Investment Stewardship Activities Report

Year Ended 31 December 2022

BAILLIE GIFFORD

Actual Investors

Risk Factors

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

This communication was produced and approved in March 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, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

Stock Examples

Any stock examples and images used in this communication are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us. Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style.

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

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

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

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Welcome

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

It gives me great pleasure to present our Investment Stewardship Activities Report for 2022. In a year of considerable political and economic disruption, we have remained focused on our overriding fiduciary duty to our clients and our aim to add value over a multi-year investment horizon. We remain confident that this long-term perspective naturally aligns well with delivering sustainable benefits for the economy and society.

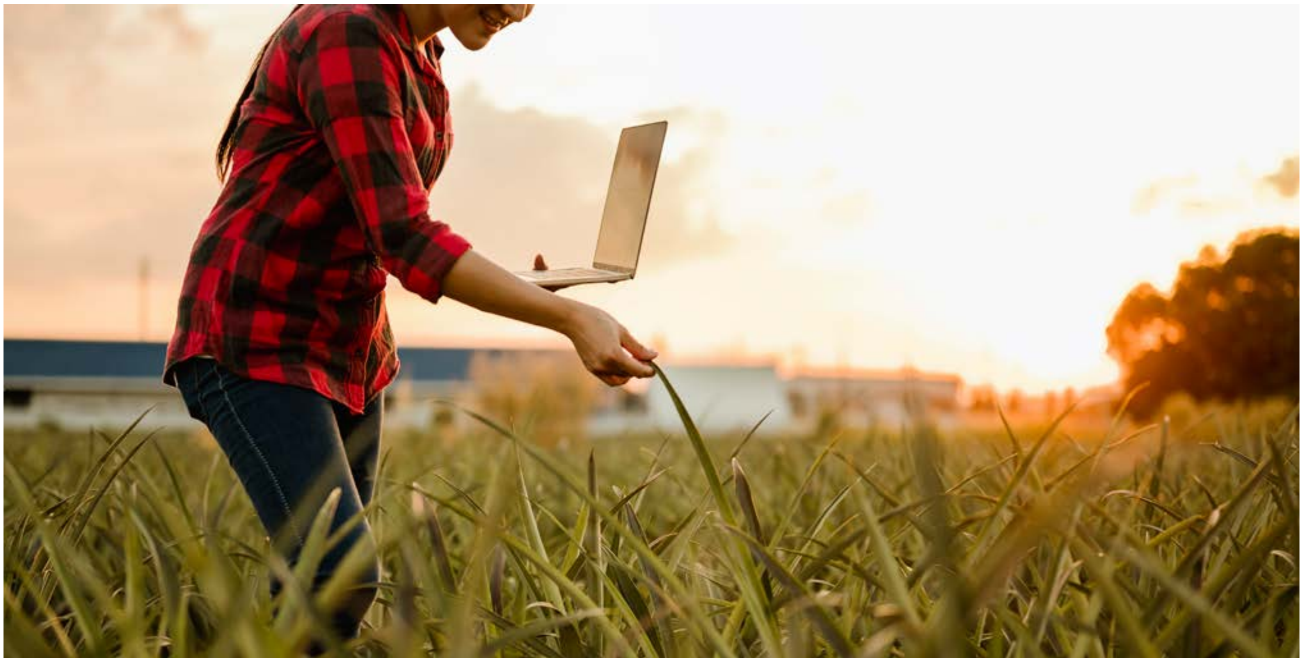
This report sets out our approach to stewardship and our chosen pathways to deliver effective and measurable stewardship outcomes for the long-term benefit of our clients. Building on the changes we reported in 2021, we have made some enhancements to our ESG research and stewardship programme during the year now under review. These include:

- Appointing a partner to lead our team of 44 dedicated to Environmental, Social and Governance (ESG) and stewardship.
- Extending our specialist research expertise, notably in the fields of climate and natural environment and human rights.
- Deepening our use of third party and propriety ESG data in our risk monitoring and stock picking processes.
- Refining our prioritisation of material engagements across investment strategies.

We hope these developments have strengthened our opportunity to be effective stewards of our clients' capital. But we are not complacent. We recognise that in the UK, our home market, expectations are rising for the delivery of tangible outcomes from our stewardship activities.

On behalf of all our partners and colleagues at Ballie Gifford, I welcome this opportunity to present our investment stewardship activities to date and share some of our plans for the future.

Andrew Telfer
Managing Partner



Introduction

Based on the 12 UK Stewardship Code Principles, this report sets out Baillie Gifford's stewardship approach, highlighting some of the key activities and improvements made over the year. In collating this year's report, we have taken on board direct feedback received from the Financial Reporting Council as well as comments from the FRC's review of 2022 Stewardship Reporting.

As of 31 December 2022, Baillie Gifford had an environmental, social and governance (ESG) resource of 45 individuals working alongside an investment team of 151 people. This resource assists our investment team with incorporating ESG considerations as part of the investment decision-making process be that through voting, engagement or research. In running concentrated portfolios that contain only a tiny fraction of the available investable universe, our combined approach of dedicated ESG analysts working alongside investment specialists helps us to fulfil our duty to be responsible investors. We firmly believe that discharging our stewardship duties responsibly is in line with our mission to deliver strong long-term returns for clients.

We do not adopt a one-size-fits-all approach. Companies should think and behave according to their stage of development. The 'correct' governance model for an early-stage entrepreneurial growth company will likely differ from that of a mature and sizeable incumbent. Within the firm, we have spent a great deal of time ensuring that each investment team has the autonomy to implement ESG principles consistent with their own philosophy and processes.

In 2022, our ESG and investment teams discussed ESG matters with 495 portfolio companies on 666 separate occasions. The table below, discussed in greater detail with multiple case studies under Principle 9, highlights the variety of topics (including ESG issues) that may impact long-term performance that we discussed with companies over the course of the year. We often take the opportunity to discuss multiple topics in each interaction we have with a company and therefore the number of topics discussed does not reconcile with the number of occasions.

Summary issue heading	Times discussed in 2022
Environment	283
Social	128
Governance	459
Strategy, Financial and Reporting	385

The value of meetings is not their volume but how effectively we use them to build constructive relationships and trust with management, and to challenge management teams when needed. This takes time and is critical if we are to influence and effectively challenge.

We believe our stewardship responsibilities align naturally with our active, long-term investment approach and are intrinsic to investment success in the long run. As we are not bound by short time horizons or a narrow, rules-based approach, we act as constructive shareholders interested in capital allocation. By seeking to invest in well-run companies where we think the interests of management align with ours and that of our clients, we do not need to take a combative approach. This collaborative viewpoint leads to long-term wealth creation and should result in improved environmental and social outcomes.

Stewardship and ESG research: our approach

Our long-term investment approach naturally leads us to consider relevant factors over our five-year-plus horizon. Stewardship and the consideration of environmental, social and governance matters are not new to us and are relevant to all asset classes in which we invest. Comprehensive due diligence, monitoring and engaging with companies we invest in constructively have always been key to our asset manager activities on behalf of clients.

However, we are always aiming to improve as investors, and an awareness of ESG issues and our ability to analyse them have grown significantly in recent years. Consumers and regulators are more attuned to the environmental and social consequences of how companies conduct their operations. Therefore ESG issues are becoming more consequential in determining the relative success of companies that are on the right or wrong side of disruptive change, such as tightening emissions regulations and changing employment practices.

This brings a new dimension to the assessment of a company's ability to grow sustainably. Therefore, over the last few years we have increased the resources dedicated to helping us identify and analyse material ESG issues into the processes of our investment teams. In addition, we have created internal expert research groups to advise and educate on matters such as human rights, climate change and corporate governance. A dedicated team oversees voting analysis and activities in consultation with our investment teams and incorporates individual client preferences.

As equity owners of, and lenders to, companies we must exercise our influence responsibly on behalf of clients. Our goal is to improve investment decision-making by incorporating ESG factors into our wider investment analysis. The concept of materiality is key to our activities. We do not believe in one-size-fits-all policies and blanket exclusions, seeking instead to understand the risks and opportunities posed by ESG factors in the individual context of each investment we make.

Our long investment horizon naturally tends to align us with companies that we believe will be on the right side of regulatory change and reputational threats from ESG issues. We invest in companies at a range of points along the ESG spectrum, including those that may not currently rank highly on ESG factors but where we can see an improving trend. This is consistent with our stewardship responsibilities and engagement-led approach and, in the context of climate change, allows us to invest in 'transition enablers' contributing to an adapting world.

However, we recognise that some clients prefer to exclude certain sectors or require that portfolios have current carbon emissions which are lower than an index. Therefore, we offer strategies and variants of strategies that exclude certain sectors and companies and some which have Paris-Aligned or other carbon objectives. Due to our philosophy of investing for the long term, such strategies are not currently materially compromised when contrasted to strategies with no such limitations, though we will keep this under review. We also offer strategies that have explicit positive impact goals around climate and reducing inequality ('Positive Change') or that are implicitly aligned with the achievement of positive social goals resulting from the thematic investment opportunity and mandate ('Health Innovation').

Third party metrics provided by vendors, such as MSCI and Sustainalytics, may provide a view on controversial topics but are only ever used as one of many inputs into a more comprehensive analysis. Our views of a company's contribution to sustainability and overall level of responsible behaviour can differ markedly from metrics-based third party approaches, and in those instances, we explain our rationale fully. We also recognise that we will often have to make trade-offs and we seek to thoughtfully balance such considerations.

Statement of International Stewardship Code Adoption

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

We take our stewardship responsibilities seriously and apply our stewardship approach across every company and asset class we invest in on behalf of our clients. We are signatories to four further global stewardship codes that help us evidence our commitment to active ownership in a manner appropriate to the markets we invest in. These are:

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

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

Principle 1 – Purpose, Strategy and Culture

Culture, values, strategy and business model

Baillie Gifford was established as an investment management partnership over 100 years ago. Our purpose is to deliver excellent returns for our clients by investing in companies for the long term. Our ownership structure gives us exceptional alignment with our clients and allows all staff to focus solely on investing with their interests at heart. As an unlimited liability partnership, our business is wholly owned and run by its partners. That legacy means the current generation of partners, as those before them did, can concentrate on the careful stewardship of our long-term vision, undistracted by short-term shareholder demands.

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

Belief 1: Our active investment management style will add material value for clients over the long run

Belief 2: We must put our clients' interests ahead of our own

Belief 3: We should be actively engaged investors

Belief 4: Our ownership structure is a key strength

Belief 5: Our firm must be an engaging and progressive place to work

Belief 6: Our actions and behaviours should support society as a whole

While the contents may evolve, the principles have not, and we expect them to remain constant over time, in keeping with our long-term approach.

Our strategy

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

We breakdown our strategy into five points:

1. Focus investment teams on high-value tasks. We aim to reduce distractions to increase the chances of outperformance.

2. Back our investment judgement. Embracing risk within a reasonably diversified portfolio is an integral part of the pursuit of meaningful returns over the long term.

3. Provide high levels of service to enhance client relationships and retain client confidence through clear, thoughtful and helpful communications.

4. Keep our existing clients' interests paramount. Evolving with client needs and developing our business is important, but generating strong results for existing clients will always be our core goal.

5. Keep our firm and its activities simple. Our time should be focused on investment activities and on looking after and understanding our clients' needs. We minimise bureaucracy for investment professionals where we can by having strong and well-resourced supporting teams.

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

Our long-term stance is reflected in long holding periods: equity portfolios, comprising 94 per cent of our assets under management, have an average holding period of 7.9 years. For comparison, the average holding period of active equity strategies globally is between three and four years, and the average holding period of shares on the New York Stock Exchange is less than one year. Our Multi Asset and Fixed Income portfolios, 6 per cent of our assets under management, take similarly longer-term approaches. In addition to long holding periods, we run concentrated, active portfolios, making investment decisions on assets based on in-house, fundamental research.

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

Beyond these core beliefs, our investment strategies are autonomous decision-making teams. No Chief Investment Officer or policy committee dictates from the top. There has been no change to our approach and outlook over the period.

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

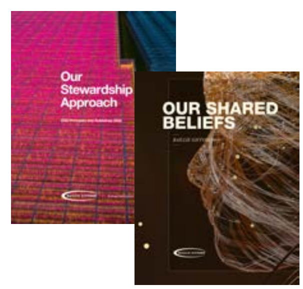
Across equities, multi asset and fixed income asset classes, our investment philosophy focuses on active long-term sustainable growth, and our universe is global. We believe that fundamental analysis and proprietary research are key to a successful approach. From our head office in Edinburgh, we encourage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

We understand that the integration of high-quality ESG research into the investment process is central to continuing to be the best investors we can be. It is consistent with our internal philosophy of constant improvement. Accordingly, we have added relevant resources across our investment teams, specialist areas and voting and engagement teams (see the discussion under Principle 2 for more detail). We have continued this investment in people and process, alongside our long-term horizon, despite the challenging performance backdrop that we now face.

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

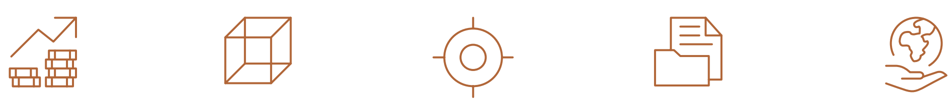
How our purpose and investment beliefs guide our stewardship, investment strategy and decision-making

Our only business activity is to invest using our active, long-term approach. With stewardship core to our shared beliefs, we apply firmwide Stewardship Principles that guide how we think about stewardship across our investment strategies.



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

Our Stewardship Principles:



Prioritisation of long-term value creation	A constructive and purposeful board	Long-term focused remuneration with stretching targets	Fair treatment of stakeholders	Sustainable business practices

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

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

Our clients' interests are paramount; without our clients we do not exist. As mentioned above, this is articulated as a shared belief: We must put our clients' interests ahead of our own.

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

The externally-conducted survey (now in its 22nd year) has helped us to gain constructive feedback and address areas where we can improve to meet our clients' aspirations. The survey is designed to measure the quality of our service across several areas, including understanding the client's needs, their performance expectations, and communication and reporting. The survey also provides valuable insights regarding our clients' plans, which helps us to remain relevant as their requirements evolve. In 2022, against a backdrop of a challenging year for investment returns, the Net Promoter Score we received from our clients declined. While this is still above the Anova Institutional Financial Services Benchmark (+62 compared with +58) this is an opportunity for us to identify areas for improvement.

We have adjusted the survey over time. In 2022, questions were framed around longer-term performance, timeframe expectations and manager evaluation. In addition, recognising the differing attitudes to ESG integration across regions, we expanded this area to explore key themes, its importance within decision-making and the credibility of our approach.

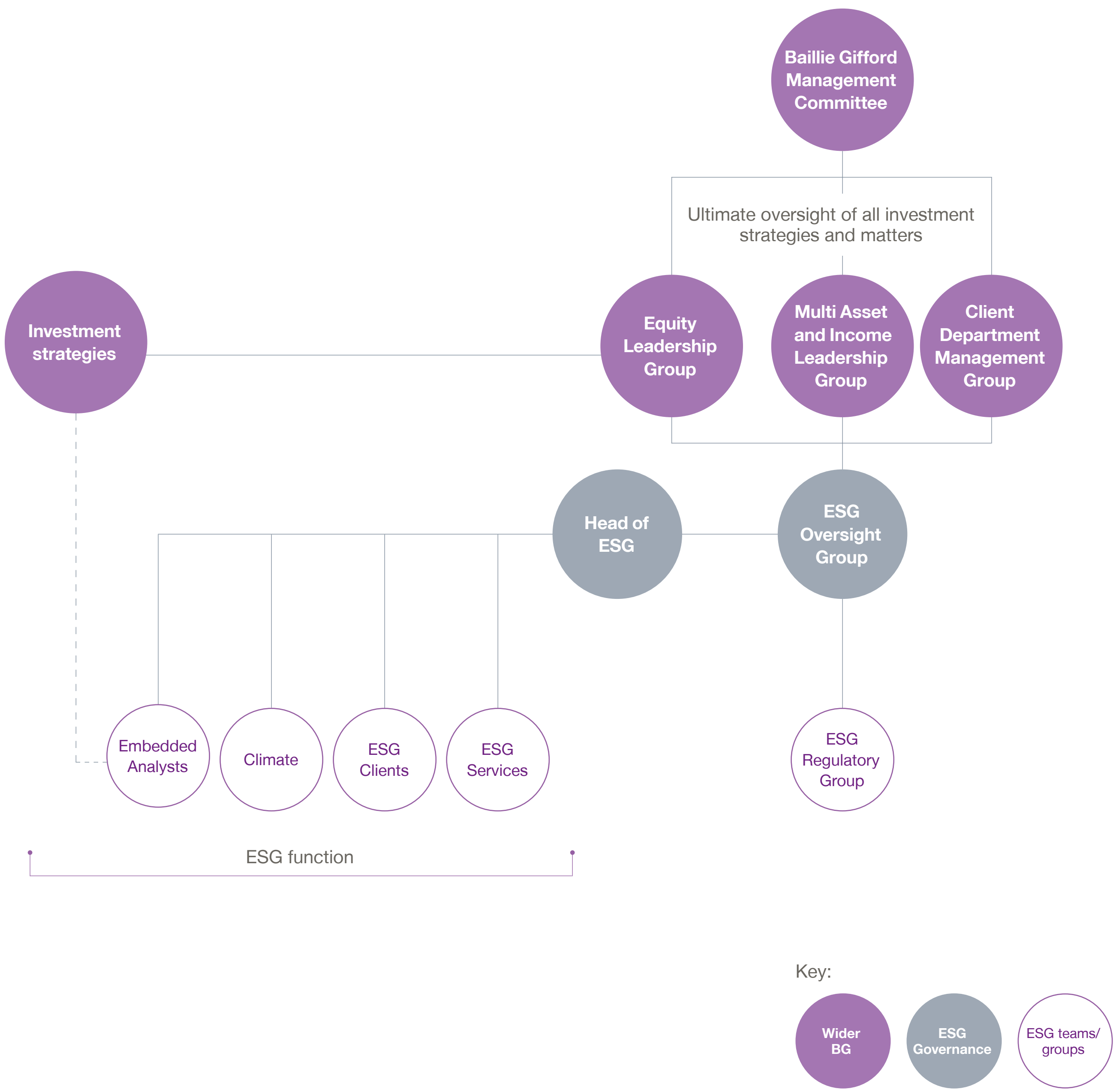
Client reporting enhancements have recently been front of mind with requests for more detailed analysis. Our work on ESG data and reporting is discussed further under Principles 9 and 12.

Principle 2 – Governance, Resources and Incentives

Oversight and accountability for effective stewardship

Our governance structures evolved during 2022 to support a growing organisation and an increased focus on ESG research, integration and stewardship. Governance of stewardship starts with our partners, as delegated to the Baillie Gifford Management Committee.

ESG function



Significant progress has been made in developing a governance framework for all our ESG activities. With that initial set-up phase now complete, focus has shifted to embedding ESG operations across the firm. As a result, there was a need for greater focus on strategic oversight. The ESG Steering Group (referenced in the 2021 Investment Stewardship Activities report) was therefore replaced by the ESG Oversight Group.

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

It is chaired by the Head of ESG and comprises senior representatives from the Investment Department, Clients Department and Business Risk.

The ESG Oversight Group aims to:

- Coordinate and be accountable/responsible for the implementation of the ESG strategy in relation to investment strategies and client activities and any related ESG matters.
- Empower and encourage investors to systemically consider ESG, as relevant for investment value generation, throughout the investment process.
- Create and oversee ESG professionals and ESG-related research groups to ensure Baillie Gifford has sufficient specialist knowledge and attention on key areas.
- Oversee the different components of the ESG function and ensure they continue to evolve to meet the requirements of investors, clients and regulators.
- Consider where BG group-wide coordination on ESG matters may be helpful and where that is the case to drive that coordination.
- Oversee the accurate reporting of the ESG approach of our strategies to clients.
- Oversee the ESG Regulatory sub-group in ensuring that Baillie Gifford is equipped to meet its regulatory requirements relating to ESG, monitor regulatory developments relating to ESG, and monitor and oversee the ESG commitments made by investment strategies.
- Review and recommend any key ESG disclosures for approval/adoption by the Management Committee and/or any relevant Baillie Gifford entities. This includes the TCFD Climate Report; Our Stewardship Approach Principles and Guidelines; and the Investment Stewardship Report.

