Our Investment Stewardship Activities

Year Ended 31 December 2021

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 April 2022 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.

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.

Annual Past Performance to 31 March Each Year (Net %)

	2018	2019	2020	2021	2022
Global Alpha Composite	26.3	1.1	-6.4	73.0	-11.4
Long Term Global Growth Composite	40.7	8.4	10.7	104.4	-18.1
MSCI ACWI Index	15.4	3.2	-10.8	55.3	7.7

Annualised returns to 31 March 2021 (%)

	1 Year	5 Years	10 Years
Global Alpha Composite	-11.4	12.9	11.7
Long Term Global Growth Composite	-18.1	23.1	18.0
MSCI ACWI Index	7.7	12.2	10.6

Changes in the investment strategies, contributions or withdrawals may materially alter the performance and results of the portfolio. The Composites are more concentrated than the index.

Source: Baillie Gifford & Co and underlying index provider(s), US dollars.
Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

CM18214 Investment Stewardship Activities Report Dec 21 IC 0622
Ref: 23225 10009567

Contents

Welcome

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

I am pleased to present our Investment Stewardship Activities Report for 2021. We seek to be the best possible stewards of our clients' capital. As long-term, fundamental investors, we take our stewardship responsibilities seriously. Our aim to add value for clients over a multi-year investment horizon naturally aligns well with delivering sustainable benefits for the economy, environment and society.

Good stewardship starts long before we invest and continues once we buy. We meet with management and boards regularly, we vote thoughtfully at general meetings and we advocate for change where needed. However, we strive for continuous improvement in all aspects of how we invest for our clients, not least in our approach to stewardship. We made various enhancements in 2021 against, rightly, rising expectations. These include:

- Continued investment in our environmental, social and governance (ESG) capabilities. Our dedicated ESG resource increased from 24 to 33 specialists to expand our capability of engaging at the highest level with boards, regulators and policy makers
- We have established integrated ESG and investment working groups to support our systemic risk identification process
- Incorporation of an outcomes-based approach to company engagement prioritisation and reporting

We believe these developments have strengthened our opportunity to be effective stewards of our clients' capital. But we now look to the future. In this next chapter, we will focus on delivering strong investment performance and our ongoing contribution to the well-functioning financial markets on which we all depend.

This report sets out some of the stewardship activities we have undertaken during the past year. We look forward to developing our approach further and to discussing these issues in more depth over the months ahead.

Andrew Telfer
Senior Partner

Introduction

This report, based on the 12 UK Stewardship Code Principles, sets out Baillie Gifford's stewardship approach, highlighting some of the key activities and improvements made over the course of the year.

As at 31 December 2021, Baillie Gifford had 33 dedicated ESG analysts working alongside an investment team of 140 people. These ESG analysts engage both directly with the companies in which we invest (or potentially invest) and assist our investment teams with ESG considerations as part of the investment decision-making process.

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.

Importantly, 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 is likely to be very different from that of a mature and sizeable incumbent. Within the firm we have spent a great deal of time ensuring that each of our investment teams has the autonomy to implement ESG principles consistent with their own philosophy and processes. Though a top-down, one-size-fits all approach to ESG may be easier to implement and enforce, we do not think it is likely to serve our clients well, reflect the relationships our teams have with individual companies or maximise our effectiveness.

The table below, discussed in greater detail with multiple case studies under Principle 9: Engagement, highlights the variety of topics discussed with companies over the range of different ESG issues.

Issue	Topic	Number of times discussed
Environment	**Climate change**	121
	Natural resource use/impact (eg water, biodiversity)	70
	Pollution, Waste	20
Social	**Conduct, culture and ethics (eg tax, anti-bribery, lobbying)**	49
	Human and labour rights (eg supply chain rights, community relations)	28
	Human capital management (eg inclusion and diversity, employee terms, safety)	44
	Inequality	10
	Public health	8
Governance	**Board effectiveness – Diversity**	38
	Board effectiveness – Independence or Oversight	72
	Board effectiveness – Other	32
	Leadership – Chair/CEO	32
	Remuneration	168
	Shareholder rights	26
Strategy, Financial and Reporting	**Capital allocation**	51
	Financial Reporting	5
	Audit	22
	Sustainability Reporting	73
	Financial performance	4
	Strategy/purpose	119
	Risk management (eg operational risks, cyber/information security, product risks)	24

In 2021, our ESG and investment teams engaged on material ESG issues with 377 companies across our portfolios, on 491 separate occasions. We understand that the volume of meetings means nothing, and we set no target on quantum of meetings. However, we are very clear about the value of building constructive relationships with management.

Building relationships and trust takes time but is critical if we want to position ourselves to influence in a challenging but effective manner. Our long-term approach means we are not bound by short time horizons or a narrow, rules-based approach. Instead, we can act as constructive shareholders interested in capital allocation, leading to long-term wealth creation and improved environmental and social outcomes.

We are very clear about the natural alignment of our stewardship and ESG responsibilities with long term investment success.

Our active long-term approach is what makes the difference. The luxury of simply not needing to invest in companies where we would have to constantly battle with management should not be underestimated. We look to buy well-run companies where we think the interests of management are aligned with us and our clients.

We sum up our approach to investing and what we do differently to other asset managers, as actual investing. We are not passive investors who think that current share prices capture the future prospects of companies. We don't believe that investment decisions can be made on numbers alone, even by super computers and complex algorithms. We don't think investing involves watching the movements of stock markets every minute, hour, day, or even month. Investing is not trading metaphorical bits of paper in secondary markets in the hope of being smarter or faster than the next trader.

So, what should it be and what approach do we take? 'Investing' is the act of deploying capital into projects that we hope will create wealth for society by creating new and better ways of doing things. Much of this investing takes place within the companies that we own, so working closely with and encouraging company management to build for the future is a key part of it.

We believe our approach to investing not only best delivers good outcomes for clients, but it also helps develop great companies that provide for the needs and wants of people, thereby benefiting society as a whole. Investing responsibly for the long term is not counter to outperforming for clients, it's intrinsic to it.

Statement of International Stewardship Code adoption

We take our stewardship responsibilities seriously and apply our approach to stewardship across every company that we invest in on behalf of our clients, including global equities and other relevant asset classes. For this reason, we are signatories to four further stewardship codes that span the globe:

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

These codes allow us to evidence our commitment to active ownership in a manner appropriate to the markets that we invest in. While this report is a direct response to the 2020 UK Stewardship Code, it also evidences our compliance with the Japan Stewardship, ISG, EFAMA and ICGN codes. We hope it also, more generally, provides some insight and evidence of our commitment to our stewardship responsibilities on behalf of our clients.

Principle 1 – Purpose, Strategy and Culture

Culture, Values, Business Model and Strategy

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, and in doing so to make a broader contribution to society. We are unique among leading UK managers as an unlimited liability partnership, meaning our business is wholly owned and run by the partners of the firm; this gives us exceptional alignment with our clients and allows us to focus solely on investing with their interests at heart.

Our current generation of partners and employees remain single-minded about delivering on our clients' requirements. The partners are responsible for the careful stewardship of our long-term vision, without the distraction of short-term shareholder demands. This ownership structure allows us to attract and retain the best talent, creating a distinctive and enduring culture. This culture is built on a foundation of trust both with our clients, and between our partners and staff. Our culture, values, business model and strategy are captured in *Our Shared Beliefs* document, first published in 2017 and available on our website. It articulates the six core 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 evolve, the principles do not and we expect them to remain constant over time, in keeping with our long-term approach.

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.

Our Strategy:

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.

We believe that by acting with professionalism and integrity, we can invest in our people and adapt our business to 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.

We never forget that we are stewards of our clients' assets. Business growth is not seen as an end in itself. We focus on the needs of our clients, trusting that if we meet their long-term needs then business success will follow. We only offer investment strategies where we believe we can manage them to a high quality and can add value for clients after fees. Existing clients' interests are paramount and we have at times closed a number of our most successful products to new business so that the integrity of our strategies and the quality of service are maintained. This commitment to professional excellence ensures clients receive our full attention. The result is relationships with clients that have spanned generations.

Our long-term approach, a core investment belief, is important for our stewardship and investment outcomes. Our equity portfolios, which comprise 94 per cent of our assets under management, have an average holding period of seven years compared to an industry average of seven months. Our Multi Asset and Fixed Income portfolios, 6 per cent of our assets under management, take a similarly longer-term approach.

In addition to long holding periods, we run concentrated, active portfolios. This means we make fundamental decisions on all assets that enter our portfolios based on our own in-house research. As well as adding value for clients, it means we can make a responsible, sustainable contribution to the economy, society and the environment.

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. There is no Chief Investment Officer or policy committee that dictates from the top.

Given our long-term focus, 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

Baillie Gifford is a long-term investor. Investing across equities, multi asset and fixed income asset classes, our investment philosophy focuses on 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.

Not only do we recognise the growing demands of clients and regulators, but increasingly 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 resource, such that we now have 17 analysts, 6 subject matter specialists and 10 voting and implementation specialists.

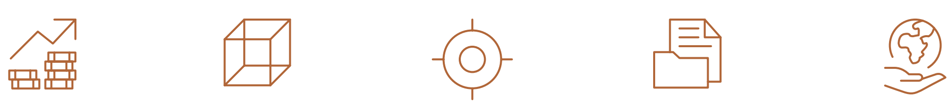
The partners are committed to retaining a culture that fosters effective stewardship. They set a clear tone from the top. ESG, encompassing Environment, Social and Governance integration, stewardship, and active ownership, is one of three strategic priorities for the firm in 2022. Annual strategic updates 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

If our purpose is to add value for our clients over the long run while contributing towards society more broadly, then our shared beliefs clearly guide our investment beliefs and activities. Our only business activity is to invest using our active, long-term approach. With stewardship core to our shared beliefs, we apply firm-wide Stewardship Principles that guide how we think about stewardship across our investment strategies.

