

**Baillie Gifford™**

# Proxy voting guidelines 2024



## **Risk factors**

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This communication was produced and approved in December 2023 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.

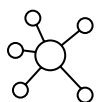
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# Proxy voting guidelines

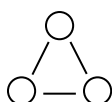
Voting is integral to our role as responsible stewards of our clients' capital. Our voting analysis and decisions are driven by what we consider will promote the long-term prospects of the company, thereby supporting the outcomes we aim to deliver to our clients. In line with our investment philosophy,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

These guidelines are aligned with our **Stewardship principles**. They provide some insight into our voting process and approach to matters routinely presented for a vote at shareholder meetings. They do not indicate how we will vote on specific topics.

## Our Stewardship principles



Governance fit for purpose



Alignment in vision and practice



Long-term value creation



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, using proxy advisors for information only. Instead, voting analysis and execution is carried out in-house by our central Voting Team in conjunction with investment teams. This allows us to improve the integration of voting into our investment process. Most votes are submitted electronically using our proprietary in-house 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. Each quarter, we provide all institutional clients with reports detailing voting activity. We also publish high-level voting information on our website.

## Split voting

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

### 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:

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

### Significant votes

In response to disclosure requirements for UK and European 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 receive 20 per cent or more opposition
- Misaligned remuneration
- Contentious equity issuance
- Shareholder resolutions that received 20 per cent or more support from shareholders
- Where there has been a significant reported audit failing
- Mergers and acquisitions
- Where we have opposed the financial statements/annual report
- Where we have opposed the ratification or election of directors
- Where we identify material<sup>1</sup> environmental, social or governance (ESG) factors that result in Baillie Gifford opposing management.

<sup>1</sup>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



## Governance fit for purpose

### Board

A board which is fit for purpose is fundamental to long-term value creation. As long-term growth investors, we have a responsibility to play 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 needs of the business, which will be influenced by the industry and region it operates in, 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

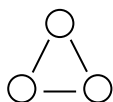
We expect a meaningful proportion of the board to be independent, which varies by market practice. We discourage non-executive directors from receiving performance-based remuneration, but support them having some share ownership to align with shareholders' interests. We expect disclosure of how the directors 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 points of view that give the best chance for the company to succeed in the long term.



## Alignment in vision and practice

### Remuneration

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

The appropriate remuneration structure will depend on factors including the company's size, stage of development, market and industry. As well as this, we consider matters such as the proportion of fixed to variable remuneration, the use of equity awards, the relevance and ambition of performance conditions, and alignment with the wider workforce.

Companies should not implement certain pay practices that do not align with our priority of outperformance over the long term, such as:

- Repricing of equity awards
- Retesting of performance conditions
- Vesting of incentive awards for below-median performance
- Severance agreements that (i) are excessive relative to market practice and/or (ii) allow accelerated vesting of variable pay awards without pro-rating for time and performance
- Frequent changes to performance metrics or adjustment of in-flight performance targets
- Unjustified or inappropriate use of discretion, such as one-off awards.



## Long-term value creation

### Anti-takeover devices

Anti-takeover devices are designed to defend companies from a hostile takeover. These devices can potentially entrench management, so 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 optimum 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. Our primary consideration when reviewing a company with a multi-class structure is whether it has worked to 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 offers shareholders fairness.



## 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 in support of the commitments and expectations set out in our **Statement of climate-related intent and ambition** and **Task force on Climate-related Financial disclosures** report.

### Shareholder proposals

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

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

We 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

The external audit is 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 the provision of, and payment for, corporate services other than the audit, and length of tenure.

### Political donations

We do not expect our holdings to make political donations or contributions to 'politically exposed' charitable organisations.



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