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

The ESG Oversight Group is also supported by the ESG Regulatory Sub-Group. It is responsible for ensuring that the firm is equipped to meet its regulatory requirements relating to monitoring and overseeing the ESG commitments made by investment strategies and monitoring regulatory developments relating to ESG. This sub-group is comprised of individuals from our ESG function, Client Department, Compliance Department and Legal Department.

Resourcing of stewardship activities

Stewardship at Baillie Gifford is a key component of our long-term, active, patient and growth-focused approach to investment management. Consequently, we consider our 151 investment staff to be integral to the delivery of effective stewardship.

The table below shows how our ESG resourcing changed during 2022.

ESG resource	Employees (end 2022)	Change 2021–2022
Head of ESG	1	0[1]
Integrated analysts	25	+ 9
ESG Services	12	+ 2
Climate	5	+ 2
ESG Client Team	2	-1

The ESG function has grown significantly over the last couple of years with 45 employees at the end of 2022. This growth is largely from our embedded analysts who are aligned with specific investment teams, rather than sitting in a central ESG function. The embedded ESG analysts are aligned with specific investment teams and are responsible for:

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

These analysts have a dual reporting line, to both their respective investment strategy and to the ESG function. This model helps with integrating ESG into our investment processes while leveraging best practice across the analyst team.

Within ESG Services, we have voting specialists who ensure our voting rights are exercised effectively by the investment teams, in accordance with our clients' mandates, and then reported according to firm and regulatory requirements. Data specialists also sit within this team. These analysts focus on facilitating and improving ESG data to help bring it into our investment decision-making process, as well as external reporting. This is recognised as a critical component of our research efforts and is key to supporting effective ESG integration and stewardship. Our ESG Client Team supports our wider Client Department with specialist ESG knowledge.

Client demands for ESG data and regulatory requirements are increasing and developing, so continual improvement around data integrity and data availability is an ongoing priority. We will continue to improve and expand the coverage of ESG data across different asset types as we work to improve the flexibility of data points for both internal and external use. In parallel, we are considering external vendors' offerings to deliver major data improvements to help us access the data more efficiently, and to use it for richer client reporting as well as regulatory reporting.

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

While the growth in the team indicates our commitment to ESG research and stewardship responsibilities, this is expected to plateau. Our focus now is on optimising ESG research integration and stewardship activities.

[1] The Head of ESG was previously counted in the embedded analyst resource.

Seniority, experience, qualifications, training, and diversity

We are fortunate to have significant depth of experience across each ESG functional area to ensure our stewardship activities are carried out by team members seasoned in the techniques of company analysis, engagement, voting and wider industry policy advocacy. The table below sets out the seniority and experience of ESG team members by function. Of the 45 members classified as ESG resource, 55 per cent of individuals identify as female and 45 per cent as male. The team is drawn from an increasing number of nationalities. They have a range of backgrounds including law, asset management, human rights, corporate sustainability and environmental non-governmental organisations (NGOs).

ESG Resource	Head/Director/ Manager	Senior Analyst/ Specialist	Analyst	Assistant/ Associate
Embedded analysts	1	11	13	1
ESG Services	1	2	7	2
Climate	1	2	2	
ESG Client Team	2			
Total	**5**	**15**	**22**	**3**
Gender (% female)	80	60	32	100
Average experience (years)	19	14	4	1

We recognise the importance of ESG and stewardship training. Training is offered to all investment staff, including our investment research graduates, to reinforce the importance we place on considering and integrating ESG matters into investment research. Similarly, we run a training programme for new hires joining our ESG function. This includes sessions on the firm's aim, culture, strategic priorities and how they interact with stewardship. It also includes technical sessions on topics such as board composition, how we consider climate change, financial analysis, and how we think about financial modelling. All members of our ESG function are encouraged to achieve the Investment Management Certificate (IMC) qualification (or equivalent) and this is a requirement to reach Senior Analyst level. We have also asked team members to complete the CFA ESG qualification or equivalent within a two-year timeframe.

To support this evolving area of research within the business, ESG training sessions are also provided to client, compliance, and support function staff to ensure that ESG matters, language and intention are understood across the firm.

Diversity – internal

We aspire to be one of the best investment management firms in the world. Fostering a culture of inclusivity is central to this: it will enable us to attract and retain diverse talent, encourage the free exchange of ideas, and enhance our relationships with clients and companies across the world. We are proud of what we have already achieved, but more needs to be done. It is our collective responsibility to continue to challenge our perspectives and improve in all that we do. To that end, we continue to actively engage with industry groups, clients, consultants, regulators and colleagues to learn from, and share insights. Our eight employee-led networks provide communities of support and allyship, provide feedback on policies and generate innovative ideas, based on lived experiences, to improve the workplace experience for all and support an everyday approach to inclusivity.

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

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

Investment in systems, processes, research and analysis

As set out in this report, we have undertaken considerable expansion of our stewardship operations during the year. An additional 13 employees were added to the ESG function, eight of whom were new analysts embedded into investment teams to extend our research and analysis capability. We consider this investment in research is improving our capability to prepare in-house and proprietary analysis and have made material improvements to our internal systems which manage our engagement coordination and reporting processes. This investment, we believe, will strengthen our planning of engagements and more fully capture the milestones we set. We anticipate that further refinements will be made to our engagement process in the coming year. With further regard to our investment in research, we have expanded our climate data set and increased our use of internally-generated climate data.

Use of service providers

We use a range of service providers to support our stewardship activities. These are essentially research providers, rather than contracted agents carrying out delegated stewardship tasks. For example, ESG services make all voting decisions in conjunction with our investors. Therefore, we do not utilise detailed voting guidelines administered by a third party proxy advisor. However, we do purchase proxy research from a range of research providers. The processing of vote recommendations is a contracted service, but the service is independent of our stewardship choices and activities. Similarly, we have not contracted any third party to facilitate, support or undertake any engagement activities on Baillie Gifford's behalf. Beyond our participation in collaborative engagements, we are proud to carry out our own due diligence, analysis and execution of our engagement programme.

Our technology enablers fulfil a service for Baillie Gifford investors and operational departments: they support our stewardship work but are not integral to our stewardship decision-making on behalf of clients.

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

Research vendors	**Brief description of purpose**
BoardEx	Relationship mapping tool
CDP	ESG data tool (climate, water, forestry)
Conflict Securities	Aims to encourage corporate actors to behave in ways that reduce conflict risk
Glass Lewis	Proxy advisory firm
Diligent	Executive compensation platform
IIAS	Proxy advisory firm for the Indian market
ISS	Proxy advisory firm
ISS-Ethix	Use of the yourSRI carbon footprinting tool
MSCI	ESG research and data
RepRisk	ESG and business conduct risk research and quantitative solutions
Si2	Research provider for US Environmental and Social Shareholder proposals
Sustainalytics	ESG research. United Nations Global Compact screening
Trucost	Climate change risk assessment tool
ZD Proxy	Proxy advisory firm for the Chinese market
Technology enablers	
Bloomberg	Financial and ESG data tool
Eikon	Financial and ESG data tool
Sentieo	Financial and ESG data tool
FactSet	Financial and ESG data tool

The advantage of these third party providers (as set out above) is the breadth of their coverage and standardised approach. This allows for a quick understanding of areas of potential risk and underperformance. However, we are very aware of the challenges and limitations of some of these data providers, and the application of quantitative scores to our investments. We discuss more about the developing area of ESG data under Principle 8.

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

Incentives

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

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

The thread that runs through all our investment strategies is our wish to invest in companies and countries that offer the potential for long-term sustainable growth. Building relationships with management teams, engaging and being active stewards on behalf of our clients is integral to what we do. We hope the case studies described in the Stewardship in Action section of this report, suitably illustrates this. This focus on sustainable growth can be found in the analysis we carry out on holdings and potential holdings.

By formally integrating ESG analysts into many of our investment teams, we have developed a performance management structure that incentivises deep integration of ESG with investment. If they are to progress, our ESG analysts must produce meaningful work that has material relevance to the relevant portfolio(s). The reporting line into investment teams ensures the investment relevance while the reporting line into the ESG function ensures integration with other aspects of our stewardship activities.

Efficacy of governance structures and areas for improvement

Our governance structures have evolved over the last couple of years to ensure that we can support client and regulatory demand. During 2022, there were four significant projects aimed at improving our governance and oversight:

— Further integration of ESG analysts: We continued to focus on ensuring the efficacy of our embedded analysts. The restructure of the ESG analysts in January 2022 resulted in a strengthening of dialogue with portfolio managers and their greater collaboration in ESG analysis and engagement. With more investor input, the role of the ESG analyst is evolving into one of greater speciality and technical expertise on key ESG topics.

— We invested heavily in the training and development of our all members of the ESG team, but with a particular focus on our newer colleagues. We strengthened our formal training and competence framework specific to our embedded ESG analysts and have developed clearer career paths for them to aid their long-term career development.

— Developing ESG risk reviews: We have started incorporating ESG Risk Reviews into our investment risk process. The Risk Review reports are structured around our five Stewardship Principles, described under Principle 1 of this report.

— As noted above, we have strengthened ESG oversight with the newly formed ESG Oversight Group and refreshed membership of our ESG Regulatory Sub-group.

There are two primary reasons for focusing on improving our governance structures and processes. First, our clients across all geographies expect this. Second, it will ensure we are well-positioned to meet increasing regulatory expectations, specifically the UK SDR (Sustainability Disclosure Requirements), EU SFDR (Sustainable Finance Disclosure Regulation), and emerging regional regulation, as and when these come into effect.

But there is always more to do.

In 2023 we will continue the work started in 2021 when the strategy to embed ESG analysts in the investment teams was initiated. This will entail further additions and adaptations to the coordination of these embedded analysts. We will continue to advance our internal training and consider new means to share knowledge and encourage collaboration on research.

Stewardship incorporates many considerations that result in responsibilities and activities that are complex, nuanced and continually evolving. We therefore expect and require our own oversight and governance of our stewardship activities to evolve further in 2023. In the coming year we will pay close attention to the agendas of the ESG Oversight Group meetings to guard against it becoming overburdened. Its effectiveness will rest on it being a strategy setting and decision-making committee for business-critical considerations.

This will parallel the work we continue to do to support the work of our embedded ESG analysts.

Principle 3 – Conflicts of Interest

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

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

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

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

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

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

We recognise that stewardship brings additional conflict of interest risks. As a result, in October 2021 supplementary training was provided to all ESG analysts, covering issues and risks specific to ESG, company engagements and stewardship activities. We incorporated this training into our onboarding package for new hires into the ESG function in 2022. This included discussions around four scenarios in which Baillie Gifford's investors could receive inside information and how to respond in those situations:

- Company meetings
- Expert networks
- Research engagements with subject matter experts
- External Positions – Nomination Committees/Board Observers

Identification and management of any actual or potential conflicts

For proxy votes that involve a potential conflict of interest or that are inconsistent with (or not covered by) the seven areas noted below, Baillie Gifford has an internal process to review the proposed voting rationale. The review considers whether business relationships between Baillie Gifford and the company have influenced the proposed vote and decides the course of action to be taken in the best interests of our clients. These include but are not limited to the following:

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

Scenario

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

Management and actions

Where we have full voting discretion for the client, we would vote in line with Our Stewardship Approach document as per the client agreement.

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

Scenario

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

Management and actions

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

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

Scenario

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

Management and actions

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

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

Scenario

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

Management and actions

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

5. Interconnected directorships

Scenario

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

Management and actions

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

6. Shareholder proposals

Scenario A

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

Management and actions

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

Scenario B

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

Management and actions

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

7. Split voting decisions for the same client

Scenario

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

Management and actions

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

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

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

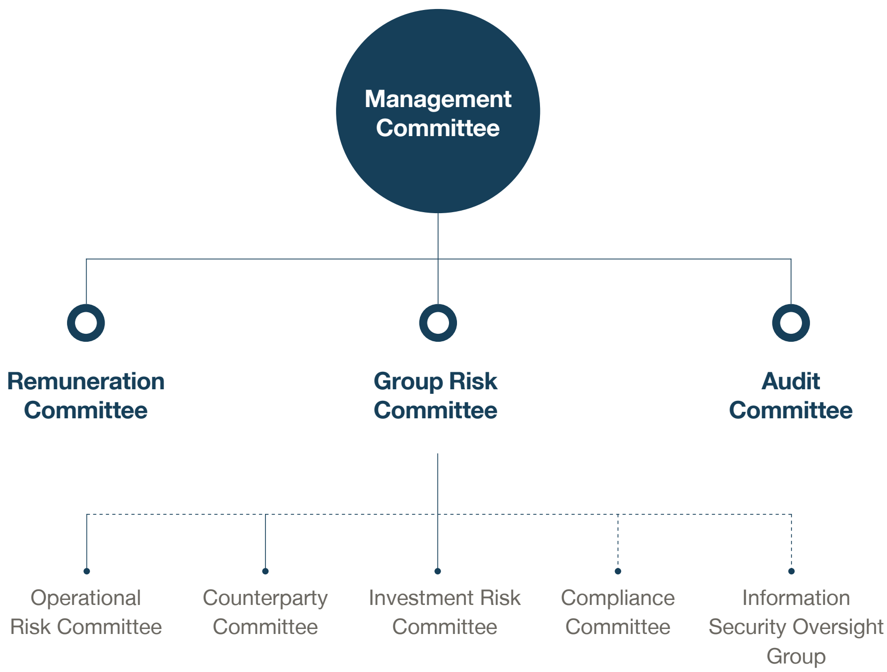
In 2022, one of our portfolio managers and Baillie Gifford partner, Lawrence Burns, was reappointed to sit on the Nomination Committee of Kinnevik. As the position is not a board position and the right to be on the committee stems from shareholding rank on the share register, we do not deem this to be a conflict of interest. However, given our shareholding and the position held, we recognise the increased risk of a conflict occurring. To manage this, we have procedures in place to ensure we do not discuss resolutions related to the work of the Nomination Committee with him. For example, we will not discuss the election of nominees to the Nominations Committee, board elections or non-executive director fees.

Principle 4 – Promoting Well-Functioning Markets

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

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

The Management Committee of Baillie Gifford & Co is responsible for overseeing the overall strategy and risk profile of the business and approves the risk appetite framework. The key governance committees in respect of risk management are as follows:



Our approach to investment is based on long-term, bottom-up stock picking. We align our investments in this way, demonstrated by our longer-than-average holding period. We identify broader market-wide and systemic risks and themes through a combination of bottom-up stock research and portfolio management, which ultimately determines how we align our investments. Oversight is provided by a number of groups, including our Investment Risk, Analytics and Research Team, and the firm's Investment Risk Committee. These groups help to ensure that levels and concentrations of portfolio investment risks are consistent with client expectations. Baillie Gifford's Business Risk and Compliance functions, assisted by other functions such as Legal, Finance and Human Resources, support these Groups and Committees. This 'second line of defence' provides policy direction and oversees and monitors the risk framework to determine whether all key risks are being identified, assessed and controlled by management in a manner commensurate with Baillie Gifford's applicable risk appetite and regulatory needs.

Recent analysis of portfolios has explored risks related to:

Inflation

With rates of inflation running high in many countries, we continued our work analysing company resilience to periods of inflation, considering the sensitivity of portfolio returns to increases in interest rates. Growth companies, in general, are tilted towards longer-duration, with greater sensitivity to rising discount rates. Our analysis across investment strategies provides context for the tilt towards longer duration characteristics – especially when investing in earlier-stage growth businesses with long-term future growth opportunities. This analysis found the duration characteristics to be a notable feature in returns drivers over recent months.

Balance sheet strength and resilience

We reviewed the resilience of company balance sheets, including a 'runway analysis' of the liquidity available before additional capital markets funding would likely be required. This provided context and challenge to investment managers on the quality and degree of self-reliance of growth businesses in pursuing their fundamental growth opportunities as a driver of long-term returns potential. This work complemented the work on inflation resilience and assessed the strength and fundamental resilience of portfolios' holdings considering the Covid-19 pandemic and more recent market drawdowns.

Currency exposures

For most of our equity strategies, our Investment Risk, Analytics and Research Team provides them with a view of their geographic revenue exposure. Rather than just the country of listing, this data provides a view of where companies' revenues come from, based on whatever the companies report themselves, plus a rules-based approach to fill the gaps. This allows teams to have a portfolio view of the geographic tilts of portfolio exposures beyond just the country of listing or the currency denomination of the shares held.

Valuations

This covered company and portfolio valuation levels versus benchmarks and the histories of the individual companies. The analysis provided feedback loops to investment teams on the levels and sources of valuations premia and how this compares across portfolio holdings.

Assessment of market-related and systemic risks

Climate change

Climate change and the global efforts to mitigate and adapt to its impacts are sources of significant risks and opportunities. In assessing these, we aim to understand are how they impact the long-term investment performance we can deliver for our clients, and the stewardship of their capital through thoughtful ownership and engagement with companies. Alongside this, we must also understand how climate change can directly impact the operations needed for the day-to-day running of our business.

Across the firm, climate-related risks to our holdings are identified and assessed primarily through stock-level research and analysis within individual investment strategies. In most cases, this is completed with the help of our ESG analysts, who work directly within our investment teams. Research is focused on understanding the materiality of climate risks to individual holdings and the extent to which transitional and physical climate risks are being managed and integrated into the strategies of companies we invest in. We take a holistic view of climate-related issues and a broad view of potential materiality. It is central to our philosophy that risk can exist as much in opportunities foregone, as in the assets currently held.

Key considerations include the climate impact of a company's core products and services and its relationships with its own stakeholders, including customers, regulators and NGOs. We also track the absolute and relative carbon intensity of our companies and portfolios relative to enterprise value and revenue. We would emphasise strongly that such data is only a flag and not something we use as a sole determinant of investment decisions.

In addition to fundamental research, our primary approach to managing investment-related risks is to engage with companies to understand how they are managing their risks over time. We use the outputs of this engagement to help inform stock discussions and investment decision-making. We aim to engage with companies at senior levels over the long-term, rather than simply trading different assets to remove exposure in a portfolio. However, if we feel that not enough progress is being made in mitigating risks then we retain the option of exercising our voting rights in shareholder resolutions, and ultimately divesting our holdings. Given the systemic importance of climate-related issues, we have introduced an additional lens which captures our responsibility to engage on these topics. This process covers our largest emitters by absolute emissions and our largest holdings. We are ensuring that all the companies on these lists are specifically assessed for their climate alignment. In the future, this semi-independent view of a company's potential impact on the climate crisis will reinforce and, in some cases, extend the climate engagement priorities determined by the underlying investment teams.

To help us explore how the firm might be affected by climate change, our Climate Working Group conducted a qualitative exercise to consider the implications of different reference climate scenarios provided by the Network for Greening the Financial System. The 1.5-2°C 'Paris orderly' scenarios assume climate policies are introduced early and become more stringent, whereas the 'Paris disorderly' scenarios involve higher transition risks due to delayed or divergent policies. 'Hothouse world' scenarios assume that global efforts are insufficient to halt significant warming, with severe physical impacts as a result. More explanation, and context, can be found in the TCFD Aligned Climate Report.

Biodiversity risk

Biodiversity related risks may include increased raw material or resource costs, regulation and taxation, pressure on resource availability and supply chain disruption. Recognising this risk, we joined the Stakeholder Forum of the Taskforce on Nature-related Financial Disclosures (TNFD) at the end of 2021. During 2022, we participated in various meetings of the stakeholder forum and reviewed iterations of the TNFD beta releases as these have become available. In the second half of 2022, we participated in a United Nations Environment Programme Finance Initiative (UNEP FI)-led pilot project for the TNFD aimed at evaluating the usability of the TNFD framework for different financial institutions and asset classes. We believe that participating in this effort has the benefit of improving our own understanding of biodiversity-related risks and dependencies. More detail on our work on biodiversity can be found in Principle 7.

Geopolitical risk

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

Geopolitical instability has been growing with the Covid-19 pandemic fragmenting societies and the Russian invasion of Ukraine. The war in Ukraine is a tragedy, and the human cost is devastating. Following the initial invasion, we reduced our clients' exposure to Russia. Due to sanctions, the market is effectively frozen for some Russian equities, making it harder to sell them, but we continue to decrease our exposure as market conditions allow. Baillie Gifford will continue to monitor the situation and comply with international sanctions. In addition to the tragic impact on the Ukrainian people, the invasion has had global economic ramifications affecting food and energy security across several regions and impacting the supply chains of a number of products. This combination of factors has given rise to an increase in the cost of living in many regions posing new societal challenges. 2022 has also seen increasingly polarising political rhetoric surrounding China-US relations and increasing tensions between China and Taiwan, which led us to consider the potential impact if this continues to escalate.