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

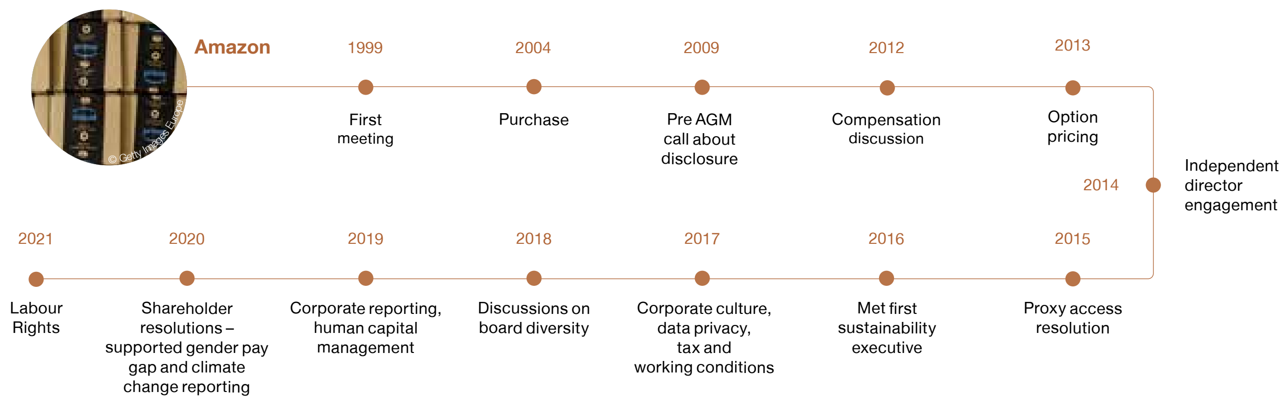
Our Stewardship Principles:



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.

Perhaps one of the best and longest-standing examples has been our investment and engagement with Amazon. This is just one example, but it reflects the types of ongoing discussions that we routinely pursue. We include many more examples throughout this report but here we demonstrate how our stewardship activities have evolved over 12 years. Starting with a discussion about the AGM agenda in 2009, conversations have broadened to cover areas as wide ranging as remuneration, shareholder rights, employee working conditions, tax, environmental footprint and board diversity. These exchanges have been challenging but respectful and are two-way. They help us gain insight into 'management quality,' as well as demonstrating to management we act as sensible, long-term, pragmatic, supportive shareholders. We should note that this engagement is not the sole responsibility of the ESG analysts; all relevant portfolio managers are involved in the discussion. There are still conversations ahead of us, but with time, respect and trust, we hope our challenge to the company on the management of risks, will allow it to take full advantage of future growth opportunities.



As long-term investors, our aim is to identify and generate sustainable growth for our clients, regardless of where they are located or in which investment strategy they invest. We believe that a holding cannot be financially sustainable in the long run if its approach to business is fundamentally out of line with what society expects of it. When we invest in companies on our clients' behalf, we typically do so with a much longer time horizon than our peers. This is both a result of our unusual ownership structure, and our closely held philosophical investment beliefs. Furthermore, unlike many other large investment firms, we only make active investments; we do not run passive funds seeking to simply track index positions. Our equity portfolios take significant positions in companies we understand well. As long-term owners of the companies in which we invest on behalf of our clients, thoughtful stewardship is at the core of our mission: we aim to put our clients' interests ahead of our own and are actively engaged investors across our portfolio holdings.

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

We recognise the importance of ensuring that we are effective in serving the best interests of clients. Baillie Gifford has outperformed on a five-year time horizon across most of our investment strategies. There is therefore clear evidence that we have been effective in serving the best interests of our clients in delivering the outperformance that we aim to deliver.

We carry out an annual client satisfaction survey; the information collected during this survey 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 21st 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 a number of areas including, but not limited to, understanding the client's needs, their performance expectations, communication and reporting. The survey also provides valuable insights regarding our clients' plans, which helps us to remain relevant as their requirements evolve. In 2021, the Net Promoter Score we received from our clients was well above the Anova Institutional Financial Services Benchmark (+82 compared with +70).

We have adjusted the survey over time. In 2020, we modified two questions to understand how useful our communications were during the Covid-19 pandemic and what else we should consider in order to stay relevant to our clients, irrespective of their geography or specific circumstances.

In 2021, we modified three questions to explore in more depth our clients' attitudes towards:

— ESG, climate and/or impact investing

— how Baillie Gifford could enhance our online offering and

— given the changing working practices of the pandemic, how our clients would like us to engage with them in the future

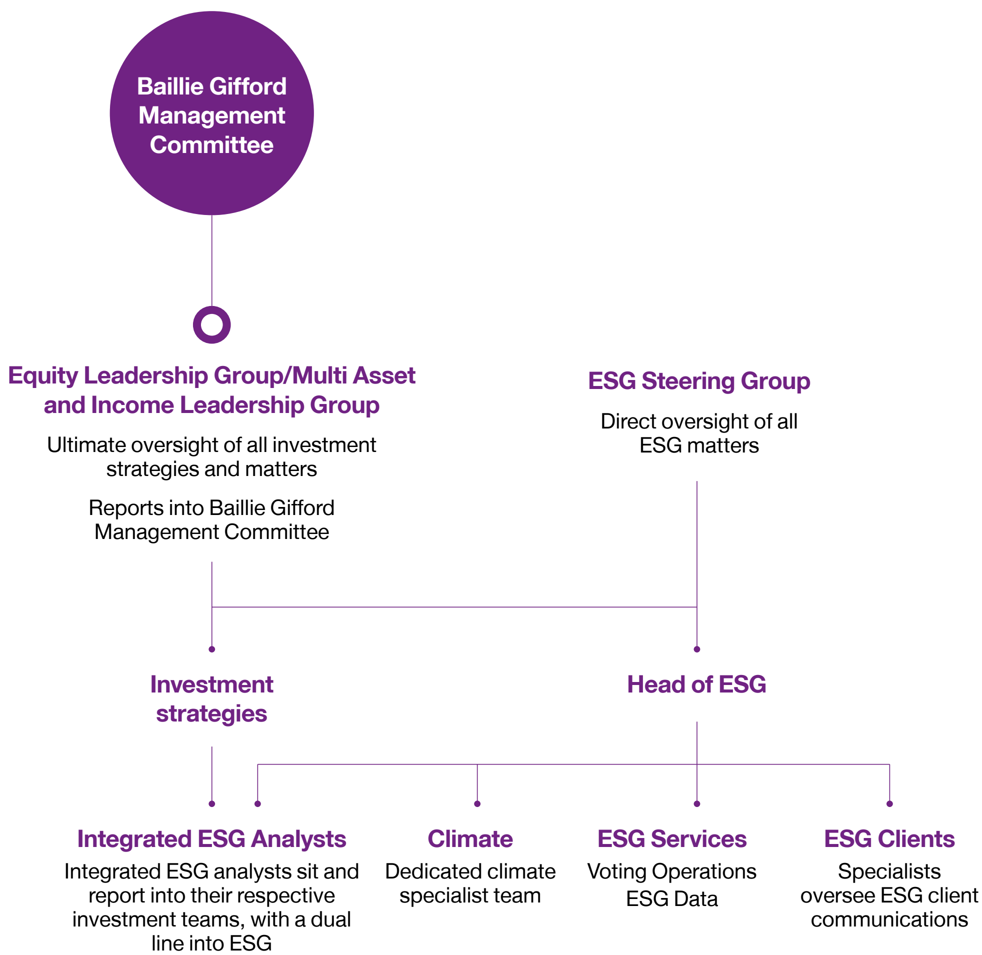
Overall, the feedback was positive, and continues to reflect well on the firm and our levels of client service.

Client reporting enhancements have recently been front of mind with requests for more detailed analysis, including ESG matters. This feedback will inform ongoing work.

Principle 2 – Governance, Resources and Incentives

Oversight and accountability for effective stewardship

Our governance structures evolved during 2021 to support a growing organisation and an ever-increasing focus on ESG and stewardship. Governance of stewardship starts with our partners, as delegated to the Baillie Gifford Management Committee.



As at 31 December 2021.

Oversight of the ESG function is the responsibility of the Head of ESG and the ESG Steering Group. The group is chaired by a Baillie Gifford partner and comprises senior representatives from the Investment Department, Clients Department, and ESG Function.

The ESG Steering Group reports into the Baillie Gifford Management Committee and provides updates to our Equity Leadership Group, and Multi Asset and Income Leadership Group – which both include partners from investment and client-facing areas. These reporting lines help us to ensure that our research, ESG and stewardship activities are aligned with and remain of value and relevance to the firm, and that they face the appropriate level of independent challenge and scrutiny.

The overarching purpose of the ESG Steering Group is to provide oversight and coordination for the firm's approach to ESG. It coordinates the multiple strands of ESG activity that take place across the firm and aims to ensure that the rapidly evolving demands of ESG from an investment, client and regulatory perspective are met.

The ESG Steering Group therefore aims to:

— Create a central point of coordination and accountability for the firm as it pertains to ESG matters

— Empower and encourage ESG considerations to be systemically considered throughout the investment process

— Create and oversee Research Groups to ensure as a firm we have sufficient specialist knowledge and attention to key areas

— Oversee the different components of the ESG Function and ensure it continues to evolve to meet the needs of investors, clients and regulators

— Consider where a coordinated firm-wide approach to matters may be helpful and, where that is the case, drive that coordination

In 2021, we established a Regulatory Sub-Group of our ESG Steering Group. This Group is comprised of individuals from our ESG Function, Client Department, Compliance Department and Legal Department.

Resource Structures

A Climate Group, led by our Head of Climate Change, was established in 2021 to act as a centre of excellence for integrating climate change and net zero transition into investment strategies, research and engagement. Among its objectives is the co-ordination of climate-related engagement and voting strategies. The Climate Group's membership is a mix of ESG climate specialists, investors, partners and selected specialists from regulatory, compliance and operations teams. While the Group's work is still building and it is too early to report environmental outcomes, its galvanising impact on integration and stewardship has been highly encouraging and has driven Baillie Gifford's Net Zero Asset Management initiative commitments.

