a Controlling Shareholder Agreement. The existing arrangement, introduced in response to harm suffered by minority shareholders in ENRC, is straight-forward and easily understood by all stakeholders. It is not clear why a board that intends to act with integrity would object to complying with it. While the FCA may consider litigation to be an appropriate option if things go wrong, that would be a costly, time consuming process with an uncertain outcome.

Should you have any questions regarding this submission, please let us know.

Yours faithfully,

Iain McCombie, Head of UK Equities  
Anne Stewart, Senior ESG Analyst

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