Geography

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

The Covid-19 pandemic

As we moved through 2022, many countries started to learn to live with the Covid-19 virus in part due to the continued rollout of vaccines and vaccine boosters and the subsequent reduction in risk to human life. This new phase of the Covid-19 pandemic has resulted in less economic disruption directly as a result of the virus and therefore reduced this as a focus of our stewardship activities. We continue to engage with our holdings encouraging companies to act responsibly with respect to their workforce and other stakeholders but to a lesser extent due to the direct impact of Covid-19.

Some countries, most notably China, continued to pursue zero-Covid policies for much of 2022 and, as a result, Covid-19 continued to disrupt daily life and economic activity. In the latter part of 2022, China changed its policy in this area and began to experience the mass Covid-19 infections seen elsewhere in the world, which will likely have consequences into 2023. As is the case for all investment matters, responsibility for assessing this continued risk lies with individual investment teams supported and challenged by our investment risk function.

Working with stakeholders and industry associations

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

Membership organisations	Start date
International Corporate Governance Network (ICGN)	2001
UK Sustainable Investment & Finance Association (UKSIF)	2001
Extractive Industries Transparency Initiative (EITI)	2002
Carbon Disclosure Project (CDP)	2002
Asian Corporate Governance Association (ACGA)	2005
UN Global Compact (UNGC)	2006
United Nations Principles of Responsible Investing (UNPRI)	2007
UK Stewardship Code signatory	2010
Japan Stewardship Code signatory	2014
Investor Forum	2015
Council of Institutional Investors (CII)	2015
Institutional Investors Group on Climate Change (IIGCC)	2016
Global Impact Investing Network (GIIN)	2017
Investor Stewardship Group (US Stewardship Code, ISG US)	2018
Focusing Capital on the Long Term (FCLT) Global	2018
European Fund and Asset Management Association Stewardship Code (EFAMA)	2018
Global Institutional Governance Network (GIGN)	2019
Taskforce on Climate-Related Financial Disclosures (TCFD)	2020
Farm Animal Investment Risk and Return (FAIRR)	2020
UK Centre for Greening Finance and Investment (CGFI)	2021
EM Investor Alliance (EMIA)	2021
Taskforce on Nature-Related Financial Disclosures (TNFD)	2021
International Sustainability Standards Board (ISSB -formally SASB)	2021
Net Zero Asset Managers initiative (NZAMi)	2021
Climate Action 100+	2022

In line with evolving expectations and relevant new initiatives, we joined the Climate Action 100+ initiative in 2022.

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

ISSB (International Sustainability Standards Board)

Baillie Gifford is a member of the Investor Advisory Group (IAG) to the International Sustainability Standards Board. The standardised, industry-specific and materiality-based sustainability standards being developed by ISSB should help companies and investors adapt to the market's expectations. Membership of the IAG offers deeper engagement with the IFRS (International Financial Reporting Standards) and fellow Alliance members to collectively adapt to calls for integrating sustainability into the capital markets. Through our membership, we promote disclosure against the established sustainability standards among our holdings which benefits the wider financial market.

EFAMA Stewardship, market integrity and ESG Standing Committee – Contributing to the asset management position on European Sustainability Regulation

Baillie Gifford is a member of the European Fund and Asset Management Association (EFAMA), representing the European investment management industry. As part of our membership, we are part of the ESG and Stewardship Standing Committee. As members of the committee, we are involved in the review, discussion and collation of legislative developments and issues facing the industry, such as on improving corporate governance standards. Through our membership of the committee, we have contributed to consultations on the implementation of the EU Taxonomy and Sustainable Finance Disclosure Regulation.

We also responded to the following regulatory consultations during 2022, either through the groups that we are members of or individually as a firm:

ESMA's call for evidence on ESG ratings	March 2022
ESMA's consultation on MiFID II suitability guidelines to incorporate sustainability preferences	April 2022
European Commission's consultation on the functioning of the ESG rating market in the EU and on the consideration of ESG factors in credit ratings	June 2022
ISSB's consultation on two sustainability-related Exposure Drafts (General Requirements and Climate)	July 2022
UK's Transition Plan Taskforce's (TPT) call for evidence on a sector neutral framework for private sector transition plans	July 2022
EFRAG's public consultation on EU Sustainability Reporting Standards Exposure Drafts	August 2022
SEC's consultation on enhanced disclosures by certain investment advisers and investments companies about ESG investment practices	August 2022
Platform for Sustainable Finance's call for feedback on draft report on minimum safeguards	September 2022
GFANZ's consultation on its draft report setting out additional guidance for financial institutions on implementing and selecting portfolio alignment metrics	September 2022

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

Alignment of investments

In November 2021, in the run-up to COP26, Baillie Gifford joined the Net Zero Asset Managers initiative (NZAMi). As COP27 opened in Egypt in November 2022, NZAMi published our first set of climate-related commitments. We have taken care to ensure the portfolio-level targets align with our clients' wishes and investment objectives. As at November 2022, investment strategies corresponding to 20 per cent of our assets under management had set climate-related targets for 2030 and 2040 that meet NZAMi's standards.

We consider a wide range of factors that can impact the long-term investment performance of our clients' portfolios. As part of this, we believe that competitive advantage will accrue to climate-prepared companies. Those readying themselves for the challenge will do so in different ways. We hope to make a positive impact by selectively backing both innovative solutions providers and long-standing business models that can adapt and thrive.

There is growth of every type – expansionary, disruptive and replacement – in the climate transition. Finding the winners over our preferred five-year-plus time horizon requires us to be imaginative but not deterministic. It requires us to work in the multiple dimensions of technology, geography, policy and evolving social values. Our focus on active, relatively concentrated portfolios lets us apply our detailed research and engagement process to the complexities ahead. You can find further details of our approach and ongoing plan for improvement in our annual Climate Report.

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

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

Beyond regulatory and industry best-practice consultations and committees, we actively seek to participate in emerging initiatives. For instance, in August 2021, the UK Prime Minister and the Chancellor of the Exchequer challenged the UK institutional investment industry to do more "to unlock institutional investment to drive growth and ensure UK pensions savers benefit from the fruits of UK ingenuity and enterprise". Baillie Gifford responded to this, acknowledging the challenges that exist in directing pension fund capital to early-stage growth companies, particularly for defined contribution pension schemes, and suggesting various policy areas that government might examine. Such engagement continued into 2022 via further interactions with the government and relevant government departments in the UK. We have also provided input to early-stage discussions around listing rules in the UK, which may better facilitate the transition from private to public company, helping to direct growth capital to where it is most needed.

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

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

Principle 5 – Review and Assurance

Our ESG Oversight Group reviews the firmwide policies that touch on our ability to be effective stewards of our clients' investments. Consequently, this extends beyond policies specific to ESG research and stewardship, for example, record keeping, risk monitoring and fund prospectus terms. This is done according to a defined meeting agenda throughout the year, supported by Compliance and wider teams, such as Internal Audit and partner input.

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

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

In 2022, we updated Our Stewardship Approach policy to reflect emerging regulatory requirements and developments in our approach. While our overall approach remains consistent, we made the following changes to our policy:

- Provided further detail on our engagement approach detailing our engagement objectives and how we identify engagement priorities.
- Recognised the desire for some pooled clients to have an expression of wish over pooled fund voting and clarified our position.
- Increased references to consideration of diversity within board effectiveness and composition including potential voting action.
- Regarding remuneration, stated expectations regarding executive pension alignment with the wider workforce and disclosure of wider employee pay practices.
- Recognised auditors' responsibilities in evaluating climate risk within the context of annual accounts.
- Updated expectations regarding climate change following Baillie Gifford signing up to the Net Zero Asset Managers initiative (NZAMi).
- Updated our biodiversity section to recognise joining the stakeholder forum of the Taskforce on Nature-related Financial Disclosures (TNFD).

We also changed the format and structure of the report to more clearly signpost key policy areas, including adding appendices relating to our exclusion policy, divestment policy and key requirements for the EU (SFDR).

Internal and external assurance and continual improvement

Our Internal Audit Function performed an independent audit of this Investment Stewardship Activities Report. The purpose of this review was to assess the processes, controls and governance framework in place for the production and approval of the report and verify the accuracy of the contents and messaging within the report. This included reviewing a sample of case studies and claims against supporting information and assessing alignment with internal policies and practices to ensure the statements made are supported by the work undertaken.

Baillie Gifford's internal audit function is well established and provides an ongoing partnership for continuous improvement. We do use an external audit firm for their independent subject matter expertise but this report itself is not currently externally assured.

Outcomes

The audit concluded that the process for producing this report was operating effectively, appropriate supporting evidence was retained and the report is subject to review by competent individuals independent of the report production.

The approval hierarchy for this report aligns with the day-to-day governance of our stewardship activities. Our ESG team writes it and the draft is then submitted to the Oversight Group for sign-off before it is recommended to the Management Committee.

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

Fair, balanced and understandable

We take a deliberate approach to ensure that our stewardship reporting is fair, balanced and understandable. Each (marketing) publication we put into the market, including proxy voting reports, company case studies or thematic papers goes through a review by the ESG leadership team and our financial promotions oversight team. The reviews ensure the reporting is fair, factual, and appropriately represents the identified views, perspectives, and opinions.

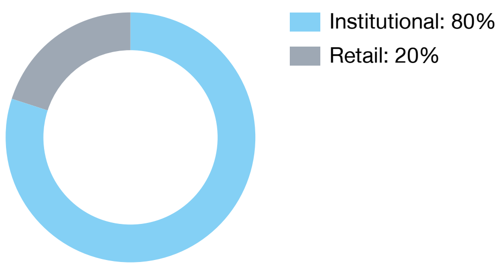
When we publish company case studies as included in this report (Stewardship in Action), we select examples that balance and describe different sectors and geographic regions, asset classes, thematic projects, and outcomes. They are written to provide our broad range of stakeholders with an overview of our approach to engagement, the range of conversations we have with different organisations, and to illustrate Our Stewardship Principles in action.

Baillie Gifford's focus is on delivering clients long-term sustainable growth. We strive to continuously improve our processes, resourcing and research practices to support this core aim.

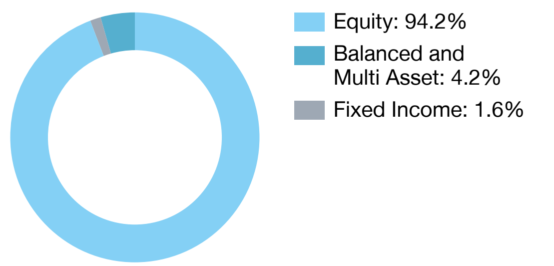
Principle 6 – Client and Beneficiary Needs

As at 31 December 2022, our assets under management totalled £223,381m. Further details split by client type, asset class and region are below:

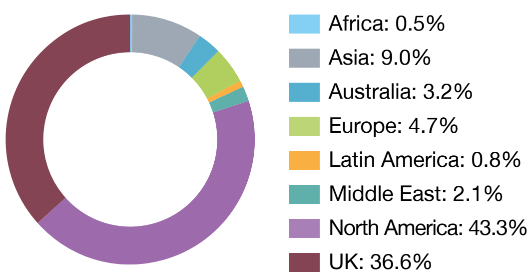
AUM (£) by client type



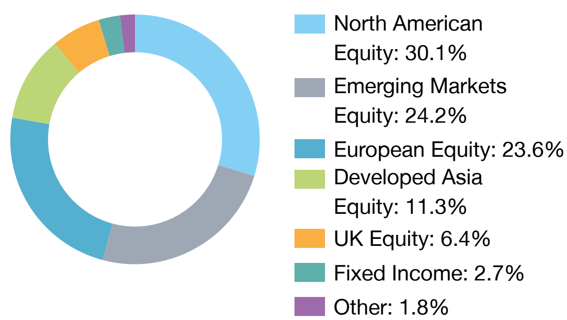
AUM (£) by invested asset class



AUM (£) by client region



AUM (£) by invested region



As at 31 December 2022. Figures may not sum due to rounding.

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

Our rigorous process of fundamental analysis and proprietary research, combined with expertise, are core to a successful, long-term, bottom-up investment approach. As mentioned, when we invest in companies on our clients' behalf, we do so with a longer time horizon than our peers typically do, holding companies on average for almost eight years which compares to the average holding period of active equity strategies globally of between 3 and 4 years.

This is entirely consistent with the long-time horizon of our clients, the bulk of which remain institutions that are ultimately responsible for pension/long-term investments. With respect to our retail clients, we are explicit about our long-term investment horizon in our marketing and client materials to ensure those clients understand the appropriate time horizon over which to invest with Baillie Gifford. Almost all our retail investors invest with us via an intermediary, whom we communicate with to inform them of our time frames.

Receiving clients' views

Clients may request us to adhere to their own stewardship policies. Examples include specific voting requirements for segregated mandates or enhanced reporting on our engagement activities. Where this is the case, we will discuss this with the client, noting deviations from Our Stewardship Approach. Where feasible, we will implement these requests. For voting activities, this can take the form of allowing segregated clients to have a role in directing the voting of their assets (such as retaining voting rights over their own account) or delegating voting rights to Baillie Gifford but retaining the ability to instruct us to vote in a certain direction on specific key votes.

Over the year, we have regularly engaged with clients to inform and discuss the importance of ESG issues within investments, covering topics such as climate change, human rights and corporate governance. These included incorporating dedicated climate change sessions in the agendas of two client events held in the UK and the US in 2022.

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

We also meet with clients regularly. These direct client engagements are one of the core ways we seek to understand client expectations and ensure we are delivering against them. Another method of soliciting client input is our annual client survey, discussed earlier in this report under Principle 1. This survey seeks targeted feedback across several areas. In the 2022 survey, we sought client feedback on their experience of our online servicing approaches. We asked more targeted questions about our incorporation of ESG factors and their perspectives on this topic. This survey is a key mechanism for assessing the effectiveness of our approach and identifying any areas for improvement.

We recognise increasing calls among some pooled clients to provide asset managers with an 'expression of wish' regarding voting undertaken on the assets within the funds in which they invest. We do not currently facilitate 'expressions of wish' for pooled clients as we feel that voting on these assets is part of our overall responsibility as the manager of our funds. Over the past 12 months, we have continued to explore the feasibility of facilitating these requests through engagement with providers of third party systems, including Minerva Analytics and Tumelo. Periodically, Tumelo provides us with expression of wish reports from users of their platform that we can review as part of our voting process. The views expressed are limited in number and detail and are not regularly incorporated into our voting process. However, we remain engaged with Tumelo as this develops. We welcome the opportunity to discuss any specific requests from pooled clients on a case-by-case basis to inform our position on this matter.

Alignment with clients' stewardship and investment policies

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

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

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

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

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

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

Outcomes

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

Principle 7 – Stewardship, Investment and ESG Integration

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

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

Prioritisation of long-term value creation

We encourage our holdings to be ambitious, focusing on long-term value creation and capital deployment for growth. Helping management to resist demands from shareholders with shorter horizons than ours can at times be an important way to ultimately achieve better investment outcomes. We regard it as our responsibility to encourage holdings away from destructive financial engineering towards activities that create genuine economic and stakeholder value over the long run. We are happy that our value will often be in supporting management when others don't.

— Our case study on Moderna reflects our engagement on a shareholder proposal with significant implications for the company's long-term value. For reasons outlined in the case study and after extensive research, we opposed this resolution to enable management to focus on the company's most material issues.

— Our case study on Avanza reflects our engagement regarding a potential partnership in cryptocurrency assets. While we didn't take a binary position supporting or opposing this partnership, we highlighted the requirement to sufficiently educate customers and frame the risk profile of this asset class as part of responsible customer service to protect longer-term value.

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 it is our expectation that boards have the resources, information, cognitive and experiential diversity they need to fulfil these responsibilities. We think good governance generally works best when there are diverse skillsets and perspectives, paired with an inclusive culture and strong independent representation with sufficient time to assist, advise and constructively challenge the thinking of management.

— Our case study on SAP reflects our engagement with the company on cybersecurity. We conducted extensive internal research in this field, which helped inform our engagement planning and ensured we could satisfactorily judge the suitability and the board's understanding of SAP's cybersecurity policies and governance.

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 accept significant pay-outs to executives if these are commensurate with outstanding long-run value creation, but plans should not reward mediocre outcomes. Performance hurdles should be skewed towards long-term results and remuneration plans should be subject to shareholder approval.

— For examples of our engagement on remuneration and executive compensation, please see our case study on Richemont in our 'Stewardship in Action' section. We have also included company vignettes in Principle 12.

Fair treatment of stakeholders

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

— Our case study on Li Ning reflects our engagement concerning the company's approach to upholding international labour standards in its sourcing practices and supply chains, as well as its compliance with the UN Global Compact Principles. While we engaged with the company before its move onto a third party agency watchlist (Sustainalytics), this activity acted as a further prompt for internal research and company engagement in 2022.

Sustainable business practices

We believe an entity's long-term success depends on maintaining its social licence to operate and looking for holdings to work within the spirit and not just the letter of the laws and regulations that govern them. We expect all holdings to consider how their actions impact society, both directly and indirectly. Environmental practices should recognise the current pace of change in opportunities, risks and societal expectations. Climate change, environmental impact, social inclusion, tax and fair treatment of workers should be addressed at the 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.

— Our case study on Albemarle reflects our engagement with the company following a third party assessment we commissioned assessing its key material sustainability impacts.

— Our case study on Genus reflects our engagement with the company on its sustainability ambitions and decarbonisation strategy, built on extensive internal analysis in line with our internal climate audit.

— Our case study on Wayfair reflects our ongoing engagement in encouraging the company to improve its emissions disclosure and set environmental targets.

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

Material ESG issues

In 2022 there were firmwide efforts to more effectively integrate ESG analysis across investment strategies, further enhancing our investment research and insight. While material ESG issues may differ by geography, industry, and other factors, we have established research groups to improve our corporate knowledge relating to specific themes. We view these material ESG issues both as risks and opportunities.

Climate

Our firmwide philosophy for long-term growth means we take a holistic perspective on the sustainability of the companies we invest in. Their ability to play a positive role in society is likely to be an important component of successful investment outcomes over our time horizons. Regarding climate, our engagements with company management teams show this can go well beyond more obvious sector-specific risks and opportunities associated with climate change. It can also include inspirational leadership, role modelling, and public advocacy – where companies and their leaders often have a hugely influential role to play. For us, identifying this in a company can help underpin an investment case and will continue to be a crucial part of our analysis and assessment of potentially transformational businesses.

The focus of our conversations with companies is often on ambition and support for strategic capital investment, thereby supporting management to look through other shorter-term pressures. Given the disruptive nature of the climate transition, we also place great emphasis on diversity of view at the board and executive levels. While this is less likely to be important in companies that are new and disruptive by nature, it could be critical to enabling leadership to emerge among older incumbents. Both areas are material topics for many companies and often arise during our regular interactions. Where we have perhaps been less active is in the day-to-day pursuit of better disclosure. To help accelerate this, we have now formalised a set of climate disclosure expectations for companies we invest in:

For all companies:

— Disclosure of Scope 1 and 2 emissions, as a minimum, by the 2023 year-end reporting cycle.

— Demonstrate awareness of and engagement with the global net zero ambition by 2025.

For the world's largest 25 companies and those in material sectors:

— Disclosure of material Scope 3 emissions by the 2023 year-end reporting cycle.

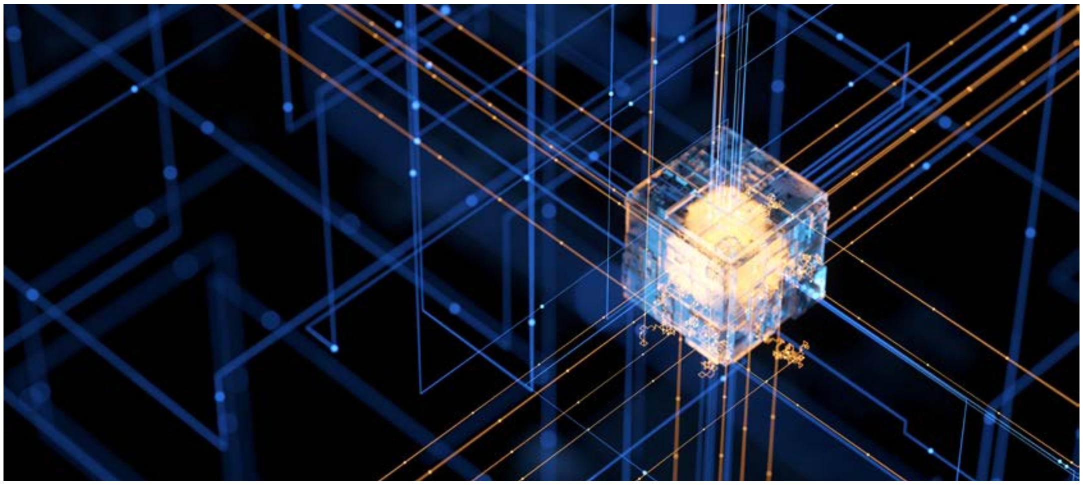
— Clear net zero aligned climate goals that meet or exceed the ambitions of the Paris Agreement by 2025 (including Scope 1, 2 and material Scope 3 emissions).