Due to the success of the Climate Group in addressing a recognised systemic risk, in the second half of 2021, we established two additional ESG-related working groups, namely Corporate Governance and Human Rights. Their remit includes the identification and integration of systemic risks and a focus on building best analytic and stewardship practice into our investment strategies. These topics have been identified as our current priorities, but our focus groups may change in line with our priorities over time.

Evaluating and monitoring ESG factors is a key component of our long-term, active, patient and growth-focused approach to investment management. All our investment staff share the responsibility for identifying, analysing and monitoring issues and opportunities for both existing and potential holdings. They spend significant time assessing the quality, integrity, motivation and culture of management teams, and then acting upon their convictions. We believe that companies that abuse the environment, treat staff poorly or damage the fabric of society will, within a relevant investment horizon, be regulated out of profitability or deserted by customers. Therefore, considering such factors must form an integral part of any credible long-term investment process.

Our ESG Function was further bolstered in 2021 with the creation of a dedicated ESG Data Team. Incorporated into our ESG Services, this team has a remit to bring structured and unstructured ESG data into our investment decision-making process. The output of its work will build over the coming years, and feed into a variety of regulatory and other client reporting, but the data team's early work shows promise and has been immediately helpful with stewardship prioritisation choices.

During 2021 we also extended the integration of our ESG research analysts within our investment teams. On 1 January 2022, the embedded ESG analysts formally joined their investment teams (as opposed to being based within a 'central' ESG Team) and their primary reporting line became the head of their respective investment strategy. However, analysts retain a dual line into the ESG Team, ultimately feeding up to the Head of ESG. This change is set out in the resource structure chart. We consider this an important step in formalising the integration of our ESG and investment analysts.

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 140 investment staff to be integral to the delivery of effective stewardship.

Our ESG Team grew from 24 people at the end of 2020, to 33 by end 2021. This number includes the integrated investment research analysts, ESG Services (which is comprised of voting and regulatory specialists, and a data team) and client specialists. Working alongside the investment teams, the ESG analysts are responsible for: ESG research and analysis, highlighting ESG risks and opportunities to investment strategies, the coordination and processing of proxy voting, and the engagement and monitoring of holdings on material ESG matters, challenging companies where appropriate.

Our investment staff share the responsibility for identifying, analysing and monitoring issues and opportunities for both existing and potential holdings. Our investment staff also share the responsibility for every aspect of effective stewardship, including company engagement and voting. There will be a high level of crossover of stewardship/ESG work between our investment managers, investment analysts and our ESG analysts. While taking responsibility for all aspects of the portfolios they manage, investment managers will work collaboratively and delegate work to ESG analysts as appropriate.

Our ESG Services team plays an important role in fulfilling our stewardship activities. Most directly, the voting operations group ensure our voting rights are exercised effectively by the investment teams, in accordance with our clients' mandates and reported according to firm and regulatory requirements. Data specialists within that team oversee the use of ESG data and are working on delivering major data improvements to help us more efficiently access ESG data when making investment decisions, and to use that data for richer client reporting as well as regulatory reporting.

Our ESG Clients team acts as a vital communications bridge between our investment teams and clients. It is increasingly the case that clients wish to have a voice in the stewardship choices we make and it is incumbent on us to better understand our clients' long-term priorities. Similarly, we need to clearly communicate how we set ESG priorities to our clients. The team has increased in size and professional experience during 2021.

The table below shows how our ESG resourcing changed during 2021.

ESG functional team	Employees	Change – 2020 to 2021
ESG Services team	10	+4
Climate	3	+1
ESG Client team	3	+1
Integrated ESG analysts	17	+3

Seniority, Experience, Qualifications, Training, and Diversity

We are fortunate to have built 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 33 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 from law, asset management, to human rights, corporate sustainability and environmental non-governmental organisations (NGOs). We believe the average years of relevant experience is notable within the industry.

The function is ultimately overseen by a Partner, providing direct oversight from the top level of our organisation.

ESG function	Head/Director/ Manager	Senior analyst	Specialist	Analyst	Assistant/ Associate
Integrated ESG analyst	1	8		7	1
ESG Services	1	2		6	1
Climate	1	1		1	
ESG Client team	1		1		1
Total	**4**	**11**	**1**	**14**	**3**
Gender (% female)	50%	38%	100%	64%	68%
Average experience (years)	22	14	15	6	4

We will continue to invest in growing this resource in 2022.

We recognise the importance of ESG and stewardship training. Training on ESG is extended to all investment staff and is covered in the training plan for investment research graduates in our multi asset, fixed income and equity areas. This helps colleagues understand the importance we place on considering and integrating ESG matters into their investment research at an early point in their investment career at Baillie Gifford.

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 Team are encouraged to have achieved the IMC qualification (or equivalent for those grandfathered) and this is a requirement to reach Senior Analyst level. Going forward, we will also be asking team members to complete the CFA ESG qualification or equivalent.

Diversity More Broadly

Our firmwide focus on diversity and inclusion ensures we are working to further bolster the diversity of our resource as we grow and develop. Baillie Gifford takes all aspects of diversity and inclusion seriously. In 2016, we set up our Diversity and Inclusion Group, which comprises seven individuals, including four partners. The group acts as an advisory body to the rest of the firm, supporting initiatives that we believe will further improve diversity and inclusion within Baillie Gifford and the wider community. We believe diversity and inclusion are important, a view that was echoed by our employees in last year's staff survey.

The broad objectives of the Diversity and Inclusion Group are:

— To consult widely, continually improving our approach to all aspects of diversity and inclusion

— To effectively communicate our priorities and progress

— To foster an inclusive and welcoming culture for anyone who comes into contact with the firm

Since the inception of the group, Baillie Gifford has taken some big steps towards becoming a more inclusive place to work, such as the introduction of equal parental leave in 2019 and the establishment of a number of employee-led networks and groups, such as the Multicultural and LGBT+ networks. We believe there should be no barriers preventing staff from feeling included and our policies and day-to-day culture should reflect this.

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 ESG and sustainability risk move into the regulatory mainstream, we continually review how we can best use and present data and information to our investment managers, as well as to relevant boards and committees to ensure the most effective oversight and constructive challenge.

As a house which relies on fundamental research, our greatest investment in ESG research is both our ESG professionals and the ongoing training of all investment professionals to incorporate ESG analysis into investment analysis. The vast majority of the ESG research we place emphasis on is created internally, but we also draw upon a wide range of external insights, such as company reporting, and information from industry bodies, independent experts and academics. We continue to expand our relationships with alternative information sources to feed into our own research. In addition, ESG analysts and investment managers are offered access to a wide range of external research or data providers, as set out below. However, this information is only an input into our own fundamental research, and not a deciding factor in our stewardship activities.

We will only incorporate information, from proxy advice to company-specific data and analysis, supplied by trusted external information providers. Utilising multiple sources ensures we have a comprehensive understanding of the investments under review and provides comfort that any inaccuracies will be identified. We employ a proprietary governance and sustainability software system to assist in managing our voting, engagement and research activity. This system is integrated with the investment managers' research system and allows the ESG analysts to manage workflow, execute timely proxy votes, record and track engagements and research, and report this activity to our clients.

ESG Data Programme

ESG data is an important part of effective ESG integration and facilitates good stewardship. Our clients have stated a preference for more ESG-related reporting on their portfolios and there are also growing regulatory requirements in this area. Recognising this, in 2021 we began a programme of work to review and improve the provision of ESG data within the business. As part of this multi-year programme of work, we recruited two ESG data analysts into our ESG Services team. The data analysts' focus is to facilitate and improve ESG data usage within the business, including with respect to both data integrity and data availability.

We will continue to improve and expand the coverage of ESG data across different asset types and work to improve the flexibility of viewing and reporting data points for both internal and external uses.

Use of Service Providers

We consider ESG service providers largely in the context of external research providers, rather than as contracted agents carrying out delegated stewardship tasks. For example, our ESG Team make all voting decisions in conjunction with our investors. Therefore, we do not need 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.

We actively support and subscribe to a range of industry bodies and trade associations to further our interest in well-functioning financial markets and ESG standard setting (discussed further under Principle 4). We do not consider these organisations to provide a formal contracted service to Baillie Gifford. 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
Four Twenty Seven	Climate change risk assessment tool
Glass Lewis	Proxy advisory firm
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

When conducting our research, we have access to a range of external data providers as listed above. The advantage of these third-party providers is the breadth of their coverage and standardised approach. This allows for a quick understanding of areas of potential risk 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. Scoring systems tend to be backward looking, whereas we look forward when determining the long-term sustainability of the companies in which we invest. Many of the existing providers also put more emphasis on disclosure rather than underlying performance. This breadth can be to the detriment of depth, nuance and context.

These research services act as a flag. They can provide a starting point from which to conduct our own more detailed analysis. Our research provides for a much more sophisticated understanding of both the company position and their direction of travel, without the bias of disclosure and tick-box approaches. In our view, caution is needed in interpreting these research products as complete answers and assessments of a company’s sustainability. Where they can add value, however, is in focusing the universe to companies or issues that warrant further attention through research and/or engagement.

Conducting our own ESG research allows us to focus on the areas important to us. 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 – 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 (5 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). This ensures 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 specialists 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 through the report illustrate 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, but retaining a dual reporting line into ESG, 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) from an investment and/or environmental and social perspective. The reporting line into investment teams ensures the investment relevance, and the reporting line into the ESG function ensures the appropriate level of challenge and expertise on stewardship levels is maintained.