For companies offering significant climate solutions products and services:

— Disclose estimates of potential avoided or addressable emissions reductions, or similar indicators.

We define company size by market value, and material sectors relate to the non-financial sectors identified by the TCFD, ie Energy, Transport, Materials and Buildings, Agriculture, Food and Forest Products.

For more detail on our climate and environment activities please see our [TCFD 2022 Report].



Biodiversity

In its 2019 assessment, the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services concluded that biodiversity loss is happening faster than at any point in history. Preventing the further damaging effects of climate change depends on maintaining and restoring land and water ecosystems. While biodiversity has yet to achieve the same traction as climate, we are starting to see increased interest from clients and others in how we are managing biodiversity risks and impacts and our approach to deforestation (a primary driver of biodiversity loss). Following the Biodiversity COP15 agreement in December 2022, the interest and focus on this topic from all industry participants – companies, regulators, asset owners and investors – will continue to evolve.

To enable us to understand our exposure to this risk (and by extension, to assess where we can have an impact in mitigating this risk), a small group within BG conducted a high-level audit for a handful of priority companies in 2022. This exercise served several purposes:

1. It compelled us to develop an analytical model replicable across holdings and aligned with our bottom-up, active investment approach.

2. It enabled us to assess what information is currently available (or where information is lacking) for analysis.

3. It supported 'learn-by-doing' and served as a baseline to further refine our thinking.

Over the past year, we have been exploring various approaches to assessing company-specific impacts and dependencies to expand our understanding and capabilities on the topic. Our impact fund ('Positive Change') completed a biodiversity audit which assessed each of the holdings to understand where in the companies' value chains their impacts and dependencies lie. This has since formed a basis for engagement with the companies to understand their policies and targets better.

Though numerous biodiversity risk metrics and assessment tools are being developed in the industry, we believe they are currently not good enough to produce actionable insights of environmental or financial relevance. Assessing biodiversity impacts and dependencies relies on activity and location-specific data at a company level: a fact highlighted by the TNFD. Current tools and metrics cannot provide this level of detail, so we have focused our efforts on bottom-up, research-driven insights.

In addition to assessing our risks, it is vital to understand how the companies we invest in engage with their impacts and dependencies. For our top priority holdings, we have developed a conduct assessment framework that allows us to investigate a company's approach to managing its impacts and dependencies.

At Baillie Gifford, we are still in the early stages of fully understanding our biodiversity-related impacts and dependencies. As we progress on this topic, we hope to continue our fruitful engagement with the financial industry, data providers, and the companies we invest in. This collaboration has been a source of great insight so far.

Human Rights Research Group

We have set out our human rights commitments in Our Stewardship Approach. We have used the 10 principles of the United Nations Global Compact to guide work in this area along with the UN Guiding Principles on Business and Human Rights. Our expectation for all companies we hold is that they will respect internationally accepted human rights and labour rights throughout their business operations and value chains. This includes the management of exposure to labour and human rights risks throughout their value chains, especially modern slavery, and encouraging positive relationships with local communities.

The group formed in 2021 and, during the first year reached out to a range of experts, delivered an introductory training session and commissioned research to develop our thinking further. Activities have included:

— Organising training to enhance our knowledge. For example, the Human Rights Research Group has received initial training from an external human rights and supply chain practitioner to deepen our understanding of international human rights standards and enhance our approaches to analysing companies' human rights.

— Fostering discussions with external sources. For example, in 2022, we met with the chief strategy officer at the Human Rights Foundation to deepen our understanding of the role that open-source software and decentralised systems can play in supporting human rights and freedoms. We have also met with various organisations working on business and human rights issues.

— Commissioning research and academic engagement. We have commissioned work by a leading academic and expert on human rights theory and practice. While still in progress, we expect this work to provide a conceptual lens through which we can navigate the inherent complexities and tensions when examining companies' approaches to human rights.

In the year ahead, we will move from our current phase of scanning and research to testing and implementation.

Corporate Governance Working Group

The Corporate Governance Working Group is a hub for knowledge sharing on corporate governance considerations within an investment context. In 2022 it focused on the vital role the board of directors played. Baillie Gifford invests in companies of every size, age and complexity, from private founder-led companies to the largest multinationals. The diversity of our holdings is extraordinary. But one factor unites every company across all funds: each has a board of directors. It is the common denominator of corporate organisational form and is always the bridge between outside investors and management. The board has the vital governance task of steering the company to its maximum potential. It is fundamental to our investment approach that we have a comprehensive understanding of board effectiveness.

During the year, we prepared and distributed a briefing note for our investors on the aspects of board composition and director responsibility. Titled 'A board fit for purpose', it serves as the basis for investor training and a primer for our approach to engagement with board members. As part of the same project, we undertook a curated series of meetings with serving Chairs to extend our firmwide understanding of the task of chairing a listed company. We will share this work with our investors during the coming year.

The Working Group also considered the merits of disclosed corporate governance data in our research processes. This project supports the ESG analysts and investors when conducting their company analysis. We recognise that unconventional governance is uncorrelated to investment outcomes, so our use of data mustn't presume one. The Working Group has the mandate and opportunity to share aspects of corporate governance materiality with investors in keeping with Baillie Gifford's investment approach.

Differences in approach to integration of stewardship

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

Mainstream equity strategies

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

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

Our investment teams may incorporate ESG issues into their research through:

1. A diversified global equity portfolio

— The strategy's investment managers and analysts spend most of their time researching stocks. ESG and broad sustainability considerations are a fundamental part of our investment research. Still, we also leverage the expertise of our ESG analysts for deep and specialised analysis on a case-by-case basis. This might range from a focused study on raw material supply chains and human rights issues to analysing board member experience, skills, competencies and qualifications.

— The key ESG question asked ahead as part of all pre-buy research is: Is it sustainable? This is deliberately broad, designed to identify any aspect of the investment case that may impact a company's ability to compound growth, including the behaviours and actions of management towards ESG factors and whether they are likely to be good stewards of our clients' capital.

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

2. A concentrated global equity portfolio

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

The ESG questions include:

— What happens over 10 years and beyond?

— Is your business culture clearly differentiated? Is it adaptable?

— Why do your customers like you? What societal considerations are most likely to prove material to the company's long-term growth?

In response to the third question, our research typically considers factors such as the nature of the product or service, tax, environmental impact and labour relations. There are innumerable ways to interpret ESG impact. While we do not adhere to a uniform firmwide process for measurement, our strategies have explored various avenues, ranging from the judicious use of third party ESG service providers to activities mapping company contributions to Sustainable Development Goals (SDGs).

Once we have invested in a company for our clients, both our investors and our ESG team continue to assess the quality of management and whether shareholder and management interests are aligned.

Beyond those mainstream strategies, our equity strategies with ESG-specific commitments make additional consideration of ESG matters when researching securities.

3. A responsible global equity portfolio

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

— The **impact**, positive or negative, of a company’s products and operations on society.

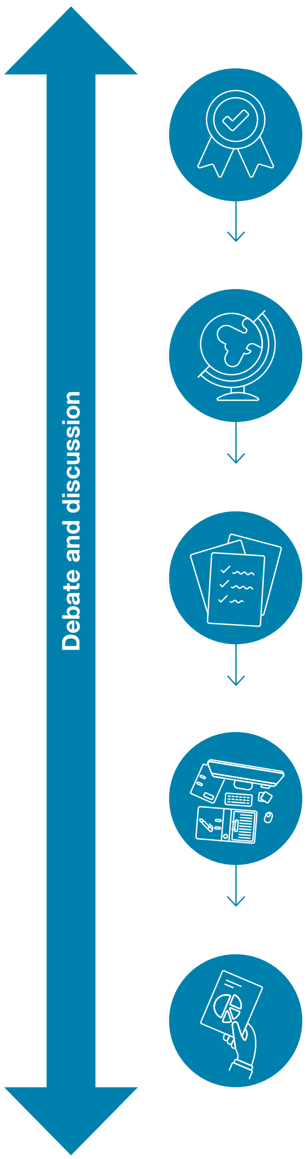
— Its **ambition** to either further or address that impact, and whether this is best-in-class.

— The level of **trust** the team should have in the management team and the board.

The answers to these questions identify companies that are excluded from the portfolio and highlight priority companies and areas for engagement in the companies that make it into the portfolio.

Multi Asset

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



1. Firmwide shared beliefs, principles and policies

— Shared beliefs, stewardship principles, ESG principles and guidelines

— Dedicated and embedded Multi Asset ESG analysts

2. Top down: ESG – risks and opportunities

— Thematic macro research

— Climate-informed long-term return expectations for various asset classes

— ESG-related scenario analysis

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

— ESG materiality scoring assessment

— External relationships, industry memberships

— Identification and monitoring of ESG milestones

— Company engagement

4. Portfolio construction: an active approach

— Position sizes

— In-house proxy voting

— Stewardship research and engagement

5. Reporting

— Engagement and proxy voting

— Firmwide TCFD report

— Annual Stewardship report

— Fund-level carbon footprinting

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

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

Fixed Income – corporate bonds

Monitoring and engaging with the companies we lend to on an ongoing basis is a fundamental part of our investment process and how we discharge our stewardship duties. We regard it as our responsibility to steer businesses away from destructive practices and towards activities that create genuine economic value. All of our corporate bonds are subject to ESG analysis before investment and ongoing review. Our current approach was formalised in the fourth quarter of 2021, with the formal introduction of the embedded ESG analysts in the different investment teams (described further under Principle 2). The research is structured around our sustainability assessment, which is a key pillar of the resilience analysis at the core of our research process for corporate bonds and the starting point for engagement activity.

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

Fixed Income – government debt

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

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

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

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

Utilising our engagement channels, we led a collaborative engagement with Costa Rica to improve public participation in its budgetary process. We participated with Chile, Colombia and Hungary to improve budget transparency. As a direct result of engagements, we have seen Chile publishing more detailed data on its budget and attaining a higher score in the Open Budget Survey, which feeds into assessments of sovereign creditworthiness (Principle 10). To advance our approach to sovereign climate engagement, we are participating in the EMIA Sovereign decarbonisation programme and are currently working with other asset managers to engage with Egypt, Indonesia and Saudi Arabia. However, new channels for sovereign engagement are needed to discuss broader ESG-related topics such as climate change, energy transition, human rights, etc, which we will continue to explore. For some of these topics the link with investment returns is not clear today but is well suited to active managers to explore.

Private companies

We believe that the best returns over the 15-year-plus periods over which our Private Companies Team invests will come from well-managed businesses which address the challenges and meet the needs of society. As private companies choose their investors, we need to continue to be long-term, supportive and engaged shareholders in great companies to continue to access the best opportunities. Each time we invest, our Legal Team plays an active role in negotiating the governance structures of companies. Therefore, we do not think of 'ESG' as a different category of analysis to the core investment work we do.

This means that topics that are often bucketed under ESG are key components of our investment research process. We use our '10 Question' framework on all new investments, and environmental and social impact will often be woven into our questions on sales growth, competitive advantage and returns. We have a specific question around leadership and culture, which is informed both by the information you would expect and by our strong access to companies – typically, we will have many conversations with management, employees and board members before investing and continue these after investment. We also have a question aimed at identifying environmental and social opportunities and risks. We will often follow up our reading on material topics with conversations with industry experts and academics to inform our analysis. We also have an additional question that encourages us to think about how we might help the company.

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

After investment, we aim to have close relationships with management and the board of companies. This is principally for our monitoring of the investment case, and to help companies, or engage on issues that matter. We don't have separate meetings for 'ESG engagements'– instead, these topics are integrated into our communications. Companies have found this useful – a third party consultant interviewed a group of our investee companies last year, generating very positive 'reviews', most of which mentioned our long-term attitude as a useful characteristic of our engagements. Companies frequently ask about their financing plans, often around the timing and manner of listing, and here we have been helpful particularly, in discouraging companies considering a premature SPAC (Special Purpose Acquisition Company) exit – a shell corporation (sometimes known as a 'blank cheque company') listed on a stock exchange with the sole purpose of acquiring the private company and making it public without having to go through an initial public offering (IPO).

In return, we help companies develop corporate governance practices, through direct input or linking companies up with Baillie Gifford's governance experts to discuss topics like dual-class share structures, board composition and pay.

We build the understanding we gain from these interactions into the evolving investment case for these individual companies. We construct our portfolios to add to the companies where we have increasing conviction in the upside case. Our growing understanding of companies' cultures and management teams is an input into this alongside fundamental business performance. We also use the networks we build through these interactions to help us source further investment opportunities, often in companies that are hard to access. Our 95 per cent allocation in deals is a promising sign that we are doing something right here.

Different geographies

In line with our active, long-term investment approach, we analyse companies from a bottom-up perspective. However, we also consider investment-relevant geographic factors, whether related to geopolitical risk and country-specific fiscal and monetary factors (such as inflation, tax rates, and foreign exchange rates); or business norms and corporate governance factors, (such as CEO duality, unitary or two-tiered boards, and typical levels of board independence). While our regional strategies exhibit comparatively less geographic diversity, our Global and International strategies hold companies across a broad geographic universe. While we do not maintain a specialised macroeconomic team at Baillie Gifford, our investment strategies leverage different teams' expertise, including across asset classes, as well as our broader ESG resource.

The process to ensure alignment with client time horizons

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

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

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

We do not outsource any direct stewardship responsibilities to third party service providers. We focus on undertaking in-house ESG research. We believe that this is where we can add value – by bringing a nuanced understanding of the performance of the companies we hold from an ESG perspective and, importantly, how they aim to develop over time and the measures in place to achieve this. Our in-house research also incorporates information, from company-specific data and analysis to proxy advice, supplied by the companies we invest in and trusted external research and information providers. Utilising multiple sources ensures we have a comprehensive understanding of the companies under review and provides comfort that any inaccuracies will be identified. Where we use third party sources for indirect purposes, we appraise the research and data they provide to ensure it is accurate and useful in supporting our stewardship and ESG integration activities. As described above, we have an ongoing project to enhance our ESG data provision.

Stewardship informing acquisition, monitoring and exit

Our 'Stewardship in Action' case studies demonstrate a variety of monitoring activities within the broader context of our existing relationships with companies. The below vignettes also reflect some of our Stewardship activity, informing acquisition, monitoring, and exit.

Engagement

Process

Portfolio positioning

Different geographies

Nu Holdings – Pre-buy and pre-addition activity

Pre-IPO impact analysis informing acquisition (Dec 2021)

Nu is the world's largest neobank (a digital-only and mobile-first bank) with over 70 million customers in Brazil, Mexico and Colombia, including over one million small and medium-sized enterprises (SMEs). Nu started with a credit card (no fees, pure digital, very low starting credit) which was its initial wedge to acquire customers. Since then, Nu has expanded its product suite with the ambition to become the principal financial provider for customers. Today, Nu offers products across five key areas: 1) Spending; 2) Saving; 3) Investing; 4) Borrowing; and 5) Protecting. In December 2021, we carried out a pre-IPO impact analysis of Nu Holdings before purchase for our Positive Change strategy, which involved an assessment of its potential social impact, its ESG practices and the intent of the management team to deliver impact and be a responsible company.

Sustainability analysis influencing addition (Oct 2022)

In September 2022, we met with the co-founder and divisional CEO of Brazil, Cristina Junqueira in Nu's office in Brazil. We explored the culture of the business, which centres on providing exceptional customer service. We believe that Nu's customer service is a real differentiation point versus other players in the market, especially incumbent banks. We also discussed Nu's underwriting model and its use of data to allow the company to profitably serve lower-income customers, something which incumbents still struggle to do. There is good data suggesting that the lower the income bracket that Nu targets, the greater the data advantage asymmetry. This is very important to enable financial inclusion in Brazil. We also discussed the more challenging macro environment, and Nu is willing to slow its lending business, suggesting appropriately prudent lending practices.

During a visit to Brazil, we held two meetings with the Head of Impact and ESG at NuBank. This proved an excellent opportunity to explore the many initiatives the company is working on to expand and measure its social impact and improve its environmental and social footprint. Nu is particularly focused on promoting diversity among its staff, which will be particularly important in a country with significant racial inequality. We took the opportunity to emphasise what we believe are priorities for NuBank to achieve a positive impact over the coming years. Crucial will be responsible lending practices and striking the right balance between profitability and providing affordable services, particularly for lower-income groups that comprise a large part of its customer base.

Our second meeting in September followed our commissioning of academic research into the current state of financial inclusion in Brazil. With the authors of this study (PlanoCDE), we discussed with academics, the financial inclusion team from Brazil's Central Bank and members of Nu's impact team. In the meeting, we explored the findings of the study which highlighted areas of great social opportunity for Nu and other fintechs, but also some of the risks that arise from serving low-income populations. This proved to be an excellent opportunity to explore these areas with broader stakeholders and Nu's team, which we believe are focused on managing these risks and expanding the company's social impact.

The three engagements we had with Nu while in Brazil were a significant contributing factor in our decision to add to our existing holding in Nu Holdings in October 2022. Upon returning from Brazil, we continued our dialogue with Nubank as it works on its formal financial inclusion strategy. We, with the PlanoCDE team, were invited to speak at a financial inclusion immersion day for managers at Nubank. We emphasised the importance of focusing on financial health, not just inclusion, customer protection and promoting financial literacy among customers.

Process

Milestones

Different asset classes

SNF (Fixed Income) – Monitoring activity

Background

SNF is a chemical company whose products allow customers to either treat and recycle water or minimise water consumption. SNF is a large producer of polyacrylamides (PAM), which are water soluble polymers used in a wide range of water treatment activities, including drinking and wastewater management, industries like oil and gas, pulp/paper and in the production of products like cosmetics.

Engagement prioritisation – Setting milestones (Fixed Income)

As part of our ongoing monitoring of SNF, we engaged with management to learn about its progress against our human capital milestone and to better understand how SNF came to set its target for water reduction. As discussed in our previous engagements with the company, SNF continues to implement initiatives to prioritise the health and safety of its workforce. Management understands there is still room for improvement, and to help incentivise the prevention of accidents SNF recently restructured the bonus element for health and safety to broaden it out beyond one metric. Regarding its water usage, SNF has low water intensity when compared to others in the industry. SNF has set a target for a 20 per cent reduction of water intensity by 2030, which it feels is ambitious and more advanced than its peers. Water management is an integral part of SNF's business model, and we consider managing its own water intensity an important element.

Outcome

To support the monitoring of SNF's progress against its water intensity target, we have set a milestone for continued review. Finally, while SNF is prioritising health and safety we will continue to monitor incident rates going forward.

Outcomes

Portfolio positioning

Small and Mid caps

MorphoSys – Exit for governance-related reasons

Background

MorphoSys is a German biotech focused on the discovery and development of antibodies for a range of currently incurable diseases, including many blood cancers. Our original investment thesis was that it would transition from a drug discovery platform to a fully integrated biopharma company selling its own drugs.

Corporate governance concerns

We had held MorphoSys for more than five years when we exited our holding. We had not seen our original investment thesis come to fruition and, latterly, we also lost faith in the new management team, which has seen a high level of turnover, which we were concerned might indicate deeper problems with the internal culture. We raised some of these concerns with company management in the fourth quarter of 2021 but weren't sufficiently reassured by the responses we received. The business model also shifted from a focus on Research and Development to M&A, which was a further significant change and inconsistent with our investment case.

Outcome

We exited our position in MorphoSys in 2022. Our loss of confidence in the ability of management to deliver was a significant factor in this decision.

Stewardship in Action

For our 2022 Stewardship Report, we have included a selection of case studies to reflect some of our engagement with issuers. Our discussions with companies span various topics, from operational updates and strategic outlooks to management changes, market conditions, and more explicit ESG factors. These conversations are tied to our investment theses and broadly align with one or more of our Stewardship Principles. In this section we have highlighted a few of our ESG-focused engagements to illustrate how we consider these as part of our overall investment approach.

We have identified the ESG focus areas for each company as we see them, based on our qualitative analysis of stock-specific materiality. We've also included a '2022 Delta' sub-heading to contextualise the background for each specific engagement in the 2022 'Engagement snapshot' section. While we do not seek to measure the quality of our stewardship activity by the volume of engagements with any one company, we tend to see a correlation between the duration of our active shareholding period and the quality of our engagements. We can evaluate these through our access to management and boards and our ability to exercise positive influence on companies. Naturally, each engagement builds upon the last and informs subsequent objectives, which we capture in our case studies under the 'Next steps' sub-heading.

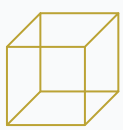
Engagement timelines

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

Our Stewardship Principles

In Principle 1, we set out how our purpose and investment beliefs guide our stewardship, investment strategy and decision-making. We have tied each one of our case studies in this section to our Stewardship Principles.

Prioritisation of long-term value creation



A constructive and purposeful board

Long-term focused remuneration with stretching targets

Fair treatment of stakeholders

Sustainable business practices

Categorising stewardship activity

While our Stewardship Principles help to differentiate broad engagement themes, we can also categorise our stewardship activity by our method of engagement with companies. Each company interaction can span multiple engagement methods. We have used the following symbols for ease of reference, tying stewardship activity to the case studies and to company vignettes in Principles 7–12.

Sustainable business practices

Engagement

Collaboration

Milestones

Albemarle

Albemarle

- **2017** Jan: Purchase
- Sep: Visit to HQ
- Oct: Shareholder Governance Outreach with CFO and VP Sustainability
- **2018** Dec: Business and ESG update with IR
- **2020** Oct: Business update with C-suite
- May: Business and sustainability update with C-suite
- **2021** Jun: Engagement on new sustainability goals
- **2022** Mar: Call with VP on lithium sustainability
- Apr: Commissioned third-party expert review of company sustainability performance and shared with Albemarle

Background

Albemarle Corporation develops, manufactures, and markets engineered speciality chemicals worldwide. It operates through three segments: Lithium, Bromine, and Catalysts. The Lithium segment offers lithium compounds in lithium batteries for consumer electronics and electric vehicles. We believe Albemarle has the opportunity to become an industry leader in lithium production through its ambitious initiatives, which should pair with long-term value for shareholders.

ESG focus areas

GHG emissions: Albemarle's customers will increasingly require the company to disclose environmental impacts, particularly GHG (greenhouse gas) emissions, due to their own Scope 3 emissions targets. As a result, we continue to advocate for increased company ambitions on its climate strategy.

Water use and community relations: The company's new sustainability strategy goals include decreasing the intensity of freshwater use by 25 per cent by 2030 in Chile and Jordan (areas of high and extremely high-water risk).The availability and accessibility of clean freshwater are key considerations affecting the communities in which Albemarle operates.

Independent assurance: Albemarle has committed to the Initiative for Responsible Mining Assurance Alliance (IRMA), considered one of the most rigorous third party certification standards for the assurance of responsible mining.

2022 Delta (What's changed this year?)

We had numerous engagements with Albemarle in 2022, including email exchanges, video calls and in-person meetings with C-Suite and ESG leadership. We also participated in the annual Albemarle Sustainability Webcast. Early in the year, we commissioned an external consultancy to assess Albemarle's sustainability strategy and ambitions to test our views and hypotheses. The review highlighted the need for Albemarle to measure and disclose its Scope 3 emissions footprint, given that these were estimated to contribute to most of its carbon footprint. We shared this third party assessment with Albemarle and encouraged it to go further on its key material sustainability impacts, which we believe to be sustainable water usage; minimising carbon emissions; responsible interactions with local communities, and third party verification.

Engagement snapshot – May

Objective	We established two objectives: 1) Encourage ambition to minimise Scope 1, 2 and 3 carbon emissions[2] to stay on track against its current climate targets; and 2) enhance third party and independent verification of sustainability performance through broader adoption of the IRMA certification.
Engagement	In May, we met Albemarle's CEO, CFO, and new VP of Sustainability and Investor Relations for an in-person meeting. We were pleased to hear that the company's 2022 Sustainability Report would contain its first-ever review of Scope 3 emissions, disclosures we had encouraged earlier in the year. The company also informed us of its recruitment of a new Head of Supply Chain and Procurement, whose remit includes reducing Scope 3 emissions. We encouraged the company to double down on investments to maintain good performance against its carbon intensity-neutral lithium production goal as we believe this will support the company's competitive advantage. We discussed the motivations behind the development of Albemarle's approach to sustainability. The company has recognised the growing focus on the environmental and social impacts of its products and services and the opportunity that addressing these provides for competitive differentiation. Following the outcome of Albemarle's first IRMA assessment, the company will begin work to improve its scoring and intends to extend certification to other sites.
Outcome	Following the meeting, we were invited to participate as a questioner in the launch webinar of the company's 2022 Sustainability Report. Publication of the report saw independent assurance of Scope 1 and 2 GHG data, a lifecycle assessment of the company's lithium products and that the company is on track to meet existing GHG and freshwater intensity targets. We view Albemarle's commitments to date (IRMA, UN Global Compact, Net Zero targets) as increasingly distinguishing the company from its peers. Its reporting (which Albemarle specifically asked for our input on) has improved to focus on its key ESG concerns. Scope 3 emissions are now estimated with reduction targets in the works, and resourcing has improved within its ESG function.

Next steps

Since our engagements with Albemarle on sustainability matters began in 2020, the company has come a long way. As a next step, we intend to follow up with the company to learn more about its efforts to manage its impacts on the hydrology of the Salar de Atacama and speak to independent third party experts on the efficacy of the IRMA framework.

[2] For full definitions of Scope 1, 2 and 3 emissions, please see definitions on page 89.

Prioritisation of long-term value creation

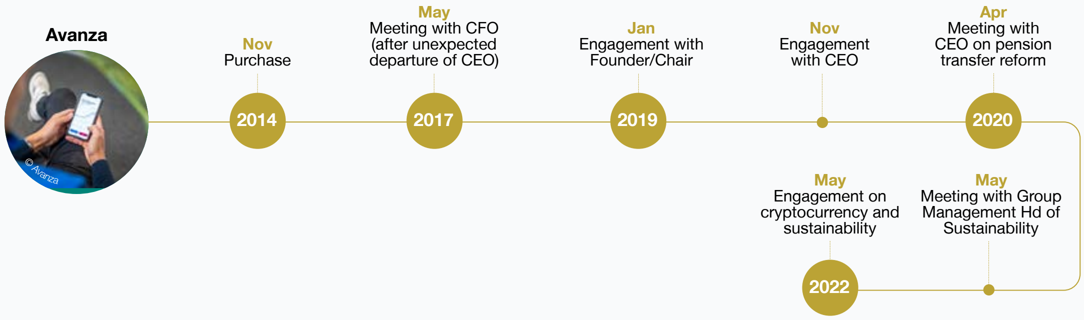
Engagement

Collaboration

Outcomes

Small and Mid caps

Avanza



Background

Avanza is Sweden's leading digital platform for savings and investments; its diversified service offering includes saving in shares, funds, savings accounts, mortgages, and pensions. Avanza's customer promise is for a better return on savings than with any other bank or pension provider in Sweden. The company started as a brokerage, but our investment is based on its continued evolution towards a platform for long-term savers. The company has over 1.7 million customers and SEK600bn in total savings capital, equivalent to circa 7 per cent of the Swedish savings market. Its dominance has grown from consistently sharing scale economies with its customers through lower prices and better customer service.

ESG focus areas

Customer service: Avanza's commitment to its customers forms a key pillar of its competitive advantage. Mismanagement of this issue is a material risk for a platform that operates in the heavily regulated financial services sector.

Governance and culture: Governance is key to preserving Avanza's customer-centric culture and its risk management. We are closely monitoring Avanza's evolution as it continues to scale revenues and broaden its financial service offering.

2022 Delta (What's changed this year?)

On 14 May, Avanza entered into a Letter of Intent with Safello (a Swedish cryptocurrency broker) regarding a potential partnership in relation to cryptocurrency assets. The ambition was to examine a potential partnership for the distribution of Safello's services for crypto assets via Avanza's platform. Avanza contacted us for a perspective on its early investigations into enabling customers to invest in cryptocurrency. We identified social considerations as a potential material issue area, primarily how it intended to educate customers and frame the risk profile of this asset class relative to others.

Engagement snapshot – May

Objective	To share our analysis and consideration of the suitability of the proposed cryptocurrency partnership with the company, focusing primarily on how we believe Avanza can best serve its customers and other stakeholders.
Discussion	**Environmental:** In the past, crypto mining has faced criticism for being energy intensive. However, this depends on the type of energy in use, and there is evidence to suggest an increasing share of renewables in the energy mix of crypto mining Bitcoin could feasibly have a role to play in decarbonisation by increasing demand for renewable energy and through the potential to balance grid infrastructure. **Social**: We considered whether cryptocurrency has a genuine future for long-term saving. Avanza emphasises ‘providing the right tools for customers to make investment decisions themselves’; therefore, how the company approaches customer education is important. We asked whether the terms of the new partnership with Safello allows for input from Avanza when it comes to asset selection and product design. **Governance**: Regarding remuneration, we believe that Avanza’s existing incentive structure for executive management– (fixed pay is linked to individual goals assessed according to broad organisational objectives, such as customer satisfaction, shareholder interests and market reputation) would appear to incentivise the right behaviours from a long-term shareholder value and stakeholder alignment perspective. We also note Avanza’s goal to ‘be the company in the financial industry with the highest reputation’ – as measured by Kantar Sifo’s reputation index.
Outcome	On 16 June, Avanza released a statement cancelling the examination of the potential partnership with Safello regarding crypto assets pending clearer regulation for the cryptocurrency market. It is our belief that the management of Avanza appreciated our input on this strategic issue. It demonstrates the value we can add through the strength of our relationships with companies, enabled by our long-term holding period.

Next steps

We have noted that the European Markets in Crypto-Assets Regulation (MiCA) is progressing through the EU legislature, representing the first attempt at regulating the digital asset market. We will continue to monitor Avanza’s involvement with cryptocurrency.

Sustainable business practices

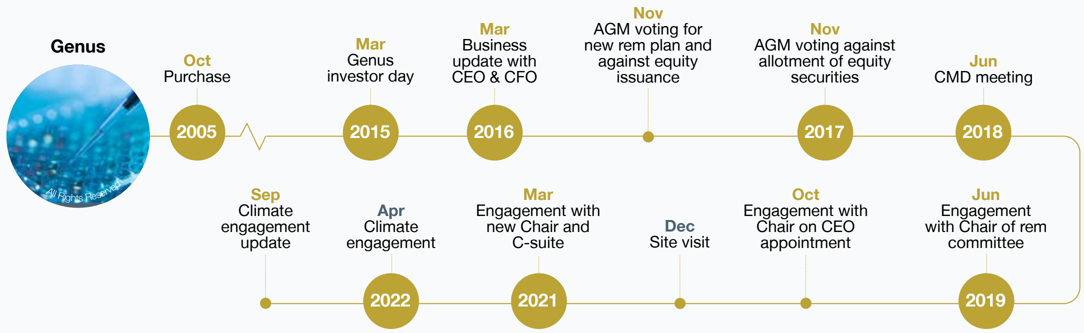
Engagement

Integration

Milestones

Small and Mid caps

Genus



Background

Genus is an animal genetic company that operates in the bovine and porcine farming sectors. It sells semen and breeding animals with genetically selected traits related to meat and dairy production. In addition, it offers semen sexing, reproductive, and other technical services to farmers. We recognise that in producing animal protein, Genus can perform a valuable social role in reducing global hunger, but we also recognise that the global farming industry faces significant challenges to decarbonise in alignment with the goals of the Paris Agreement. As a supplier of genetically selected livestock to a significant number of livestock farmers, the company has an opportunity to encourage/promote decarbonisation of customers' Scope 1 emissions (Genus' Scope 3 emissions). However, while Genus' own Scope 1 emissions are predominantly porcine-related slurry, the major challenge across livestock farming is from enteric methane from the bovine industry.

ESG focus areas

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 1.5°C scenario by 2050.

Food security: Genus's 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 (LMICs)). Still, important questions remain concerning the overall stability of our global food system and the role of animal protein.

2022 Delta (What's changed this year?)

In the first quarter of 2022, we analysed Genus in line with Baillie Gifford's detailed internal climate audit. This formed the foundation for our engagement with the company on its sustainability ambitions and decarbonisation strategy.

Engagement snapshot – April

Objective	We encouraged the company to 1) measure the impact of its emission-reducing products within customer operations; and 2) participate in the science-based target initiative to establish decarbonisation targets once the new methodology for the FLAG (Forest, Land and Agriculture) industry pathway has been published.
Discussion	The company has produced its own decarbonisation pathway (not independently validated) that focuses on biogas recapture at its various porcine nucleus herds. If successful, the company could encourage similar investments to other pig farmers. We met with management in April 2022, including an introductory meeting with the head of sustainability, and focused on the decarbonisation strategy/pathway (intensity based with interim target). We encouraged the company to invest in decarbonisation initiatives, given the material emissions footprint for the industry. We followed up with a letter to management encouraging independent validation of non-linear decarbonisation pathway (FLAG SBTi initiative) when published.
Outcome	We are at an early stage of specific climate and decarbonisation engagement, but the potential impact is significant, given the size and scale of the industry emissions footprint. It may be difficult to determine exact impacts beyond specific company emissions, but the opportunity remains to encourage the company to be a leading advocate for industry decarbonisation.

Next steps

In September 2022, company management updated us on the progress the company has made since our engagement earlier in the year. We learnt that Genus has partnered with a satellite monitoring company to track GHG emissions from its nucleus farms and that it expects to be able to provide further details about progress with its pilot biogas capture project at their porcine operations in Canada before the end of the current financial year. We intend to continue monitoring decarbonisation progress over time and encourage the company to act as a leading industry voice in investment in decarbonisation – particularly in emerging markets.

Fair treatment of stakeholders

Engagement

Li Ning

Li Ning

- Aug Purchase — 2017
- Apr C-suite engagement on ESG — 2021
- Mar Meeting with CEO — 2022
- Apr/May Correspondence with management on ESG issues
- Jun Meeting with ESG lead
- Dec Communication on supply chain due diligence

Background

Li Ning is a leading Chinese sportswear brand with products covering running/training shoes, basketball shoes and sports fashion apparel. Benefiting from increasing disposable incomes and a focus on healthy living, Li Ning has an opportunity to continue to increase its market share in China and beyond.

ESG focus areas

Supply chain management: Given the industry and the supplier relationships throughout the country, how Li Ning implements its policies and commitments is important. We think it is important to understand the company's internal governance and assurance processes further and seek transparency on this.

Labour and human rights: Li Ning has established a Code of Conduct for the Group's suppliers and prohibits and opposes any form of forced labour. For the sufficient assessment of this Code, further transparency on the company's due diligence and social audit processes is important to validate the effectiveness of the Code. In 2022 the company was included on a third party watchlist for not upholding the principles of the United Nations Global Compact.

Climate: Li Ning has environmental commitments and practices for: product development and customer engagement; material usage and circular economy principles; environmental management; energy conservation and emission reduction, including low carbon logistics and warehousing practices. There are further opportunities on environmental issues.

2022 Delta (What's changed this year?)

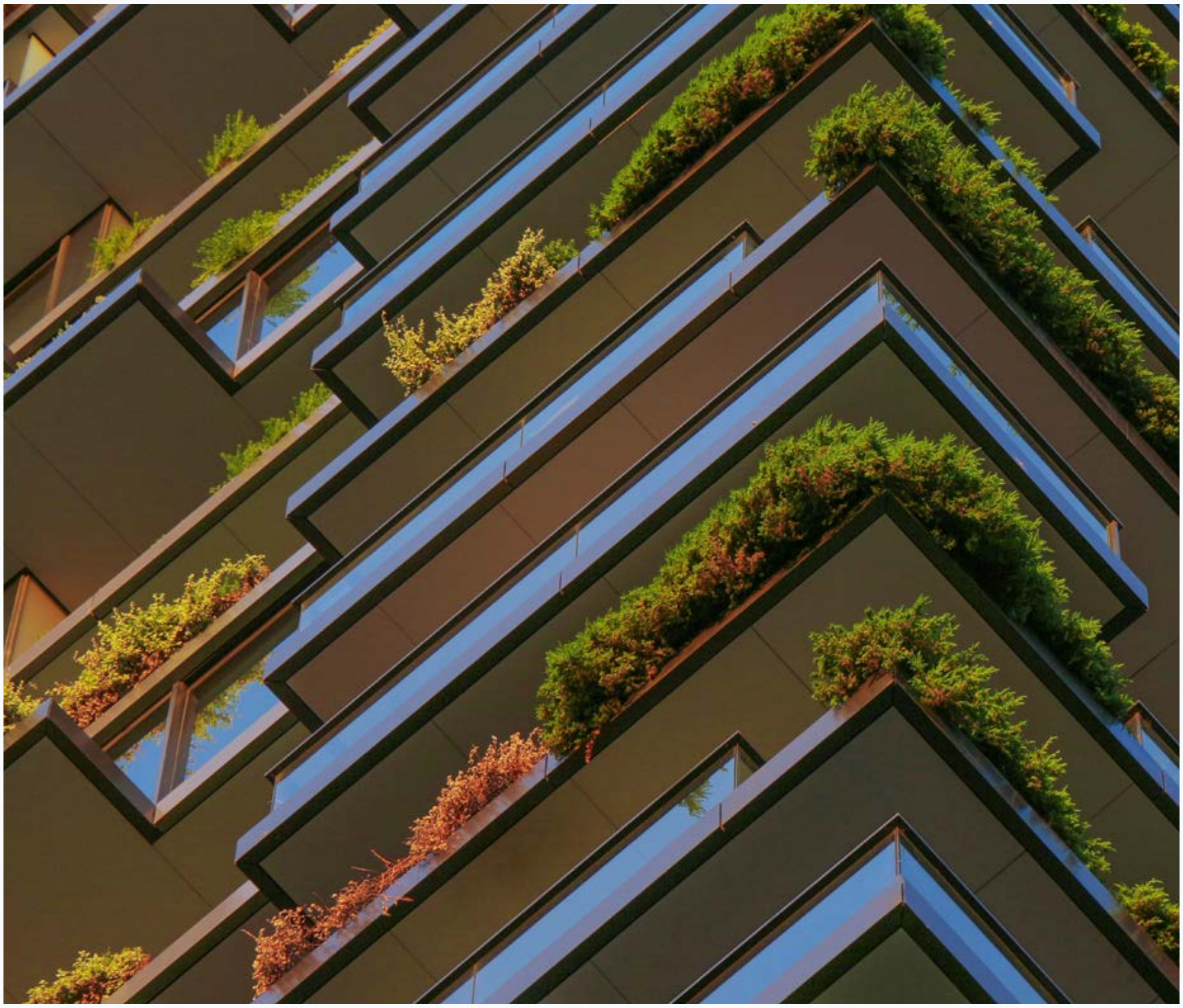
In 2022 we made progress with Li Ning on supply chain management, labour and human rights and environmental issues. This was a continuation from previous engagement in 2021 and followed an early 2022 review of its disclosures. Senior management confirmed the existence of, and compliance with, supply chain policies which include specific reference to upholding human rights and avoiding forced labour. In March 2022 there were public reports about Li Ning's exposure to forced labour risks. An April 2022 call with the CEO provided an opportunity to raise the issue of adherence to global standards upholding international labour standards in its sourcing practices and supply chains. We followed up with a range of detailed questions to the company. We sought clarity on locations of audits by province and region and specific steps the company has taken to implement its policies. The company reported to us in May 2022 that it did not use a supplier who had been named in other reports in relation to risks of forced labour. However, later in the year a third party assessor flagged Li Ning for use of this supplier. We followed up with a series of emails and a call with management. In the third quarter of 2022 a third party (Sustainalytics) changed its assessment of Li Ning from 'compliance' to 'watchlist' for not upholding the principles of the United Nations Global Compact due to an alleged relationship with a supplier reported in other sources. We once again followed up with the company in December 2022 (and early January 2023).