Efficacy of governance structures and areas for improvement

As discussed above, our internal governance structures evolved during 2021 to oversee and support our increased focus on ESG and stewardship. Objectively, these structures appear to have been effective. We have a strong and growing line up of investment strategies with explicit ESG objectives. We have seen ambitious ESG/stewardship commitments and advancement made across most of our investment strategies over the past twelve months, be that a commitment to Article 8 Status under the European Union Sustainable Finance Disclosures Regulations (SFDR) or commitments by several strategies to meet stretching climate targets. Our engagement activities are expanding and becoming more targeted, and our client reporting is improving. These are all indicators that our governance structures are supporting effective stewardship.

But there is always more to do. Stewardship incorporates many considerations that result in responsibilities and activities that are complex, nuanced and continually evolving. We therefore expect, and indeed require, our own oversight and governance of our stewardship activities to evolve.

During 2022, there are three significant projects ongoing that are focused on improving our governance and oversight:

- The restructure of the integrated ESG analysts has resulted in many more portfolio managers being directly responsible for ESG analysis and engagement. With more investor input, we anticipate that the role of the ESG analyst will evolve to one of greater speciality and technical expertise on key ESG topics.
- As discussed earlier, we have introduced two new internal research groups – Corporate Governance and Human Rights. The remit of each group includes a focus on building best practice into our investment and stewardship processes. These research groups will increase the depth and breadth of our knowledge and expertise, which will result in increased challenge and scrutiny of these challenging and evolving areas.
- ESG Risk Reviews – we are in the process of incorporating ESG Risk Reviews more formally into our investment risk process. This is in development as we write this report, so will be a component of our 2022 report, but we expect the structure of the report to focus on our five Stewardship Principles, described under Principle 1 of this report.

There are several reasons for focusing on improving our governance structures and processes. First, because our clients across all geographies expect this. Second, it ensures we meet the SFDR requirements, at firm level, and for those funds that are now defined as Article 8 or 9. Finally, it will ensure we are well positioned to meet the UK SDR (Sustainability Disclosure Requirements) when these come into effect.

Principle 3 – Conflicts of Interest

Our Conflicts of Interest Disclosure is attached as a link in this report and is available on our website. In terms of stewardship, the disclosure specifically references proxy voting and is directly referred to in *Our Stewardship Approach* (formally called Governance & Sustainability Principles and Guidelines).

Baillie Gifford maintains a firm-wide Conflicts of Interest Policy and Matrix. It identifies (potential) conflicts of interest that exist within the group and the procedures and controls that have been 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. It is worth stating that, in general, conflicts of interest such as those discussed below are in practice vanishingly rare for us and our clients.

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 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 of an investee company

— 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. Applying our stewardship policies will, in most instances, adequately address any possible conflicts of interest relating to our stewardship activities. However, as noted, we do not rigidly apply the policy, but allow for flexibility and variation between circumstances and jurisdictions.

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. These included discussions around four scenarios in which Baillie Gifford's investors could receive inside information:

— 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:

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 fund 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 provide the ESG Team with the registered interests for directors of Baillie Gifford entities and keep the ESG Team informed of any changes. The ESG Team 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, the ESG Team 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 Global Discovery and Positive Change and at a shareholder meeting Global Discovery decides to support remuneration and Positive Change decides to oppose, we will vote in two separate ways for the same 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 Schibsted, a Norwegian-listed media company operating internationally. In Norway, the Nomination Committee should actively seek to represent the views of shareholders in general and should ensure that its recommendations are endorsed by the largest shareholders. As such, it is common for representatives from a company's largest shareholders to be appointed to the Nomination Committee.

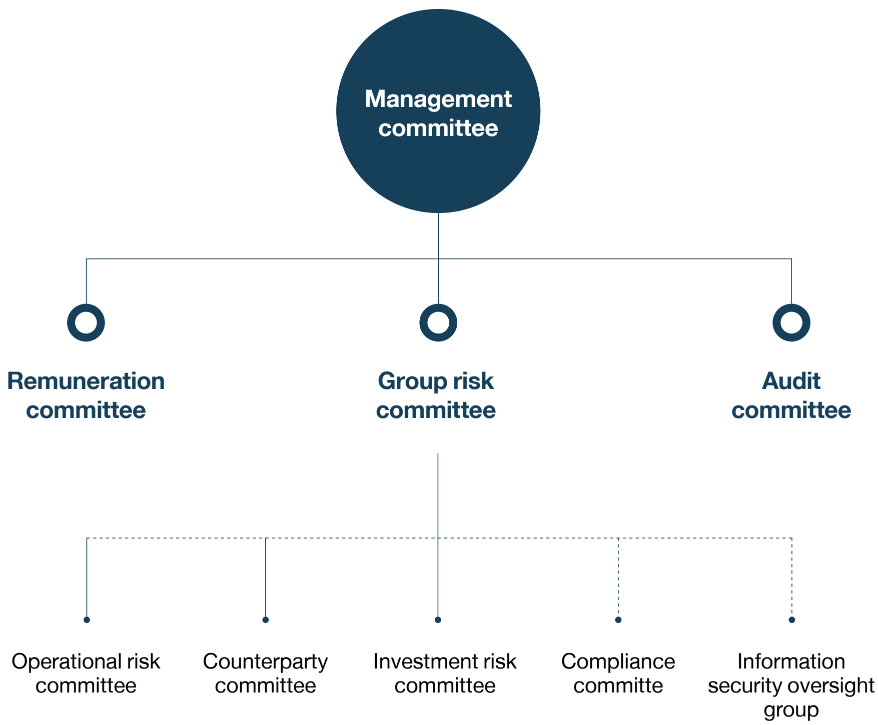
In 2021, one of our portfolio managers and Baillie Gifford partner, Spencer Adair, was reappointed to sit on the Nomination Committee of Schibsted. As the position is not a board position and the right to be on the committee stems from shareholding rank on the share register, we do not deem this to be 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. In pursuing this approach, broader market-wide and systemic risks and themes are identified 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.

Recent analysis of portfolios has explored risks related to:

Inflation

We analysed company resilience to periods of inflation, both in terms of discount rate exposure and in terms of the resilience of company cash flows

Valuations

This covered company and portfolio valuation levels versus benchmarks, and versus 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.

Company Balance Sheet Resilience

This analysed fundamental balance sheet characteristics, and was particularly relevant at the onset of the pandemic. With lockdowns taking hold, we undertook scenario analyses on the impairment to portfolio companies' revenues and any potential capital raising demands that businesses may have. This allowed for a shortlist of companies to be drawn, for investment teams to consider further.

Below we set out how Baillie Gifford has approached two key systemic risks facing the world – climate change and the Covid-19 pandemic – in addition to our actions taken since Russia's invasion of Ukraine.

Climate Change

We recognise that climate change is a source of significant systemic risk. Our primary role as long-term investors is to support the new technologies, business models and societal changes that will help address the global challenge of climate change. Investing well through this transition period is our most significant source of potentially positive impact for our clients, and for society more broadly. Nonetheless, we must be cognisant of the risks associated with both the physical impacts of climate change itself, as well as the myriad of technological, policy and market changes that accompany the transition to net zero emissions globally.

Our risk management approach is focused on stock-level research and analysis within individual investment strategies, with the assistance of dedicated ESG and risk specialists working across the firm. Key considerations include the carbon intensity of the company or asset, the climate impact of its core products and services, and its relationships with its own stakeholders, including customers, regulators and NGOs. We have access to data from independent providers to help add further detail to our understanding of each holding, and place great value in seeking the perspectives and insights of external experts and researchers to help inform our approach.

We use this information primarily as an aid to engage with companies to ascertain how they are mitigating risks and maximising opportunities, and to help inform stock discussions and investment decision making.

We expect the companies we hold to provide basic climate disclosures (scope 1 and 2 emissions, material scope 3 emissions[1]) by 2023 and will make this expectation clear in the feedback and engagement we provide in 2022. For world-leading companies and those with a high climate impact, we will hold them to a higher disclosure standard. We acknowledge that this is a bigger ask for some companies, dependent on size, location and other factors.

By 2025, we expect that world-leading and high climate impact companies should have clear net zero aligned climate goals that meet or exceed the ambitions of the Paris Agreement, including scope 1, 2 and 3 emissions and mid-term milestones, with consistent strategy and narrative. We have a firm-wide process for assessing climate alignment that is built on our fundamental analysis of our holdings, and references the guidance of bodies such as the Science-based Targets initiative, the Transition Pathway Initiative, Climate Action 100+, the IIGCC (Institutional Investors Group on Climate Change) and other similar endeavours.

If we feel that companies are not making enough progress in mitigating climate risks then we retain the option of raising our concerns via engaging with the company to communicate our expectations; taking voting action on resolutions, such as annual reporting and accounts; election of the Chair or other relevant directors; election of the auditors; and ultimately divesting our holdings.

These expectations are stated in *Our Stewardship Approach*. At Baillie Gifford, we hope we bring a sharper focus to identifying the most impactful climate opportunities and engagements. We can share our long-term perspective, the context we gain from our deep relationships with companies in both private and public markets and the insights we acquire via our wide range of academic partnerships.

We are actively exploring how climate change and other ESG matters can be more explicitly considered within our own organisational risk frameworks. At the board level, our key legal entity boards have been briefed on their expanding oversight responsibilities in relation to climate change. Over the course of 2022, additional board reporting will be introduced to facilitate greater oversight of the firm's approach. Further improvement in this area is a priority for 2022.

More detail about our approach to climate change can be found in our *Taskforce on Climate-related Financial Disclosures (TCFD)* report, available on our website.

The Covid-19 Pandemic

Throughout 2021, the Covid-19 pandemic continued to challenge markets globally, as well as individual businesses. Companies faced unprecedented supply chain and labour challenges as new waves of the pandemic continued to emerge across the globe. As is the case for all investment matters, responsibility for assessing this risk lay with individual investment teams, supported and challenged by our investment risk function. During the early phase of the pandemic, as part of its regular review cycle, our investment risk function undertook thematic research, looking at balance sheet strength and/or thematic exposure for many strategies across the firm. In fact, many of our holdings prospered during a period of perceived systemic market risk.