Engagement snapshot – December / January

Objective	We sought further transparency on supply chain due diligence and to learn more about Li Ning's approach to social and environmental issues.
Engagement	Li Ning has confirmed that it does not use three suppliers mentioned in international reports regarding the risks of forced labour. It also provided more details on its supply chain due diligence. Li Ning reaffirmed its commitment to zero forced labour and supplier sourcing practices.
Outcome	We have encouraged further transparency in this area to ensure more accurate evaluation of the company's practices and will continue to follow up with the company to learn more about its plans.

Next steps

We will continue to monitor the company's adherence to these commitments and encourage further disclosure and supply chain transparency.



Prioritisation of long-term value creation

Engagement

Voting

Collaboration

Outcomes

Moderna

Background

Moderna is developing an entirely new class of medicine (mRNA) to treat a wide range of diseases, with mRNA being a piece of genetic code that allows to program for any protein. Moderna has invested heavily in its technology platform, which will help solve drug stability, delivery and potency challenges, allowing for a repeatable research engine and the development of drug candidates in multiple therapeutic areas. In addition to already approved Covid-19 vaccines, we expect that in the next five years, Moderna will add several new vaccines and treatments for cancer and rare diseases. This will expand mRNA's potential to improve human health outcomes globally.

ESG focus areas

Vaccine access: The Covid-19 pandemic highlighted vaccine inequity, which can be explained in part by the differential in purchasing capacity between countries, but significant variations also exist between countries with similar incomes, reflecting other barriers to vaccination rates, which include lacking political commitment, efficient distribution strategies, and high vaccine hesitancy. Improving worldwide access to vaccines is materially relevant for pharmaceutical companies as it opens revenues and addresses reputational risks by actively protecting human rights globally.

2022 Delta (What's changed this year?)

In March 2022, Moderna announced its global public health strategy, launching work on the 15 pathogens presenting the greatest global health risk, its mRNA Access platform, and further commitments on patent enforcement. At the April AGM, shareholders were asked to vote on a resolution to commission a third party report analysing the feasibility of promptly transferring intellectual property and know-how to facilitate the production of Covid-19 vaccine doses by qualified manufacturers in LMICs. We opposed this resolution after a comprehensive series of engagements with the CEO, Chair, experts in the field and the shareholder proposal proponents. We did not come to this decision lightly and, as with every proposal we are asked to vote on, analysed this resolution carefully.

2022 Engagement snapshot – April

Objective	Thoroughly review the arguments for and against the Oxfam shareholder resolution. This resolution was supported by proxy advisors Glass Lewis and ISS.
Engagement	We met regularly with Moderna's management and Chair leading up to the AGM in order to thoroughly explore the nuances of the shareholder resolution. These meetings provided reassurance that Moderna's leadership had deeply explored the feasibility of safely licensing its technology and to whom, in consultation with stakeholders, such as the World Health Organisation. We also engaged with Oxfam on the rationale for its shareholder proposal and to ensure we fully understood the concerns raised. As part of understanding this area, we made it a priority to seek the views and insights of a diverse set of stakeholders, not only the company. Ultimately, we concluded that a third party report into this issue was not required. We trusted in management's view that further technology transfer to companies in LMICs is not the best use of its limited resources in the immediate future. By April 2022, the main bottlenecks to ending the pandemic were no longer in vaccine supply, but last-mile distribution and vaccine hesitancy. We also trusted in management's decision to take a cautious approach to enabling the safe proliferation of the mRNA platform in order to prioritise realising its enormous long-term potential.
Outcome	We opposed the resolution which did not pass, receiving 24 per cent support. Although we shared the goal of ending the pandemic as quickly as possible, we did not believe this resolution would help achieve that end, nor was it in the best financial interest of our clients.

Next steps

We continue to encourage Moderna's plans to ensure a global manufacturing base to service a global population. We will monitor its commitment to addressing global health inequities in the coming years. We are also speaking with multilaterals and organisations, such as UNICEF, to ensure we better understand the dynamics which lead to vaccine and health inequalities more broadly. This will help us to potentially invest in the solutions and to have more informed engagements with investee companies on this important topic.

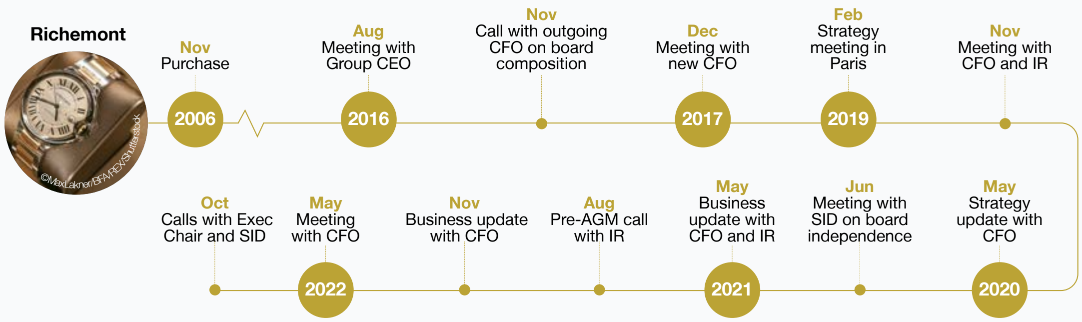
Long-term focused remuneration with stretching targets

Engagement

Voting

Outcomes

Richemont



Background

Compagnie Financière Richemont SA ('Richemont') is the holding company of 21 luxury goods companies, which specialise in producing jewellery, watches and premium accessories. Referred to individually as Maisons, they include some of the world's most prestigious brands such as Cartier, Piaget and Montblanc.

ESG focus areas

Ownership structure: Richemont is a controlled company with a dual-class share structure. Class A shares are listed and represent 90.9 per cent of share capital and 49 per cent of the voting rights. Class B shares are unlisted and represent 9.1 per cent of share capital and 51 per cent of voting rights. The Class B shares are ultimately held by Compagnie Financière Rupert, an entity controlled by Richemont's executive chair Johann Peter Rupert.

2022 Delta (What's changed this year?)

At Richemont's September AGM, activist investor, Bluebell, lodged three shareholder proposals aiming to increase the representation of minority shareholders – primarily through appointing a board director (Mr Trapani) to represent A-share shareholders. We opposed the proposals as the candidate – despite having relevant industry experience with competitor LVMH – had clear links to Bluebell and we did not feel he would represent the interests of all minority shareholders. The proposals failed, with only 9 per cent of A-share shareholders supporting Mr Trapani's election. Remuneration was a secondary issue on the AGM agenda that we considered carefully. We opposed remuneration at the 2022 AGM due to concerns that the stretch in the long-term plan had been reduced by introducing a cash component and paying a one-off bonus but not disclosing to whom or even how much. Remuneration was opposed by 25 per cent of shareholders (roughly 64 per cent of minority holders).

2022 Engagement snapshot – August

Objective	Assessment of management and board dynamics, as well as feeding back our views and advice on executive remuneration.
Engagement	Ahead of deciding on the shareholder proposals, we spoke to the company Chair, Mr Rupert, who released a statement and rare interview to challenge the Bluebell proposals. On balance, the call was helpful and provided us with useful insights into his role, the dynamic of the board and his views on the future governance of Richemont. Regarding remuneration proposals, we outlined our intention to oppose and our rationale ahead of the AGM but we only had the opportunity to speak to the Senior Independent Director (SID) to discuss our concerns after the meeting. The SID could not explain the rationale for remuneration changes, and we are concerned that the Remuneration Committee is not effectively scrutinising and challenging executive pay. It was also evident that the recent interaction between the SID and Mr Rupert had been limited which we found disappointing. Although we did not support the shareholder proposals, we advised that governance at Richemont needs to be better and encouraged the board to use this opportunity to proactively think about improvements.
Outcome	Our feedback was that improving governance is likely to benefit long-term value while also ensuring the company are prepared to challenge future shareholder proposals from activists. The latter is potentially more likely given the large vote against remuneration by minorities, and it will be important that Richemont responds to shareholder concerns.

Next steps

The insights gained through these conversations raise questions about the board's effectiveness at Richemont. Given how powerful Mr Rupert is, assessing and monitoring the resilience of corporate governance practices at Richemont is a key engagement priority. There are also signals that the remuneration of the executive management needs to be reviewed to ensure it appropriately attracts and retains executives. A second engagement priority is to engage on the actions being taken, including ensuring that disclosures are enhanced.

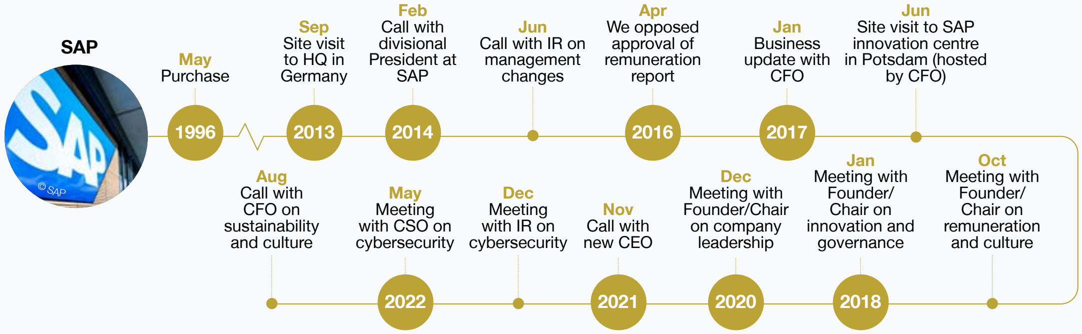
A constructive and purposeful board

Engagement

Integration

Process

SAP



Background

SAP's products enable businesses to manage their resources better. The company's sustainability-focused products – a core part of its growth strategy – have the potential to have a positive impact on climate change, while the remainder of its products continue to aid business and employee development.

ESG focus areas

Cybersecurity: Cloud-based platforms have become increasingly critical over the past decade, with the rise of remote work accelerating this trend. The shift to cloud-based servers increases cyber threat vulnerability for companies using cloud-based applications as each user represents a portal into the system.

Worker displacement: SAP's products and services threaten job replacement through automation. While SAP has policies and training in place to upskill workers, this is a material social externality for SAP to monitor.

2022 Delta (What's changed this year?)

We engaged with SAP Chief Security Officer (CSO), Tim McNight, and the SAP Chief Trust Officer, Elena Kvochko specifically about cybersecurity. Prior to the meeting, and as part of the engagement for evaluating cybersecurity risks, the team conducted research into 'best practice' via internal teach-ins with Baillie Gifford's own CSO and external communication with the National Cyber Security Centre (NCSC) in the UK and the Cybersecurity and Infrastructure Security Agency (CISA) in the US, via email exchange and reviewing published resources. Findings from this research have highlighted the following as key areas to analyse in companies with high cybersecurity risks:

1. Who is responsible for the oversight of cybersecurity and do they report directly to the board?

2. How does the company ensure a healthy cybersecurity culture?

3. Does it work with suppliers and peers to share sector-specific intelligence on cybersecurity?

4. Does the company regularly monitor data to spot patterns/anomalies that may indicate malicious activity?

5. Can the board and management team clearly and succinctly articulate the management of cybersecurity risks as per the above questions, and the process for managing this within the company?

Engagement snapshot – June

Objective	To assess cybersecurity risks at SAP. For this engagement, we prioritised questions focused on governance, including how frequently the board reviews internal and external cybersecurity audits, what sort of questions does the board ask about those audits, who does the CSO report to, and how many times has a product release been stalled or a vendor declined because of cybersecurity concerns.
Discussion	We learnt that Tim McNight and his centralised security team are responsible for the oversight of cybersecurity. They report to the board every two weeks on security issues, meet on a monthly basis, report quarterly to the Audit Committee and report annually to the Technology Committee. Tim reports directly to the CEO (best-practice). Below Tim, every business division has a Business ISO, responsible for risks in the business but operating within SAP's standard cybersecurity planning and processes.
Outcome	The answers and insights provided by the SAP CSO and Chief Trust Officer offered reassurance that SAP appears to have a thorough cybersecurity process and policy in place, competent cybersecurity leadership and strong cybersecurity governance. They cover all the best-practice areas outlined by NCSC and CISA, most impressively the board of directors and management oversee cybersecurity issues and auditing. Their rhetoric was demonstrative of a culture of continual improvement and learning. And they have examples where cybersecurity has been prioritised over short-term business 'wins' (customer acquisition or product roll-out).

Next steps

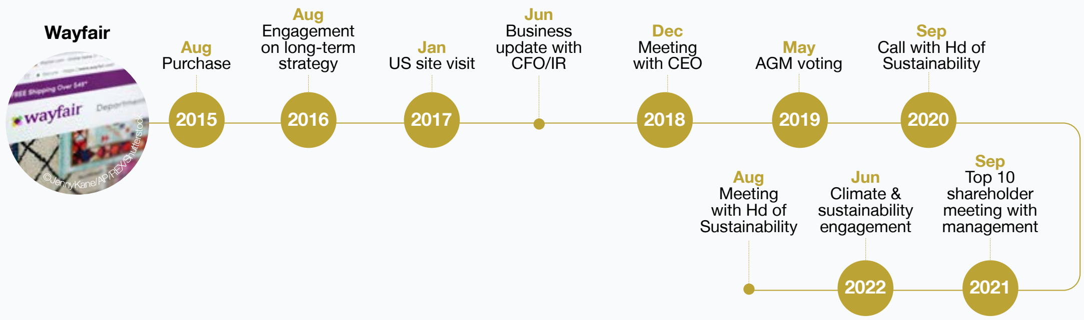
On our call, the answers and insights provided by SAP offered us reassurance that the company's cybersecurity efforts are best-in-class. There were multiple lessons learned from this engagement which can be applied to companies held more widely across the firm with cybersecurity risks. Furthermore, we have recorded a cybersecurity question set for future engagements on this subject.

Sustainable business practices

Integration

Milestones

Wayfair



Background

Wayfair aggregates over 23,000 suppliers of home furnishings, predominantly in Asia, and connects with consumers mostly in North America and Europe. As well as an advanced ecommerce platform, it provides a series of 'supplier services' covering transportation, warehousing, marketing and product presentation. Suppliers can opt-in to these services on a menu basis, yielding a margin to Wayfair in exchange.

ESG focus areas

Supply Chain Management: Wayfair connects Asian suppliers to consumers in North America and Europe. This brings tremendous potential to positively influence supply chain standards – from responsible sourcing, to working conditions and low-carbon shipping – but there are also significant product quality and reputational risks. The company has had to instigate product recalls, and poor reviews are easy to find on third party sites.

Climate: As a promoter of products that involve significant shipping (to store and consume), are resource-intensive (wood and plastic) and demand effective waste management, Wayfair should be demonstrating clear awareness and action. Furthermore, Wayfair can influence its logistics providers positively.

Circular Economy: Extending product life and recycling materials will be an integral part of reducing climate and environmental impacts. Wayfair can develop the logistics expertise to lead the market, but the commercial realities are harder to navigate without effective regulation.

2022 Delta (What's changed this year?)

In the summer of 2020, we encouraged Wayfair to improve its disclosure on emissions. While the company didn't achieve this in 2021, this detail was included in the first annual CSR report released in June 2022. The company has now identified areas of its ESG focus (communities, employees, planet, human rights and supply chain) and provided some associated data. On climate specifically, we now have Scope 1-3 GHGs, energy and a target to reduce Scope 1 and 2 emissions by 63 per cent (absolute) from a 2020 base by 2035. This looks very slightly shy of a 1.5°C science-based targets pathway, but the company notes a science-based approach and promises to come back with more on Scope 3. Given that the value chain emissions are over 100x greater than the direct, and that's really the company's point of material influence, this is the area we need to keep talking about. On wider environmental issues (wood, plastics, packaging), there are positive words and discussions of supplier education, but no specific targets.

Engagement snapshot – September

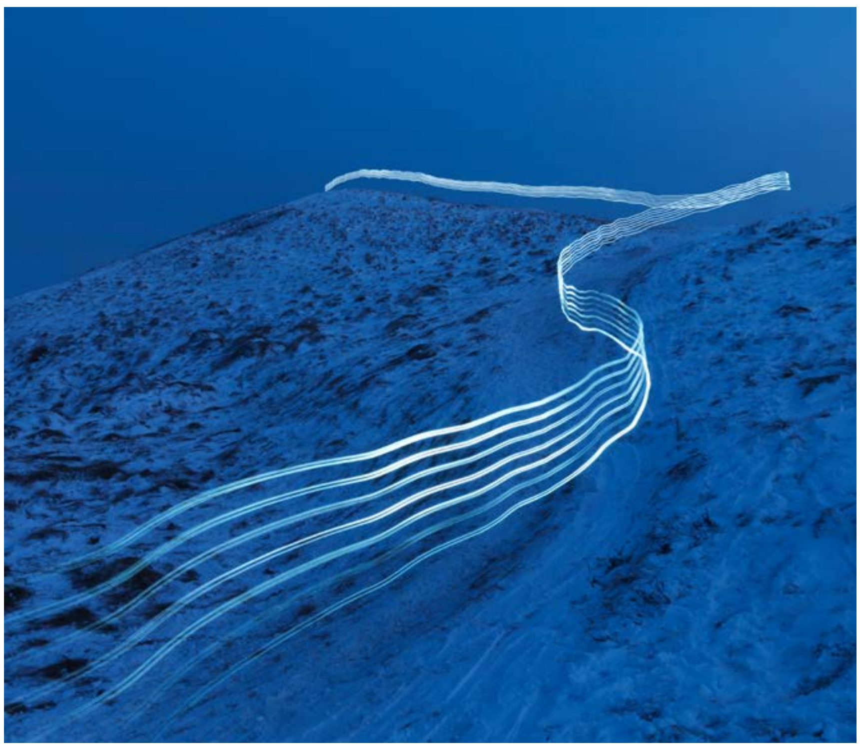
Objective	We met with Derek Oliver, the Head of Corporate Sustainability at Wayfair, as part of our ongoing engagement on the company's environmental impacts and ambitions.
Engagement	We identified Wayfair as a climate and environment engagement priority in 2020. As a platform that aggregates the (primarily) furniture products of over 23,000 suppliers, many from Asia, and matches them with millions of customers, mainly in the US and Europe, it has huge potential for positive influence. Its levers run across raw materials and durability, through logistics, to customer choice and, ultimately, re-use or disposal. Management recognises the potential, is working on supplier education and is on the verge of relaunching its Shop Sustainably platform for consumers. However, it sees a landscape that is still very fragmented and lacking sufficient regulatory frameworks.
Outcome	This was a useful follow-up to our meeting with the CEO in June 2022. It was a working exchange of ideas covering emissions reporting, the evolution of low emissions freight, supplier engagement and customer influence. We've been speaking to Wayfair on emissions disclosure since 2020. There has been real progress on reporting and consciousness since then, but the company could do more on clear messaging to suppliers and customers.

Next steps

Sustainability efforts are focused on the Shop Sustainably relaunch, so this should mark a natural point for us to re-engage with Wayfair in the second quarter of 2023. It would be helpful to get more clarity on the company's work with logistics – there's likely to be a real 'squeeze for green' in freight, so if Wayfair doesn't have the relationships or ambition, it may fall behind.

Principle 8 – Monitoring Managers and Service Providers

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



Monitoring activities

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

Our vendor due diligence questionnaire covers a comprehensive list of areas including, but not limited to, information security, business continuity, financial health and conflicts of interest. Should we be unsatisfied with the due diligence results or the provider's performance, we would rectify any lacking areas through ongoing service reviews, site visits and an escalation process. If we felt the issue was material and undermined our ability to rely on the service provider, we would terminate our contract with them. We have not taken any such action during 2022.

The providers we use to support our stewardship activities deliver on our requirements. However, we still have challenges with ESG data, both in terms of coverage and quality. The provision of accurate ESG data across a wide range of asset classes is still in its infancy, with varying levels of good quality data across different data sets. Discrepancies also exist between different asset classes and geographies. While the ESG data landscape is evolving, these metrics are still needed to meet reporting requirements. We keep track of developments in this area and note proposed regulatory intervention in this space such as the proposed Code of Conduct for ESG data and ratings providers from the Financial Conduct Authority.

Assessment activities

At this point, we predominantly use MSCI as a source of raw ESG data for reporting purposes. This is due to the wide range of metrics available across different regulatory reports and MSCI's transparent methodology. We implement a data quality checking process that allows us to investigate any discrepancies and raise these with MSCI where necessary. We supplement data from MSCI with data from other providers such as Sustainalytics, S&P Trucost and Bloomberg where necessary, including as part of our investment research process.

We recognise the need to develop a wider pool of data sources to allow for more robust reporting. To this end, we maintain relationships with various third party data providers to allow us to monitor enhancements to the ESG reporting metrics we require. In 2022, we participated in two ESG data roundtable events with two separate data providers (Rimes and Bloomberg) to help them better understand the needs of the asset management industry in relation to ESG data and the challenges that are currently faced. Internally, we continue to invest in continuous improvements to our systems to allow us to stand ready to take advantage of additional data sets when they become available and we have allocated development resources to this area for 2023.

Principle 9 – Engagement

Engaging with and monitoring investments we make on behalf of clients is an integral element of our investment process and core to how we discharge our stewardship responsibilities. Portfolio managers working with the ESG analysts will select and prioritise engagement issues. It can be challenging when a holding is in multiple portfolios. To manage this, we have our 'prime contact' system for our largest holdings. The contact is an individual who has primary responsibility for relationships with the companies we invest in, where there are multiple internal holders. From a proxy voting and engagement perspective, they exist to help direct and coordinate queries relating to AGM voting and other stewardship activities. Where there is not a prime contact, we coordinate among the teams that own the stock ensuring all parties are consulted. Our 150 largest holdings (approx. 75 per cent AUM) also have a prime ESG contact. This helps to better facilitate knowledge sharing across investment strategies, and to deepen our stock-specific understanding through more consistent engagement with company management and boards.

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

Fact-finding

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

Assessing

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

Influencing

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

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

Priorities

We engage with companies for many reasons and the topics we prioritise will vary by individual issuer and investment strategy. Our proprietary investment research will inform this, supported and often facilitated by the prime contact. Often, the larger a position we hold in an entity and the longer our holding history, the greater our ability to engage with a realistic ability to influence. However, we engage with issuers on key issues across a range of market capitalisations, geographies and holding sizes. When we look at engagements in isolation, we can broadly categorise them as proactive, reactive and ongoing activities. However, we view this interplay as more nuanced, particularly as our relationships lengthen in duration, deepen our understanding and build trust. This helps us to maintain ongoing dialogue concerning governance and sustainability matters, such as improving disclosure and addressing material issues. Often our reactive engagements are prompted by negative events or situations. Our case study section highlights a number of engagements, both proactive and reactive.

Proactive

- Where our investment strategies have made net zero emissions commitments or committed to decarbonisation plans, we monitor progress and check in with companies for updates. Our case studies on Albemarle and Genus reflect the environmental-focused engagement catalysed by Baillie Gifford's internal climate audit, in which we have evaluated our investments firmwide to help prioritise our climate-focused engagement activity.
- Where research has highlighted areas of company-specific material risk, such as the case study on SAP, we have conducted extensive research. In this case, we reached out to the NCSC in the UK and the CISA in the US to help us better understand and evaluate cybersecurity risks.

Reactive

- Our case study on Avanza reflects the engagement activity we undertook as a reaction to a Letter of Intent with Safello (a Swedish cryptocurrency broker) regarding a potential partnership in relation to cryptocurrency assets.
- Our case study on Moderna reflects the extensive stakeholder engagement we conducted in response to a shareholder proposal from Oxfam. This proposal has prompted us to speak more widely with multilaterals and organisations, like UNICEF, to ensure we better understand the dynamics which lead to vaccine and health inequalities more broadly. This reflects our approach to engagement – where reactive engagements can prompt us to conduct further research and ultimately lead to future proactive engagement.
- Any incident that might challenge the UN Global Compact principles would prompt discussion, such as the supply chain and international labour rights issues flagged in the Li Ning case study.

Ongoing

- Portfolio managers speak to companies daily.
- AGMs also prompt many engagement discussions in areas including, but not limited to, remuneration, board composition and capital issuance. Our case study on Richemont reflects both a reactive engagement related to a shareholder activist investor, but also a more routine engagement in which we evaluated the company's proposed remuneration plan. Further examples of such engagements are included under Principle 12.
- While routine interactions may be perceived as 'lower value', they are critical and a core component of our ownership activities. These conversations present valuable opportunities to engage with companies and exercise beneficial influence. A small example of this – following our engagement with SAP on cybersecurity risks in August, we separately took part in the company's Corporate Governance roadshow in September. One of our suggestions to benefit future engagements was for SAP to establish a direct line of communication between investors and the Lead Independent Director, which the company subsequently implemented in November.

Developing objectives for engagement

As patient, active owners, we aim to engage with the companies we invest in on behalf of our clients, encouraging a long-term focus and meaningful change when needed. We prefer engagement but will divest as a tool of last resort. As discussed above, we have three primary reasons for engaging with a company: to fact-find, to assess progress and influence. It is important to note that influence is only one of these three aims. We firmly believe that taking the time to understand companies and making our long-term expectations known to management is an important foundation for our work as responsible investors.

We expect our dialogue with companies to be constructive. All conversations with a company should have a purpose. In keeping with our long-term investment horizon, we see clear value in engaging on issues of systemic relevance, such as climate change and diversity, where there may not always be immediate investment relevance or tangible outcomes. But in all cases, we look for the focus of the dialogue to cover internally agreed and prioritised matters of interest. It should be connected to the investment case and have a focus on matters of strategic importance or have material environmental or social relevance we consider to be linked to the long-term investment case. If, after a protracted period, we have been unable to exert any influence over a company on a material issue, our investment managers may consider reducing or selling our holdings. Our case studies illustrate the value of our sustained engagement with companies over significant time periods. We see this approach as fundamental to the delivery of ultimately meaningful engagement outcomes. Our case study on Wayfair reflects an example of sustained engagement, in which we have encouraged the company to increase its standards of disclosure over a number of years.

Engagement methods

Throughout 2022 we have been pleased to see a resumption of face-to-face meetings and site visits to company headquarters and operating facilities worldwide. We value the opportunities to witness company operations directly and the cultural insights from interactions with management and employees. We continue to engage with companies through virtual channels, as well as through written communication and collaboration (more detail under Principle 10).

We also engage via email or letter. This has typically been limited to when we are taking part in remuneration consultations or communicating our voting rationale to a company following the annual general meeting and will often result in a call or face-to-face meeting to discuss the issues raised in more depth.

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

Reasons for our chosen approach

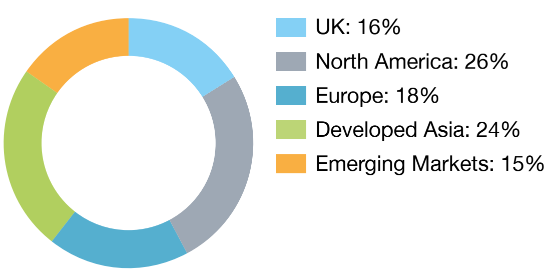
The importance of our patient approach to engagement cannot be overstated. It is integral to building relationships with companies, understanding the less tangible aspects of an entity, such as corporate culture, facilitating a two-way dialogue, and to influencing change. We believe that ongoing dialogue between investors and companies on strategic issues can protect and enhance our clients' long-term returns, which aligns with our investment beliefs, company culture, and client needs as outlined under Principles 1 and 6. Our position as a meaningful, patient investor for many of the companies in which we invest means we are well-positioned to influence management on issues that matter. However, we are equally mindful of not attempting to micromanage our holdings in areas where we have no special expertise or insight, or distracting management teams from their core role of running the business for the long term.

Differences across funds and geographies

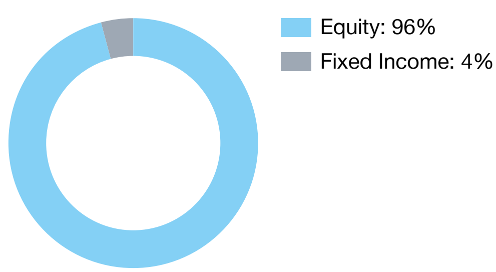
Engagement is fundamental to every fund at Baillie Gifford. Our engagements are typically investment-led and coordinated. Our Shanghai office has been particularly useful in coordinating many of our meetings with Chinese companies providing the language, essential cultural framing and local knowledge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

In 2022, our ESG and investment teams engaged on ESG matters with 495 companies across our portfolios, engaging on 666 separate occasions. Not all engagements are equal, and these engagement numbers include fact-finding, assessing and influencing type engagements, and range in scale from emails to companies to request improvements to disclosure to meetings with board members to influence change. We understand that the volume of engagements means little, so we don't set a target on them. The analysts conduct engagements both in conjunction with and independently of our investment managers. The chart below shows ESG engagements broken down by asset class and region:

Engagement by region:



Engagement by asset class:



As at 31 December 2022. Figures may not sum due to rounding.

In addition to the engagements captured here, investment managers regularly meet with company management teams. Investment teams set their engagement priorities as appropriate to the strategy. Teams will prioritise engagement at a company and strategy level. As mentioned, where there are multiple holders, we consult and collaborate to agree on engagement priorities across strategies.

Engagement outcomes

Engagement with companies, industry bodies and standard setters is a component of investment stewardship. Still, the need to assess the effectiveness of this engagement activity is both necessary and sensible. This is generally accepted; however, there is a challenge to overcome in the measurement of outcomes. Care must be taken to establish clearly defined objectives for each engagement and when selecting suitable measurement metrics and setting appropriate time horizons. There are few commonly accepted metrics to assess engagement outcomes, but as the investment industry matures in its engagement practices, this will improve. Similarly, we anticipate that the comparability and reporting of material engagement outcomes will advance.

Our Stewardship in Action section provides a sample of company-specific engagements within our existing relationships with issuers. Depending on the objectives of each specific meeting, we typically see a range of outcomes. These can broadly be split into tangible and intangible outcomes. Tangible outcomes can be viewed as more measurable and can include shareholder voting and the passing or failing of resolutions; increased sustainability disclosure and target-setting; reduction in GHG emissions; and other outcomes related to specific objectives. These kinds of outcomes are easier to measure over shorter periods. Examples of tangible outcomes from our Stewardship in Action section include our April 2022 engagement with Moderna, where we opposed a shareholder resolution concerning vaccine access, which did not pass; and our June 2022 engagement with Chinese sports-apparel brand Li Ning, where we confirmed that the company does not use the services of three suppliers mentioned in international reports concerning forced labour.

Intangible outcomes encompass a wide spectrum, from behavioural changes to cultural and strategic transformation. These outcomes are also typical of longer periods of sustained engagement, in which the attribution of our own engagement activity is difficult to isolate from specific company operational developments and broader changes in the investment environment. Nevertheless, we see intangible outcomes as no less meaningful than tangible outcomes. Examples of intangible outcomes from our Stewardship in Action section include our May 2022 engagement with speciality-chemical manufacturer Albemarle in the context of our long-standing efforts to help the company take a sustainability leadership role within its industry. We believe that our sustained focus here has contributed to the great strides this company has made in recent years in this regard.

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

		Number of times discussed
Environment	Climate change	236
	Natural resource use/impact (eg water, biodiversity)	37
	Pollution, Waste	10
Social	Conduct, culture and ethics (eg tax, anti-bribery, lobbying)	30
	Human and labour rights (eg supply chain rights, community relations)	45
	Human capital management (eg inclusion and diversity, employee terms, safety)	31
	Inequality	8
	Public health	14
Governance	Board effectiveness – Diversity	25
	Board effectiveness – Independence or Oversight	90
	Board effectiveness – Other	56
	Leadership – Chair/CEO	30
	Remuneration	212
	Shareholder rights	46
Strategy, Financial and Reporting	Capital allocation	56
	Financial reporting	10
	Audit	30
	Sustainability reporting	156
	Financial performance	4
	Strategy/purpose	120
	Risk management (eg operational risks, cyber/information security, product risks)	9

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

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

Principle 10 – Collaboration

Our approach to collaboration

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

Our collaboration activity in 2022

We are a member of the International Corporate Governance Network, the Investor Forum, the Asian Corporate Governance Association and a signatory to the Principles for Responsible Investment (PRI). We engage with other investor groups on a case-by-case basis where this could benefit our clients. A full list of our partnerships can be found in Principle 4. Below we highlight a selection of collaborative activities undertaken in 2022.

Emerging Market Investors Alliance (EMIA)

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

Case study: Chile

In 2022 we collaborated with the EMIA through a Debt & Fiscal Governance working group (DFG). The group is formed of investors alongside an EMIA representative with the aim of engaging sovereigns on improving their budget transparency and public procurement standards. As part of the DFG working group we sought improvement in Chile's budget transparency. In June 2021, the group initially engaged with the International Budget Partnership (IBP) to identify key areas where Chile could improve on budget transparency. The investor group then contacted the Ministry of Finance to request publishing a pre-budget statement as well as a budget audit report. These are two of the key documents outlined by the IBP as signposts for fiscal transparency.

Outcome

As a result of this engagement, Chile published the pre-budget statement for the first time in April 2022. This led to their IBP Open Budget score being upgraded. The IBP Open Budget score – while implicitly used – is expected to be explicitly used in Moody's sovereign rating calculation. The result of the score upgrade could potentially reduce the cost of financing for Chile.

Climate Action 100+

Climate Action 100+ (CA100+) is an investor-led initiative with 700 members, with $68tn in assets. We became a member in April 2022. The main purpose of CA100+ is to facilitate informed engagement between shareholders and the world's largest listed greenhouse gas emitters. Baillie Gifford is currently leading the engagement with CRH and supporting engagement with Petrobras.

We are also co-chair of a workstream (Global Sector Strategies (GSS)) focusing on those sectors most closely connected to the broader risks and opportunities associated with the energy transition. These currently include: Electric Utilities, Aviation, Road Logistics, Food & Beverage and Steel. Given our bias towards growth companies, we hold a comparatively small number of CA100+ companies but hold many who are the suppliers or customers of these companies. Understanding the political, policy and economic operating environments of these companies provides sector insight and context to our investment research.

Next steps

The CA100+ work is an important component of climate engagement and the assessment of corporate alignment with relevant policy and the commitments set out in the Paris Agreement. In 2022 we turned informal contact with the organisation into formal support and aim for this to continue into 2023. Our aims include:

1. To solidify our role in company engagement groups – potentially taking on more leadership roles.
2. To continue supporting the GSS, to build sector and geography-specific, knowledge, understanding and insight, and to promote work on ecommerce.
3. To continue to participate in CA100+ sector framework development to ensure investment relevance.

Collaboration

Case study: CRH

This case study illustrates the material relevance of proactive engagement and integrating a view on the current and future cost of carbon for this company's ongoing growth and profitability.

CRH is a diversified buildings company with operations that span 29 countries, on four continents. It is the largest building materials business in Europe.

Four considerations:

1. Cement is estimated to be the world's second most consumed product and also accounts for ~8 per cent (estimated) of all global GHG emissions.
2. Carbon tax rates are rising in Europe.
3. CRH is facing material decarbonisation challenges, with 16 per cent of its 2021 revenues coming from cement (accounting for circa 70 per cent of its total emissions). It is one of the highest emitting businesses in the world.
4. It is held across a number of different Baillie Gifford portfolios.

As a high carbon emitting company, with operations in an uncertain but increasing carbon tax environment, a proactive response from the company will allow it to position itself for continued growth and reduce the risk of a negative impact on future profitability. Research and investment into lower-carbon techniques has upfront cost implications but if the company can focus its R&D and emerge with a product that is cheaper and more energy efficient to produce than those of its peers, the rewards - higher customer demand and a manufacturing cost advantage over peers - should justify the investment.

The purpose of the collaborative engagement was to support and promote the company's strategic commitments in this area.

In 2022 CRH enhanced its climate targets, improved its disclosure (producing a new climate lobbying report) and clarified a clear commitment to wanting to be part of the solution, which is crucial to supporting our investment case.

We met with the Chief Operating Officer in April 2022 (following discussions with the Chair and CEO in 2021). We explained that we felt previous targets were limited in scope and were pleased to see more ambitious carbon targets. Executive remuneration has also been amended with decarbonisation now representing 5 per cent of the long-term incentive plan. The company has also announced an innovation fund to encourage those within the business to think about the solutions needed to decarbonise at scale.

Outcome

As mentioned above, we joined the Climate Action 100+ collaborative engagement group for CRH to support our dialogue with the company. Encouraging the company to find a solution to decarbonise at scale is vital to ensure a competitive advantage and the sustainability of revenues. This will continue to be the key focus of our engagement.

Asian Corporate Governance Association (ACGA)

The ACGA is an independent, non-profit membership organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia. ACGA was founded in 1999 from a belief that corporate governance is fundamental to the long-term development of Asian economies and capital markets. Baillie Gifford joined in 2005 and is an active member of the Japan and China Working Groups. In September 2022 we participated in a collaborative engagement with Japanese regulators and the Tokyo Stock Exchange organised by the Japan Working Group. We also participated in a group call with Alibaba in November organised by the China Working Group. While this kind of collaborative activity may not always lead directly to tangible and investment-relevant outcomes, we value our participation with the ACGA, both as a source of regional-specific knowledge, as well as a valuable network for our analysts and investors to connect with to better understand current corporate governance issues in Asia.

Taskforce on Nature-Related Financial Disclosures (TNFD)

Baillie Gifford joined the Stakeholder Forum of the Taskforce on Nature-related Financial Disclosures (TNFD) at the end of 2021. During 2022, we sought to improve our understanding of biodiversity-related risks and our ability to factor biodiversity-related considerations into our investment analysis. As part of this, we reviewed the successive iterations of the TNFD beta frameworks and explored how these might apply to our bottom-up, active investment approach. We also reviewed existing and emergent datasets and data providers and approaches recommended by organisations like the Partnership for Biodiversity Accounting Financials and the analysis conducted by the Dutch and French central banks (Indebted to Nature and A "Silent Spring" for the Financial System?, respectively). We used these to expand on the work our impact strategy, Positive Change, had already done. This allowed us to develop an initial approach, including a beta screening tool and research framework, that could be used to identify holdings potentially exposed to greater risk due to their possible impact on biodiversity. This also helped identify areas for further research and engagement. Given the interrelationship between biodiversity loss and climate change, we are integrating the screening tool into our firmwide Climate Audit tool.

As part of our exploration of biodiversity and its application to our investment approach, we also participated in the UNEP-FI-led pilot of the TNFD LEAP (Locate, Evaluate, Assess, Prepare) framework for financial institutions (focusing on offshore windfarms).[3]

[3] The focus areas were UNEP-FI defined. While this is not a high exposure area for us it nonetheless provided valuable opportunities to learn from others while also contributing to the further development of the TNFD.

Principle 11 – Escalation

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

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

A typical pathway for escalation may be:

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

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

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

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

Given the sensitivity surrounding our escalation activities with companies, much of this occurs in private correspondence, and the public disclosure tends to take place at the more advanced stages of escalation.

Escalation

Outcomes

Different geographies

Case study: Brilliance China Automotive

Background

Brilliance is a Chinese automotive company which manufactures and sells BMW vehicles and auto components. It has strategic partnerships and alliances with BMW, Toyota, and other global auto manufacturers. We have held Brilliance in our Emerging Markets investment strategy since April 2015.

Escalation activity

Our escalation activities date from the suspension of trading in Brilliance China shares as at 31 March 2021, in response to various auditing and legal issues. Following several attempts to engage with the company and management informally, we wrote to the board of directors in July 2021 to emphasise the board's responsibility to maintain an ongoing dialogue with shareholders. In particular, we wanted clarification on when the internal investigation would be completed and an indicative timeline detailing the steps required to fulfil the Hong Kong Stock Exchange's resumption guidelines. We believed this information was crucial for shareholders to assess whether Brilliance's shares would resume trading. On 8 August 2022 we escalated our engagement further by sending separate letters to the boards of Brilliance and the Hong Kong Stock Exchange, reiterating our frustration with the company's communication with the market while its shares were suspended. We outlined our belief that the information disclosed was not sufficiently timely or complete for shareholders and investors to appraise the company's position. Accordingly, we requested a thorough public response outlining Brilliance's absolute commitment to work in the best interests of all shareholders and achieve the resumption of trading, as well as a detailed update to the market on its progress towards fulfilling the resumption guidance set out by the stock exchange.

Progress

In September 2022, Brilliance responded to our letter with substantial improvements in disclosure which assisted investors' knowledge and the market's understanding of the company's position. The Hong Kong Stock Exchange also outlined several actions ('resumption guidance') it required the company to complete for its shares to resume trading. Measures included:

1. An independent investigation into the audit issues.

2. Publishing financial results.

3. Conducting a forensic investigation.

On 3 October 2022, the company fulfilled the resumption guidance, and its shares resumed trading.