From the early phases of the pandemic, we were acutely aware of our stewardship responsibilities in a time of pronounced market stress for many corporates. A number of our equity strategies wrote to all their holdings expressing support and encouraging management teams to remain focused on the long term and on supporting stakeholders, as opposed to focusing on short-term profitability.

As we move into a new phase of the pandemic in many regions, we continue to engage with our holdings. Our engagement focus is on how they are managing the challenges that continue to be posed by the pandemic, backing any actions that they are taking to support the pandemic response and considering what constraints the new reality may place on the investment case. Throughout the pandemic, we have encouraged companies to act responsibly with respect to their workforce and other stakeholders, regardless of the impact on short-term margins. In instances where we feel companies are not upholding this, we have escalated this engagement to voting action, for example voting against executive remuneration decisions where we feel the experiences of other stakeholders have not been reflected in executive remuneration decisions.

1. Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating, and cooling consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain.

The Russian Invasion of Ukraine

While not in this reporting period, we felt it would be remiss to not reference the Russian invasion of Ukraine. The invasion is a tragedy, and the human cost is devastating. Since the events have unfolded, we have 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.

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
Task Force on Climate-Related Financial Disclosures (TCFD)	2020
Farm Animal Investment Risk and Return (FAIRR)	2020

In line with evolving expectations and new initiatives, we joined the following initiatives in 2021:

— UK Centre for Greening Finance and Investment (CGFI)

— EM Investor Alliance (EMIA)

— Taskforce on Nature-Related Financial Disclosures (TNFD)

— Sustainability Accounting Standards Board (SASB)

— Net Zero Asset Managers Initiative (NZAMI)

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.

ICAS (Institute for Chartered Accountants of Scotland) Ethics Board – market-wide risk: data quality, reliability and consistency

A member of Baillie Gifford's ESG Team is a member of the ICAS Ethics Board. They have been contributing to a project on the assessment of and response to increasing demand from stakeholders, including investors, for greater transparency and accountability from corporates as to how they are embedding sustainability into their operations and the way in which this is reported. With the continued and growing demand for data from asset owners, regulators, civil society more broadly and asset managers, the relevance, quality, consistency and reliability of that data, as well as the reporting framework(s) used, mean ESG audit and assurance will be an increasingly relevant consideration.

SASB Investor Alliance – Promoting standardised, industry-specific and materiality-based sustainability disclosures

In 2021, we joined the SASB Alliance. Part of the Value Reporting Foundation, the SASB Alliance brings together a group of organisations that believe standardised, industry-specific and materiality-based sustainability standards help companies and investors adapt to the market's expectations. Membership offers deeper engagement with the Value Reporting Foundation and fellow Alliance members to collectively adapt to calls for integrating sustainability into the capital markets. Having only recently joined, our contribution to the Alliance has been limited. However, through our membership we promote disclosure against the established sustainability standards among our holdings which is of benefit to the wider financial market.

Impact Management Project and Establishment of the International Sustainability Standards Board under IFRS

Baillie Gifford has participated in the Impact Management Project (IMP) since its inception in 2016 and is an active participant on a select advisory board of key global asset managers and asset owners. The work of the IMP has contributed to greater alignment of corporate sustainability reporting methodologies and the establishment of the International Sustainability Standards Board alongside the International Financial Reporting Standards. We are proud to have supported a major step forward in the standardisation of corporate non-financial reporting. This should help advance the integration of this information into investment decision-making, and consequently continues to bring stewardship considerations front and centre of well-functioning markets.

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), which represents the European investment management industry. As part of our membership, we are part of the ESG & Stewardship Standing Committee. In 2021, a manager in our Compliance Department took up the position of Vice-Chair of the committee and the position of Chair of the Stewardship Workstream, recognising the importance of sustainability regulatory developments coming out of Europe. As members of the committee, we are involved in the review, discussion and collation of legislative developments and issues facing the industry, such as the improvement of 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, ensuring that the regulations meet the requirements of the investment management industry and the needs of our clients.

Investor Forum Irish Voting Sub-group – Working to resolve share blocking related to Irish Proxy Voting

We joined the UK-based Investor Forum for an industry initiative looking specifically at share blocking issues when voting at the general meetings of Irish-listed companies. The initiative came out of a group discussion with industry peers who all shared similar experiences when voting in the Irish Market since changes were made to the Irish settlement process following Brexit. Share blocking can be an impediment to shareholder voting due to trading restrictions placed on any voted shares. Through this engagement, we met with industry participants, including Euroclear, Broadridge and custodian banks to understand why share blocking is occurring following the transition of the Irish central securities depositary to Euroclear. The issue is complicated, but the engagements were useful, allowing us to build our understanding of the chain of events that lead to share blocking and resulting negative impacts. While the issue is not fully resolved, through industry collaboration we were able to increase the profile of the matter and escalate this within the required industry participants to (hopefully) fully resolve unnecessary instances of share blocking in future.

We also responded to the following regulatory consultations during 2021, either through the groups that we are members of or individually as a firm:

ESAs consultation on taxonomy-related product disclosures	May 2021
SEC’s Public Input on Climate Change Disclosures	June 2021
Discussion Paper on Diversity & Inclusion in Financial Services Sector (FCA, PRA, Bank of England)	September 2021
FCA Consultation Paper on enhancing climate-related disclosures by standard listed companies and other ESG-related topics	September 2021
FCA Consultation Paper on climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers	September 2021
FCA Consultation Paper on Diversity and Inclusion on company boards and executive committees	October 2021
FCA Discussion Paper on SDR and investment labels	December 2021

Membership of such groups and industry bodies 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 systemic and market risks, and the impact this can have on businesses. A number of case studies detailed 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, Baillie Gifford joined the Net Zero Asset Managers Initiative (NZAMI). The initiative's stated aim is for investment managers to "work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management". Strategies who have made NZAMI commitments will work closely with our Climate team to achieve this ambition. Our investments will over time align with our commitments in this area, and we are already actively working on analysis and monitoring to ensure alignment over time.

We did not rush into the decision to become a NZAMI signatory. It is a good example of how we look to understand what the measurable benefit is for client portfolios. Before making the commitment, we first sought to satisfy ourselves both that it has the potential to be a sensible framework for tacking climate change and that we would be able to make meaningful commitments under it on a strategy-by-strategy basis, without compromising clients' expectations.

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 be one of the factors determining long-term investment returns. We engage in the development of regulatory frameworks and industry-wide standards with the aim of safeguarding the long-term interests of our clients invested in our funds. To do so effectively necessitates that 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 Chancellor of the Exchequer issued a challenge to 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. These covered potential ways to mitigate what in our view is an unnecessary liquidity mismatch between private companies and pensions schemes; ways in which legislation and listing rules might better foster long-termism among both investors and company management; greater obligations for institutional investors to fulfil an active stewardship role in investee companies; and measures to discourage short-term trading and speculation in stock markets which we believe serve little social purpose.

Our motivation is the strong belief that as more growth is found among pre-IPO (initial public offering) companies it is essential for long-term pensions outcomes and social equity that a small number of wealthy investors and the investment industry itself should not disproportionately capture the gains of such growth. This remains a work in progress but one that we see as firmly within our obligations to try to foster an effective investments system for all.

Fundamentally, we see 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 though 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.

Principle 5 – Review and Assurance

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

Our 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 own Diversity and Inclusion policy, Modern Slavery Statement, our supplier Code of Conduct, and Tax Strategy. All such policies are publicly available on our *website* for access by our clients and other stakeholders. Aligned with the review process described above, these policies are all reviewed and updated annually and are signed off by the relevant internal committees.

With regard to ESG and focused policies, *Our Stewardship Approach* is reviewed and updated annually to ensure it continues to reflect our approach and incorporates any newly 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, such as NGOs. Any changes to the policy are discussed and approved by the ESG Steering 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 2021, we updated *Our Stewardship Approach* policy to reflect emerging regulatory requirements and developments in our approach. We increased our expectations on disclosure and consideration of diversity and inclusion, were more explicit in the potential voting action we may take on key issues, expanded the climate change section to align with the Baillie Gifford TCFD report and to include a specific section on biodiversity, signalling our plans to develop our approach in this area further.

Internal and external assurance and continual improvement

Our engagement and voting procedures are independently reviewed annually as part of our internal controls review completed by our external auditors, regarding the UK standard ISAE 3402. There were no exceptions identified in the testing of the related controls to April 2021. This is part of our internal controls review completed by our external auditors, regarding the UK standard AAF 01/06.

During 2021, our Compliance Department also commissioned an external consultant to conduct an ESG readiness review. It assessed progress of Baillie Gifford's ESG capabilities against emerging best practice and minimum compliance standards, and sought to understand the implications for the business, including Baillie Gifford's operating model and product offering, to identify potential regulatory gaps and define any areas where Baillie Gifford could align to market best practice. The review concluded that we were meeting existing requirements and were well prepared for most future requirements. Some recommendations were made to improve the structure of governance around ESG within the firm, and to make enhancements to climate risk monitoring of investment portfolios and the disclosure of this to clients. We have already taken steps in this direction through the establishment of our Climate Group, and the recognition of the ESG Steering Group in the Baillie Gifford boards and committee's structure, both of which are discussed further under Principle 2. Further improvements will be made in 2022.

Our Internal Audit function conducted an audit of this Investment Stewardship Activities Report. The purpose of this was to provide independent assurance over the accuracy of the contents and messaging within the report submission, as well as assessing alignment with internal policies and practices to ensure the statements made are supported by the work undertaken. The audit also assessed the governance framework for the production and approval of the report.

The outcome of the audit recommended improvement to formalise the process for the production and governance of this report and future reports. We understand that internal and/or external assurance are increasingly important and indeed expected, and we will consider how to gain further assurance over our stewardship processes in 2022.

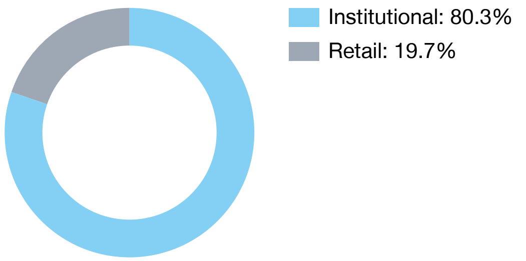
The approval hierarchy for this report aligns with the day-to-day governance of our stewardship activities. It is written by our ESG analysts, and the draft is then submitted to the Steering Group for sign off before it is recommended to the Management Committee.

There is, therefore, some delineation between those who set the policy (the Steering Group), those who implement the policy (the investment teams and ESG analysts) and those who monitor the performance and execution (ESG Steering Group and Management Committee).

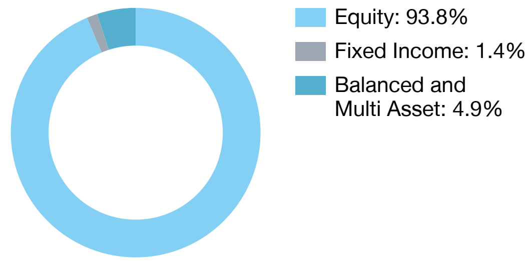
Principle 6 – Client and Beneficiary Needs

As at 31 December 2021, our assets under management totalled £335,835 million. Further details split by client type, asset class and region are below:

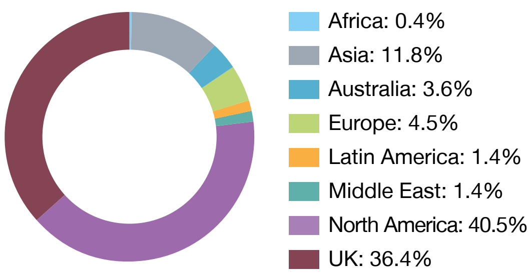
AUM (£) by client type



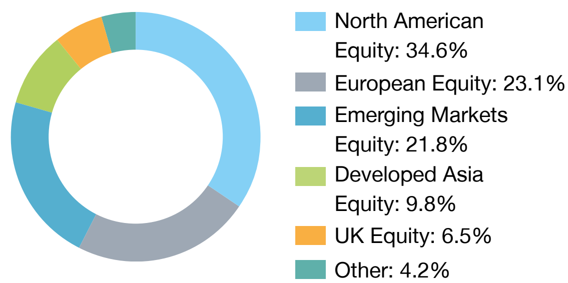
AUM (£) by invested asset class



AUM (£) by client region



AUM (£) by invested region



As at 31 December 2021. Figures may not sum due to rounding.

Length of the investment time horizon appropriate to deliver to the needs of clients and/or 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 previously, when we invest in companies on our clients' behalf, we do so with a longer time horizon than our peers typically do. We hold companies on average for seven years in our portfolios, compared to an industry standard of seven months.[2]

This is entirely consistent with the long-time horizon of our clients, the bulk of whom remain institutions who are ultimately responsible for pension/long-term investments. With respect to our retail clients, we are explicit about our investment horizons in our marketing and client materials in order to ensure those clients understand the appropriate time horizon over which to invest with us. Almost all our retail investors invest with us via an intermediary, many of whom we will also service to ensure time frames are aligned.

2. Source: Ned Davis Research. Industry standard at 31 December 2020.

Receiving Clients' Views

Where clients request us to adhere to their own stewardship policies, these are reviewed and discussed with the client, noting deviations from *Our Stewardship Approach*, and can be implemented, where appropriate.

During the year, at their request, we have run specific sessions for clients to inform and discuss the importance of ESG issues within investments, covering topics such as climate change and broader corporate governance.

As stewardship forms such an integral part of the investment process, our approach to corporate governance and broader ESG factors are incorporated into quarterly and ad-hoc client reporting, as well as discussed at regular investment review meetings with clients. We provide all our institutional clients with quarterly reports detailing our engagement and voting activities. In addition to this report, some of our investment strategies also produce stewardship reports specific to their portfolios. We maintain a record of engagement and voting activity and publish high-level details of this publicly 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 to structure 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.

Through meeting with a range of clients globally on a regular basis, we seek to understand their expectations regarding stewardship and ensure we continue meeting them. Our regular client survey, discussed earlier in this report under Principle 1, allows us to evaluate the effectiveness of our approach and identify any areas for improvement.

Over the past 12 months, we have recognised 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. While we allow our segregated clients to have a role in directing the voting of their assets, 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. While facilitating these requests present some logistical challenges, this is an ongoing area of consideration for us. In addition, we welcome the opportunity to discuss any specific requests from pooled clients on a case-by-case basis to inform our position on this matter going forward.

Alignment with clients' stewardship and investment policies

All Baillie Gifford pooled funds are managed in line with fund documentation, which clients must agree to prior to investment. Where reference is made to relevant Baillie Gifford policies, those are also made available to clients. 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 signed by Baillie Gifford and the client prior to investment. The Investment Management Agreement will reference either Baillie Gifford's relevant stewardship investment policies or those of the client. The relevant documentation will be reviewed by both parties and coded on to our proprietary investment restrictions systems to ensure we manage assets and vote in line with our agreement with clients.

Baillie Gifford has developed a proprietary Corporate Governance System (CGS) that combines the ESG Team's proxy voting, research and engagement work on one platform. CGS utilises 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 that have 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 are able to instruct their votes as they see fit. Our proxy voting systems and procedures are independently reviewed annually by our external auditors as part of our internal controls review.

We have a limited firmwide exclusion policy that includes controversial weapons and cannabis. Any further exclusions are dictated by our clients. Some clients choose to include provisions in their investment mandate that preclude us from investing in certain sectors due to social or ethical considerations, including alcohol, armaments, gambling, 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. Justifiable breaches of client restrictions are authorised by an investment manager, and an explanation is documented. Restrictions are categorised into three levels of severity: 'Inform', 'Warn' and 'Stop' restrictions.

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.

Principle 7 – Stewardship, Investment and ESG Integration

Our starting point is that we are active, and constructively engaged, long-term investors. 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 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 and focus their investments on long-term value creation. We understand that it is easy to be influenced by short-sighted demands for profit maximisation but believe these often lead to sub-optimal long-term outcomes. We regard it as our responsibility to steer 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.

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 believe that good governance works best when there are diverse skillsets and perspectives, paired with an inclusive culture and strong independent representation able to assist, advise and constructively challenge the thinking of management.

Long-term focused remuneration with stretching targets

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

Fair treatment of stakeholders

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

Sustainable business practices

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

While these principles are valid for all our investment strategies, individual investment strategies determine how best to give effect to these and 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.

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 that are prioritised will vary depending on fund objectives, asset classes and the specific investment/holding including where the asset is located.

Mainstream Equity Strategies

All mainstream equity investment strategies at Baillie Gifford (whether regional, global or international) have integrated specific ESG considerations into the pre-buy research process, as is appropriate to their own 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 ESG issues differs according to it and the market's stage of development. We therefore tailor our stewardship approach to reflect these development phases, as well as 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.

To illustrate the different ways in which a small number of our investment teams incorporate ESG issues into their research:

1. A diversified global equity portfolio

— The strategy's investment managers and analysts spend most of their time researching stocks. They are supported by their ESG analyst who contributes to the investment research process, enabling ESG assessment of companies on a case-by-case basis.

— 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 on a company's ability to compound growth many years into the future, 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 both investment returns and sustainability and governance.

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 long-term growth of the company?

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.

Once we have invested in a company on behalf of 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 around Positive Inclusion Factors, asking:

— Will the company add value for society in the long run?

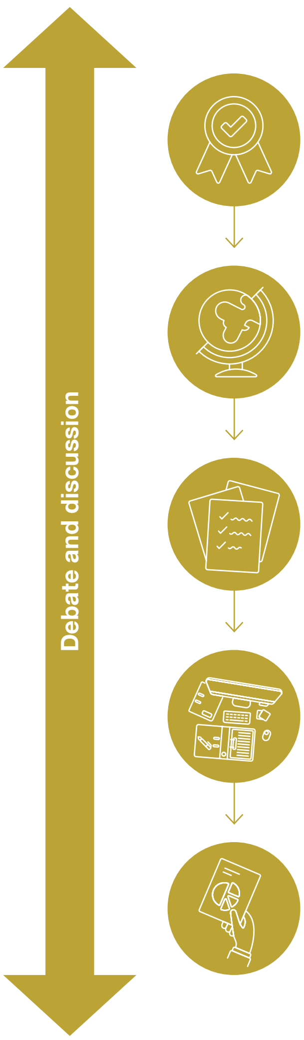
— Does it balance the needs of all stakeholders?

— Does the company exhibit a culture of responsible business?

The answers to these questions set out a nuanced and forward-looking assessment of a company's potential to generate long-term sustainable growth. This is supplemented with bespoke investment and ESG research.

Multi Asset

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



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

Alongside a company's long-term competitive position and capital structure, ESG factors are considered as a key component in assessing a bond issuer's fundamental financial resilience. To ensure consistency and repeatability of the analysis of a firm's resilience, the team assigns each investment idea a resilience score based on the analysis of three key factors, namely durable competitive position, good governance and sustainable approach (ESG), and appropriate capital structure. The specific factors that are considered will vary depending on the company's sector, region and the strength of its financial position.

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.

These factors are integrated into our analytical framework, which rests on three key areas: macroeconomic sustainability, economic management and growth potential. This framework allows us to identify and focus on the risks specific to the potential investment being analysed, from political stability in one country to environmental pressure in another, and to monitor these risks on an ongoing basis. For sovereign bonds we reference the PRI's Practical Guide to ESG Integration in Sovereign Debt (2019), which covers environmental (eg energy, natural disasters, biodiversity), social (eg demographics, education, social inclusion) and governance (eg corruption, international relations and institutional strength) factors. Sovereign engagement is more challenging given the main stakeholders for a government are its people, and rightly so. As creditors we choose to engage with governments on issues that they have already stated a commitment to, and which we fully support as investors, namely the Paris Agreement targets and the Sustainable Development Goals. This avoids pushing any agenda which may seem to advantage us to the detriment of the people of that country.