In November 2022, we spoke to investor relations ahead of the annual general meetings. Brilliance underwent significant restructuring, passed the many stringent requirements of the Hong Kong Stock Exchange to relist (including a comprehensive forensic audit), and in getting relisted, arguably showed a resolve to work in the interests of its shareholders.

Engagement

Outcomes

Case study: Booking Holdings

Background

Booking Holdings is a US-listed company that provides travel and restaurant online reservations and related services worldwide. The company operates a variety of online platforms facilitating bookings between customers and businesses. These include Booking.com; Rentalcars.com; Priceline, Agoda; KAYAK; and OpenTable.

Escalation activity

We engaged with the company on a pre-AGM call to discuss management and shareholder resolutions. The focus of our engagement was the executive compensation resolution, specifically the compensation committee's use of discretion in the past year. In response to the impacts of Covid on the business, the committee adjusted the performance targets attached to the annual bonus and long-term incentive plans. These decisions meant that management received bonus payouts under both plans when ordinarily awards would not have vested. The committee also made generous one-off retention awards. We outlined our concerns that the adjustments to executive pay and the special payments do not align with shareholders' experience or provide appropriate incentives for management, and we challenged the overlap of short- and long-term metrics, the use of negative targets, and whether sufficient consideration had been given to exercising downward discretion on compensation when performance was better than expected.

Progress

We opposed the compensation in 2022 as there was a lack of balance in the committee's discretion, and we communicated our decision to the company. The resolution failed, with 69 per cent of votes cast against it. We will re-engage with the company to learn how it intends to respond to the vote outcome and shareholders' concerns.

Principle 12 – Exercising Rights and Responsibilities

For listed equities, thoughtful voting of our clients' equity holdings is a critical part of our commitment to stewardship and is closely interwoven with our broader investment and engagement aims. We believe that voting should be investment-led, because how we vote is an important part of the long-term investment process and can, at times, have a decisive impact on the company's share price.

Our strong preference is to take on this direct responsibility for our clients. The ability to vote for our clients' shares strengthens our position when engaging with investee companies; we are much more effective in engaging for change if we have the voting power to back up our conversations. Our in-house ESG Services Team oversees our voting analysis and execution in conjunction with our investment managers. Any proposed voting action (unless routine in nature) is discussed between the embedded ESG analysts and investment managers with the investment manager having ultimate responsibility for what voting action should be taken ensuring that any such decision is aligned with the investment case. We do not outsource the responsibility for voting to third party suppliers. While we utilise research from proxy advisers, this is for information only, and we do not track how we vote in comparison to their recommendations or use their default recommendations.

Our Stewardship Approach details our proxy voting policy and is reviewed annually. It applies globally across all our holdings, considering varying geographic practices where appropriate. Unless directed otherwise (see below), we will exercise voting rights in line with our policy on behalf of our clients. Over 75 per cent of our assets under management follows our house voting policies, and some of our largest clients have handed us back voting rights in recent years. We view this action as an indication that we are carrying out these responsibilities well.

We analyse all meetings in-house and endeavour to vote every one of our clients' holdings in every market. On occasion, this may not be possible due to a practice known as share blocking, whereby voting these shares would prevent us from trading for a certain period.

We vote almost all our clients' shares by proxy. However, in exceptional circumstances, we retain the right to attend company general meetings where there is a contentious issue and where attendance in person rather than voting by proxy is in our clients' best interests. We were not required to attend any AGM in person in 2022.

In keeping with our decentralised and autonomous culture, our investment teams will, on occasion, elect to vote separately on the same general meeting resolution. Where this happens, this is reported in the proxy voting disclosure on our website.

Ability of clients to override house policy

Segregated clients

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

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

Pooled vehicles

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

We recognise increasing calls among some pooled clients to provide asset managers with an 'expression of wish' regarding voting undertaken on the assets within the funds in which they invest. We do not currently facilitate 'expressions of wish' for pooled clients as we feel that voting these assets is part of our overall responsibility as the manager of our funds.

Over the past 12 months, we have however continued to explore the feasibility of facilitating these requests, should this be something we wish to pursue, through engagement with providers of third party systems, including Minerva Analytics and Tumelo. We also responded to a consultation from the Minister for Pensions on this topic in early 2022. On a periodic basis, Tumelo provides us with expression of wish reports from users of their platform that we can review as part of our voting process. The views expressed are limited in number and detail at present and therefore are not regularly incorporated into our voting process, however we remain engaged with Tumelo as this develops. We continue to welcome the opportunity to discuss any specific requests from pooled clients on a case-by-case basis to inform our position on this matter going forward and explore opportunities to support direct voting in pooled accounts. This includes exploring technology solutions to enable this. We will continue to keep all our clients informed on our investment philosophies, our principles and information on the companies in which we invest.

We have a strong focus on clear communication on our voting policies and investment philosophy to all clients so they can assess our voting record. We also welcome the opportunity to discuss any specific requests on a case-by-case basis.

Stock lending

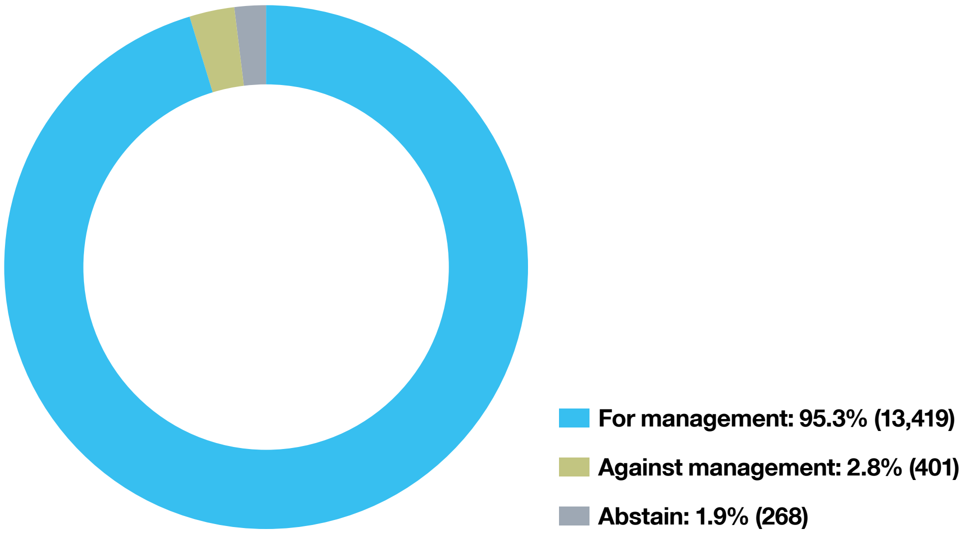
Baillie Gifford does not engage directly in stock lending. As stated, we believe that voting is a core element of effective stewardship. When shares are on loan, we lose our voting rights. We believe that stock lending comes into conflict with the principle of stewardship through complicating, and even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

Proportion of shares voted in past year

The following chart summarises Baillie Gifford's proxy voting activity in 2022. As we have said, we endeavour to vote all our clients' shares, but there will be occasions when we cannot. Reasons for not voting our clients' shares include market restrictions (share blocking) that prevent us from trading during the period between the votes being cast and the date of the meeting, selling out of the stock in advance of the shareholder meeting and adherence to our Conflicts of Interest policy. In 2022 we also did not vote at shareholder meetings of our remaining Russian holdings in order to avoid any potential breach of international sanctions connected with the conflict between Russia and Ukraine.

In 2022, we voted at 1,465 company meetings out of a possible 1,503 company meetings. This represents 97 per cent of the total meetings we were eligible to vote at.

Baillie Gifford proxy voting activity 2022



It is no surprise that as long-term owners seeking to invest in a relatively small number of exceptional companies, we generally support management. When opposing a management recommendation, we ensure we have received all the relevant information. Whenever there is any question of opposing a management resolution, the investment manager will always be involved in the discussions and decisions. Following a voting decision, we will inform the company of that decision, along with our rationale. This can often lead to productive conversations with companies on governance and sustainability matters. We are also regularly consulted by companies on our thoughts, particularly on remuneration and sustainability strategy, where we seek to provide constructive and thoughtful feedback. Our dedicated in-house approach to proxy voting and bespoke governance software allows us to continue to assess each company's AGM ballot on an individual basis rather than relying on a rigid policy or third party advice.

All our proxy voting activity is disclosed quarterly on our website. In addition, in response to Shareholders' Rights Directive II, we have created our own Significant Vote framework. We recognise that some votes can be more significant than others and that not every vote against management is necessarily significant. A vote might be deemed significant because of market opinion, media scrutiny or an internal view. While the list below is not exhaustive, we would consider the following scenarios to be potentially significant:

- Baillie Gifford's holding had a material impact on the outcome of the meeting.
- Management resolutions that receive 20 per cent or more opposition and Baillie Gifford opposed.
- Egregious remuneration.
- Controversial equity issuance.
- Shareholder resolutions that Baillie Gifford supported and received 20 per cent or more support from shareholders.
- Where there has been a significant audit failing.
- Mergers and acquisitions.
- Where we have opposed the financial statements/ annual report.
- Where we have opposed the election of directors and executives.

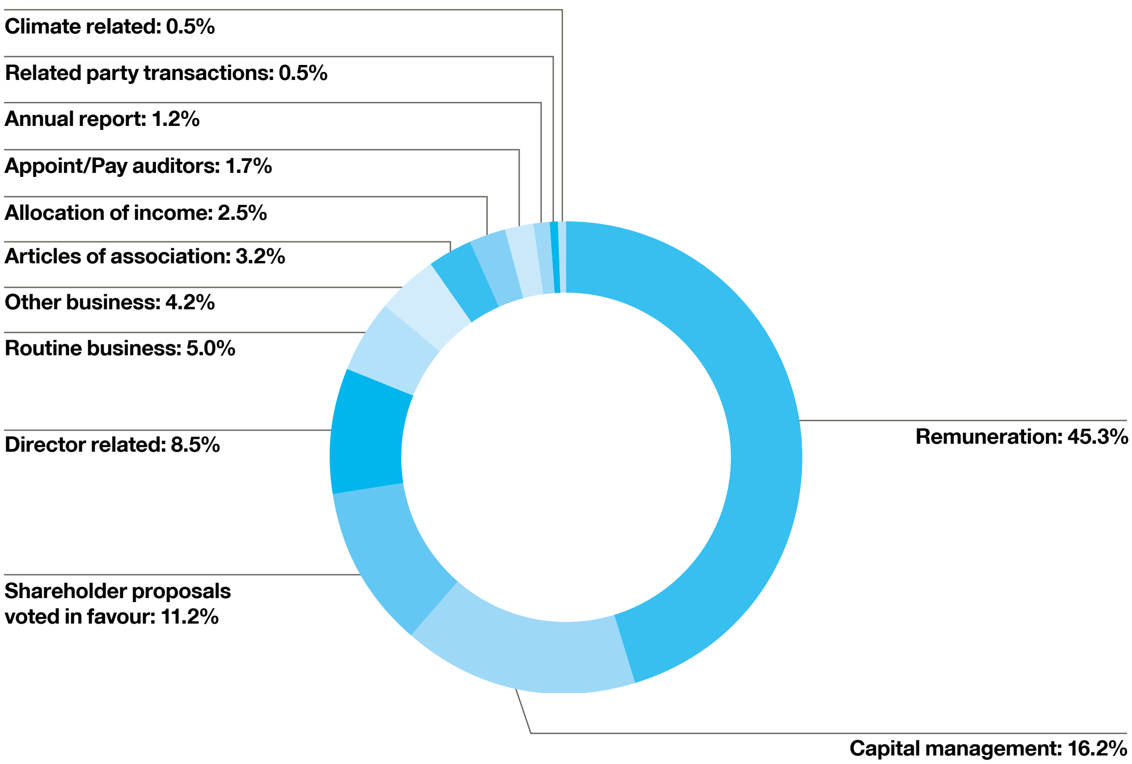
For clients that have delegated their voting discretion to Baillie Gifford, we include a portfolio-specific proxy voting report in their quarterly report.

Rationale for voting decisions

Votes against management

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

Breakdown of votes against management



[4] Includes employee equity plans and directors' remuneration.
[5] Includes amendment of share capital and share repurchase.

Remuneration

Effective remuneration policies help recruit, retain and motivate the best available talent while incentivising management to focus on the right long-term priorities for the business. We encourage our investee companies to develop robust and transparent pay practices that clearly align with long-term shareholders, reward outstanding performance and include mechanisms to mitigate excessive risk-taking or unintended consequences arising from a narrow focus on inappropriate targets. Moreover, companies should also take due account of increasing public scrutiny of executive pay practices and should be cognisant of the reputational and regulatory risks of excessive or inequitable pay practices. We believe that substantive changes to executive remuneration policies should be submitted to a shareholder vote. We also welcome the opportunity to engage with our investee companies on material remuneration matters. We promote the provision of clear and concise information about the design of the scheme, the underlying targets that are used to assess performance awards, and the total quantum of reward that is possible.

During 2022, we opposed remuneration for several reasons, including, but not limited to, insufficiently stretching targets and the use of discretion mainly to make grants that we found excessive and not explicitly aligned with the interests of long-term shareholders. Examples of companies where we took voting action on executive remuneration due to the inappropriate use of discretion included: Booking Holdings, Brembo, Cardlytics, Chegg, Dufry, Fraport, home24, Royal Caribbean Cruises, Sage Therapeutics, Stellantis, The Trade Desk and TJX Companies.

Director elections

When considering the election of directors, we think a multitude of factors such as the level of independence of the board and committees, the experience and diversity of the board, existing commitments and attendance of individual directors, and demonstrated responsiveness to shareholder feedback. This is framed in the context of market best practice and our expectations for the company. Where we have concerns about the board or individual directors, we will oppose the appropriate director(s) election.

Examples of companies where we opposed director elections due to independence concerns include: Beijer, CEMEX, Nickel Industries, LONGi Green, Kosé Corp., DaikyoNishikawa, Ediston Property Investment Company, Umicore and Venustech.

Capital management

When considering capital requirements, we do not apply rigid guidelines. Requests for authorities to issue shares are considered on a case-by-case basis, with factors such as the company's size, level of pre-emption rights attached, the industry it operates in, the country of incorporation and the rationale for the requested authority to issue capital. A company can request authority to issue capital should it need it. However, we would much prefer if companies call a general meeting stating how they intend to use the additional capital. We will consider supporting higher levels of capital issuance if we believe it will benefit the company and is in our clients' best interests. For example, an early-stage, small capitalisation company may require extra flexibility to issue capital. In recognition of the continuing uncertainty caused by the pandemic, in 2022, we applied greater discretion to requests to issue shares to allow companies to raise capital quickly and manage their balance sheet appropriately.

Examples of companies where we opposed capital issuance requests due to potential dilution concerns include: Eurovestech, home24, Westwing Group, Tissue Regenix, ANTA Sports Products, MMG and iFAST Corp.

Shareholder proposals

Shareholder-proposed resolutions are a mechanism permitted in some markets that enable shareholders to table proposals at company general meetings relating to material aspects of a company's business. Shareholder proposals can be a useful mechanism to ensure companies are mindful of their wider impact on stakeholders. We assess each resolution on a case-by-case basis and will support those resolutions that address material governance, social and environmental approaches of target companies or accelerate progress on material issues where we feel improvement is required. Prior to voting, we consider the company's current approach to the issue, its response to the resolution, and whether the resolution is workable and in the best interests of all stakeholders.

Our case study on 2022 engagement with Moderna in our Stewardship in Action section provides an example of how we approach highly complex and nuanced resolutions. At the Moderna AGM in April 2022, shareholders were asked to vote on a shareholder resolution. It asked '…that the shareholders of Moderna ask the board of directors to commission a third-party report (at reasonable expense and omitting confidential information) analysing the feasibility of promptly transferring IP and know-how to facilitate the production of Covid-19 vaccine doses by qualified manufacturers in low- and middle-income countries…' After a comprehensive series of engagements with the CEO, the Chair, experts in the field, and the shareholder proposal proponents, we opposed this resolution. We recognise there continue to be challenges to Moderna's access to vaccines policy and pricing; our engagement with the company continues.

We supported a number of other shareholder proposals in 2022 that called for increased disclosure including votes at: UPS, Amazon, Alphabet, McDonald's and Meta Platforms.

Full disclosure of our rationale for all votes against, all abstentions, and all shareholder proposals related to listed equity assets can be found on our website.

Monitoring of shares and voting rights

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

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

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

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

Examples of outcomes of resolutions

McDonald's Corporation

Ahead of this year's AGM, a shareholder proposal was lodged. It sought to have the board of directors oversee a third party civil rights audit analysing the impact of company policies and practices on the civil rights of company stakeholders and providing recommendations for improving the company's civil rights impact. After its filing, the company unsuccessfully challenged the proposal at the SEC, arguing that it related to ordinary business. However, the SEC stated that the proposal was warranted in light of the company being sued for alleged civil rights violations. McDonald's has faced numerous lawsuits related to racial discrimination, sexual harassment and unfair employment practices. Further, while the company has policies, programmes and disclosures in place relating to Diversity, Equity and Inclusion (DEI), it excludes the estimated two million franchisee employees from these. We believe that this is an important topic and that enhanced transparency on the company's impact will be beneficial to all stakeholders. Therefore, we supported the shareholder proposal at the 2022 AGM.

Outcome: We were pleased the proposal passed with 55 per cent support. Employee/franchisee relations is an emerging area of concern for us at the company. We await the publication of the report, but in the meantime undertook independent investigatory research to better understand the current dynamic of the relationship between the US franchises and the company.

Aumann AG

Aumann AG, a publicly listed German company, manufactures and sells specialised machines and production lines for components of electric and classic drive chain systems internationally. In 2021 we opposed a share issuance request by the company based on concerns around the treatment of pre-emptive rights and potential dilution to existing shareholders, which ultimately failed to attract sufficient shareholder support to pass. Following the AGM, we engaged extensively with the company, seeking a reduction in the request and calling for the introduction of a stricter clause for a pre-emptive rights waiver.

Outcome: Our concerns were addressed following our engagement, and we supported an amended share issuance request at the 2022 AGM. We were pleased to see that the resolution passed with 80 per cent support, thus granting the company the financial flexibility it required.

Trainline Plc

Trainline Plc operates an independent rail and coach travel platform that sells rail and coach tickets worldwide. In 2021, we were consulted on a new long-term incentive plan (LTIP) proposal and suggested that the company put this on hold due to uncertainties surrounding the operating environment brought about by the pandemic. The company was receptive to this advice and in early 2022 resumed engaging stakeholders on a new LTIP. Our objective was to secure a supportable remuneration framework that would motivate management and help attract and retain the talent required for the long-term success of the business. In particular, we suggested introducing a cap on total reward opportunities and increasing disclosure around targets under the LTIP.

Outcome: We were pleased to see that the resolution passed with 82 per cent support. Our position as a major shareholder enabled us to engage constructively with the company during the early stages of the remuneration review, which ultimately contributed towards desired improvements being made to the policy and receiving sufficient support from shareholders.

SG Micro

SG Micro Corp designs, markets and sells semiconductor products and is based in Beijing, China. When analysing company documents ahead of this year's AGM we noted that the company proposed reappointing its audit partner, who had been in post for five years. The partner's successful re-appointment would violate the requirement in China to rotate the main audit partner every five years, and so we took the decision to oppose this at the AGM.

Outcome: The company was successful in reappointing the auditor and received 97 per cent shareholder support. We contacted SG Micro to inform them of our voting decision and will continue to engage with the company on this issue going forward.

BHP Group

BHP Group operates as an international resources company. In 2021, we opposed the resolution to approve the company's Climate Transition Action Plan. It lacked appropriate ambition. In October 2022, we once again took part in an Investor Forum call with the company, prior to the 2022 AGM. The Australian Centre for Corporate Responsibility (ACCR) put forward a shareholder proposal requesting BHP Group include a climate sensitivity analysis in its audited financial statements, including a temperature-change scenario analysis backed up by quantitative estimates and assumptions. Ultimately, we supported this proposal. Our decision was based on our internal climate monitoring work and our belief that BHP needs to appropriately consider the climate risks to its business to support future investment returns.

Outcome: Having only received 19 per cent support, the outcome of the resolution was disappointing, raising questions in our mind as to how serious shareholders are about encouraging progress at big emitters. This observation extends to ISS and Glass Lewis, as both sided with management and opposed the resolution.

Definitions

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

The Science Based Targets initiative (SBTi):

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

TCFD: Taskforce on Climate-related Financial Disclosures (TCFD) created by the Financial Stability Board in December 2015 to improve and increase reporting of climate-related financial information.

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

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