Private Companies

We believe that the best returns over the 15-year-plus periods over which our Private Companies Team invests will come from businesses which address the challenges and meet the needs of society. Given that, we do not believe that ESG questions should be extracted from our core research process. Instead, they are fundamental to the analysis we perform on each investment. Our research framework addresses issues such as the scale of the opportunity, the competitive edge and potential returns. The returns will only be met however if any questions regarding how the ESG opportunities and risks and the company's culture help it achieve its long-term business vision are also addressed.

We do believe ESG considerations play out differently in private markets compared to public. For example, as most capital deployed is in primary capital investments, this investment goes directly to company balance sheets to invest in growth. As private investors we also often have a different kind of relationship with holdings and so, a different sort of influence. Our access to investments is often predicated on building strong relationships of trust with these companies.

Process to ensure alignment with client time horizons

Our long only, active approach to investment is based on identifying and holding high-quality growth businesses that enjoy sustainable competitive advantages in their marketplace. To do this, we look beyond current financial performance, undertaking proprietary research to build up our in-depth knowledge of an individual company and form a view on its long-term prospects.

Clients select us for our 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 ongoing interactions with clients – whether through our annual survey or regular client meetings – ensures we remain aware of client expectations as these change over time. Our client survey is further discussed in Principle 1.

For example, in response to client demand, several of our funds are now defined as Article 8 under the SFDR, meaning that, aside from their primary return objective, they also aim to promote environmental and social characteristics. Such funds have made binding ESG commitments that apply to any investment made. Further details of these commitments can be found in relevant fund and strategy documentation.

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, as 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 are aiming to develop over time and the measures they have in place to achieve this. Our in-house research also incorporates information, ranging from company-specific data and analysis to proxy advice, supplied by the companies in which we invest 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 do 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.

We have an ongoing project to enhance our ESG data provision which is discussed above under Principle 2.

Stewardship informing acquisition, monitoring and exit

The following are examples of where stewardship has informed acquisition, monitoring and exit decisions across different asset classes:

FeverTree Drinks plc – a responsible equity strategy with alcohol screen

FeverTree is a British producer of premium drink mixers. Even though FeverTree derives negligible direct revenue from the sale of alcohol, our analysis revealed that its strategic focus is moving towards co-promotions and joint venture campaigns with spirits brands such as Bombay Sapphire, Jack Daniels and Martini; its website is age-restricted as it actively promotes the consumption of alcohol; and its annual report ties group sales to the sale of alcohol. We therefore concluded that its business model is intentionally comingled with the sale of alcohol and its products increase the attraction of alcohol and facilitate alcohol consumption. As we have a fiduciary duty to consider the spirit as well as the letter of the strategy's alcohol exclusion policy, we concluded that FeverTree was not a suitable investment for this strategy.

Kingspan – held across a number of equity strategies

In 2020, details emerged from the ongoing Grenfell Tower Inquiry that highlighted serious cultural shortcomings in the insulation boards division at Kingspan. Since this point, we have engaged both independently with the company and collaboratively with the Investor Forum. Through our engagements, we discussed the actions taken since the Grenfell Tower incident. We have observed progress in several areas, including those related to the new product integrity and compliance commitments. Developments include: updates made to the firm's governance, new compliance guardrails, and changes to human resource governance and processes. Kingspan has now appointed its first independent Chair and the ability of board to challenge executive management will be particularly important for the company going forward. An updated code of conduct, with strengthened whistleblowing procedures and associated training, is now in place, as was recommended by an independent review. Further to this, there is now a board-level committee responsible for compliance and the committee receives expert input from the new group head of compliance and certification. While we have taken some reassurance from the developments discussed during our engagements to date, some strategies, in consideration of their specific client profiles and mandates, opted to divest. We continue to monitor Kingspan's progress closely.

Keppel Infrastructure Trust – Multi Asset strategy

Keppel Infrastructure Trust is a listed business trust. The firm provides investors with the opportunity to invest in a large and well-diversified portfolio of core infrastructure assets located in jurisdictions with well-developed legal frameworks that support infrastructure investment. Having owned shares in the company for some years, in 2021 we reassessed the company as having a high carbon impact but with high transition potential. However, we had concerns around potential asset repricing and the slow adaptation to the speed and scale of global stakeholder expectations in this area. We set an engagement objective to gain a deeper understanding of holding-specific carbon ambitions, trajectory and timeframes for managing/mitigating potentially financially material climate-related risks.

Taking into account the different stages of market development and shareholder pressure in various geographies, we chose to continue to engage and provide our perspective on how the trust might improve integration of ESG into its investment approach, rather than moving straight to disinvestment in the first instance. We provided constructive written advice to the board to support the integration, and communication, of ESG considerations with a clear focus on all factors that are pertinent to the long-term investment case.

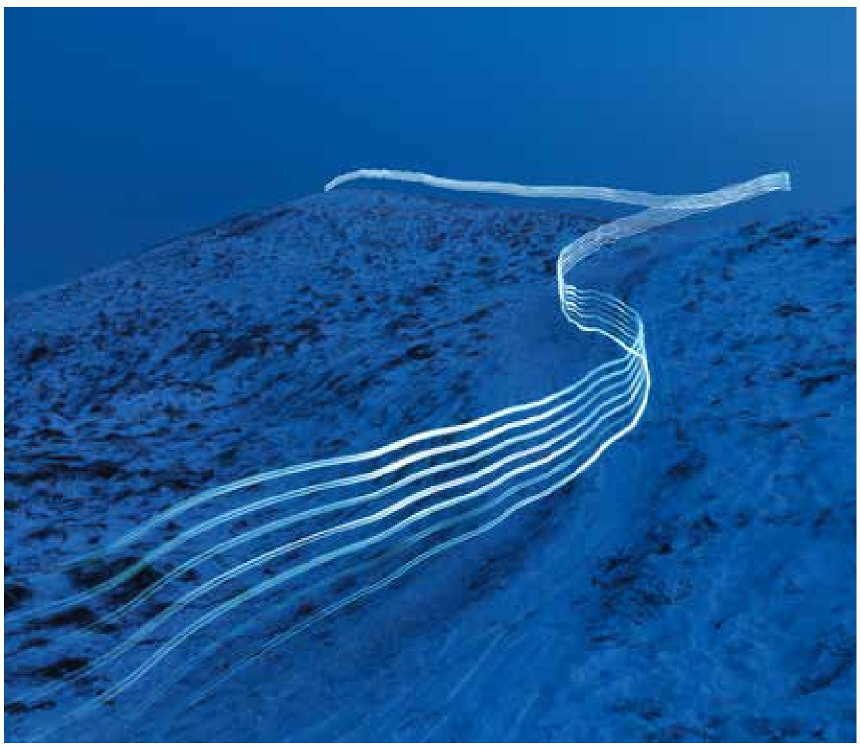
Heimstaden Bostad – Fixed Income strategy

Heimstaden Bostad is a leading European residential real estate company. In March 2021, we met with key members of the management team including the head of investor relations, the CFO and the chief sustainability officer. We engaged with the company to ensure its long-term sustainability targets have corresponding shorter-term goals that enable us to measure progress over time. We were encouraged to hear Heimstaden Bostad has committed to Science Based Targets and is exploring methods for improved scope 3 disclosure. This will allow us to track the effectiveness of its emissions reduction strategy. Heimstaden Bostad's reporting is in line with TCFD; with increased disclosure on financial stress-testing of its assets expected to be released in the next reporting cycle. We also discussed lack of diversity and low independence on the board, which could potentially threaten its ability to challenge management when appropriate. Management emphasised the importance it places on diversity at board level and we can expect to see improvements in the near-term.

The pre-buy engagement was positive and helped increase our conviction in the company resulting in a buy decision.

Principle 8 – Monitoring Managers and Service Providers

As discussed earlier in the report, while we do not outsource our research, engagement or voting, we do utilise ESG research and data and proxy adviser firms to support our stewardship and ESG integration activities.



Our Third-Party Oversight Team is tasked with ensuring 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 and understand the importance of ensuring that these relationships reflect our commitment to delivering a high level of professional service both internally and externally. The level of oversight depends on the nature of the services provided. Providers of critical or important services and those that have access to sensitive data are subject to our vendor management framework. Our five-step vendor lifecycle provides detailed guidance on new vendor appointment, the ongoing management of a vendor relationship and the termination of the relationship. For critical vendors, Third-Party Oversight will coordinate bi-annual vendor assessments with the relevant relationship managers to review service delivery, relationship status, strategic outlook, commercial review and due diligence outcome. Service level agreements (where relevant) are reviewed annually and due diligence conducted annually or semi-annually, as determined by the nature of the relationship.

Our due diligence questionnaire covers issues such as if the firm has the capacity and competency to perform its role, whether its processes are effective and conflicts of interest. Should we be unsatisfied with the results of the due diligence or the performance of the provider we would look to rectify any lacking areas through ongoing service reviews. 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 2021.

The providers we use largely deliver on our requirements, however we still have challenges with ESG data, both in terms of coverage and the quality of the data. Utilising multiple sources of data from different service providers provides some comfort that inconsistencies will be identified. If inaccuracies are found, we endeavour to highlight these to the service provider to correct. We raise these issues at regular service reviews. For instance, we have provided extensive feedback to MSCI, Urgentem and S&P Trucost on the quality and further development of their climate metrics and tools. While the basic data is sufficient, we are very concerned about the poor quality of more complex metrics such as temperature ratings and value at risk which are being used blindly by some of our peers to give assurance to clients.

We are also undergoing a programme of work to build out better ESG data provision internally. As part of this work, our newly established ESG Data Team is building out our capabilities in integrating ESG data into internal processes. Part of this work includes ensuring the integrity and accuracy of data we use. This is discussed further under Principle 2 of this report.

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. Selection and prioritisation of engagement issues starts with the portfolio managers working with the ESG analysts. It can be challenging when a holding is held in multiple portfolios. To manage this, for our largest holdings we have our 'prime contact' system. The prime contact is an individual who has primary responsibility for relationships with the companies in which we invest where there are multiple internal holders. From an ESG 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 will coordinate among the teams that own the stock ensuring all parties are consulted.

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

Influencing – Engaging with company management or board directors with a view to encouraging a particular behaviour or course of action.

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

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

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 by investment strategy. This will be informed by our proprietary investment research, 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 endeavour to engage with issuers of a range market capitalisations and holding sizes on key issues. Engagement should be a proactive activity, but there will always be examples when we need to respond reactively to an unforeseen situation or event.

Proactive

— Where our investment strategies have made net zero emissions commitments and particular companies are seen to be lagging, they will be a priority for engagement, such as the BHP example discussed under Principle 10.

— Where research has highlighted areas where we might expect increased disclosure or are looking for more forward-looking plans, such as the Alibaba example discussed later in this section.

Reactive

— AGMs also prompt many engagement discussions in areas including, but not limited to, remuneration, board composition and capital issuance. Examples of such engagements are demonstrated under Principle 12.

— Any incident that might challenge the UN Global Compact principles would prompt discussion, such as the Juukan Gorge incident with Rio Tinto discussed further under Principle 9.

Developing Objectives for Engagement

As patient, active owners, we aim to engage with the companies in which we invest 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 also to 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 own, long-term agenda known to management, is an important foundation for our work as responsible holders and is will ultimately be most successful in influencing change, as and when appropriate.

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. 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.

Below we provide two long running and complex company engagements as examples of goal setting with milestones and internal review dates for the recording of progress.

1: Vale

Background

Vale is the one of the world's largest producers of iron ore, with its most significant operations in Brazil. The company has assets across circa 30 countries, although the bulk of mining operations are in Brazil (iron ore, manganese), Canada (nickel, copper) and Mozambique (coal).

Sustainable growth thesis – Although a strong sustainability argument can be put forward for the base metal exposure here, due to its likely role in any green transition, the iron ore exposure is less clear cut. As one of the highest quality reserves globally, there is an efficiency argument to advance, with Vale having the opportunity to lead industry practices in sustainable mining.

ESG challenge – The challenge with Vale from an ESG perspective is that it has a long history of not acting as a leader, particularly on the environmental side, with fatal consequences for local communities. The Brumadinho dam failure in 2019 was both a human tragedy and an environmental disaster, and one which suggests that historic projects may have been subject to poor design and/or construction, with inadequate inspection thereafter.

Key ESG issues – Vale is considered non-complaint with Principle 7 of the UN Global Compact: businesses should support a precautionary approach to environmental challenges. Our engagement must address securing remedial actions to bring about an assessment of compliance by us and independent third parties. While Vale's record of health and safety breaches impacting its workers and communities makes for difficult reading, there appears to have been a shift in attitude over the past two years. There has been change to the board and executive management team and the company has made improvements to reporting and general preparedness levels, particularly in the key human rights and environmental areas.

Engagement – Our engagement with Vale has been ongoing since 2019. We also benefit from coordinated collaboration through the Mining & Tailing Safety Initiative that we have been a member of since its foundation in 2019. In addition, the company has reached out to Baillie Gifford multiple times in 2020 and 2021.

Baillie Gifford engagement milestones

- Setting out our expectations regarding remedial activities, monitoring of facilities and supporting industry best practices
- Monitoring the company's progress in its stated strategy to improve key ESG areas
- Securing sufficient independence and industry experience on the board
- Establishing that the board and management are aware of our internal divestment rules and timetable should no further progress be made

Date of next review of milestones: 1 October 2022

End of engagement period: 1 January 2025

2. Norilsk Nickel

Background

Norilsk Nickel is Russia's leading metals and mining company. It is the world's largest and lowest-cost producer of refined nickel and palladium, and a significant producer of platinum, copper and cobalt.

Sustainable growth thesis – Our investment case is predicated on the vital role that we believe the company will play in the global transition to a greener economy, and the shift to clean mobility, in particular, given the importance of the company's products to the electric vehicle (EV) supply chain. It is one of the few companies in the world capable of large-scale production of the highest-grade nickel that is required for EV battery manufacture.

ESG challenge – Norilsk's relationship with the environment is complex. Its record of environmental damage in recent years is noted by third-party regulators and monitors. Its operations have a significant direct environmental footprint, emitting substantial quantities of both carbon and sulphur dioxide: indeed, data from NASA suggests Norilsk is the single largest source of anthropogenic sulphur dioxide pollution. Meanwhile, the location of the Norilsk's key assets (on the Taimyr peninsula in the Arctic Circle) also exposes it to the physical effects of climate change.The company is conscious of the need to make significant improvements in its own environmental performance and reporting, and our initial decision to take a holding in Norilsk Nickel on behalf of our clients five-plus years ago reflected our view that the company had made progress on reducing and reporting on its sulphur dioxide emissions.

Key ESG issues – We and third-party monitors view Norilsk as non-compliant with Principle 7 of the UN Global Compact as a result of its environmental impact. Its 2020 record of fuel spillage into the Ambarnaya River, the pumping of industrial-waste water into the Arctic Tundra, and a leakage of aviation fuel from a pipeline in July added to our concern over the company's governance of sustainability. There are aspects of the company's immediate response to these that were encouraging but more focus on sustainable improvement is required.

Engagement – Prior to the events of May 2020, we engaged with management to offer our advice on the company's environmental initiatives. Following the events of May 2020, we urged the company to be open when it came to sharing the results of its investigation, and we reiterated our expectation to see further discussion and analysis of the impact that climate change has on all aspects of Norilsk Nickel's business.

Engagement focus – We have engaged regularly with both management and the board (January, September and December 2021) to monitor the company's progress against our three stated expectations:

- Evidence that all necessary remediation and rehabilitation of the areas affected by the spill has been completed
- Evidence that that the company is taking credible action to mitigate the risk of similar occurrences
- Evidence that the company is taking its broader environmental responsibilities seriously

The first is mostly complete and we have closed this action. The second remains a work in progress. An audit and upgrade of its fuel storage facilities have already been completed, and satellite monitoring was launched in priority areas in 2020, but the implementation of a foundation monitoring system to manage permafrost risk will be central to longer-term risk mitigation. We have asked for further granularity around timeframes.

Our third expectation is open. Norilsk has launched an environmental strategy that includes targets for both greenhouse gas emissions and is preparing a TCFD roadmap, we recognise that we are still in the early stages of a multi-year journey.

Date of next review: 1 July 2022

End of engagement period: 1 January 2024

Note: Due to the Russian invasion of Ukraine, as of March 2022, this holding is subject to formal investment and stewardship restrictions (see also our statement on Russia and Ukraine under Principle 4).

Engagement Methods

Over the course of 2021 we have used face-to-face meetings, written communication and collaboration as our most common methods for engagement.

Our most effective engagements are one-on-one meetings that can be built on year after year. Since the start of the pandemic these have most often taken place via video conference, though we look forward to resuming face-to-face meetings and company site visits in due course.

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 are increasingly participating in collaborative initiatives. This is a result of our recognition that we can both do more as our team has grown and we have the expertise that can be of benefit to the goals of a collaboration (see more under Principle 10). In addition to the 2021 investor collaborations set out in this report, we are in the process of evaluating or joining others, including Climate Action 100+.

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 set priorities for future engagements.

Reasons for chosen approach

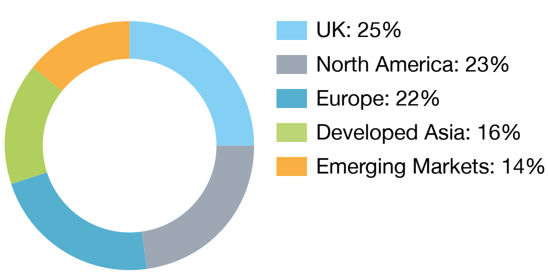
The importance of our patient approach to engagement as described in this report cannot be overstated; it is integral to building relationships with companies, to understanding the less tangible aspects of an entity, such as corporate culture, to facilitating a two-way dialogue, and to influence change. 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

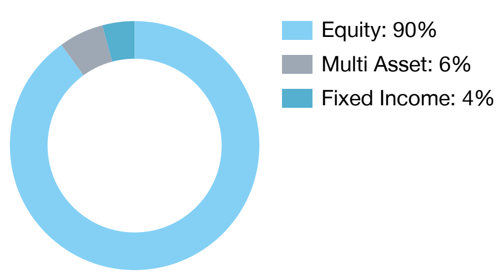
Engagement is fundamental to every fund at Baillie Gifford. All our engagements are investment-led and coordinated. Our Shanghai office has been particularly useful in coordinating our China engagements as they provide the language, essential cultural framing and local knowledge to facilitate effective dialogues.

In 2021, our ESG and investment teams engaged on material ESG issues with 377 companies across our portfolios, engaging on 491 separate occasions. We understand that the volume of meetings means little, and we set no target on quantum of meetings. The ESG Team conducts engagements both in conjunction with and independent 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 2021.

In addition to the engagements captured here, investment managers regularly meet with company management teams. Investment teams set their own engagement priorities, as is 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 engagement priorities across strategies.

Engagement Outcomes

The case studies below demonstrate our stewardship approach through constructive, ongoing engagement and are framed around our five Stewardship Principles detailed in Principle 7. We continue to hold all the companies.

AUTO1 – Prioritisation of long-term value creation

Background and Sustainable Growth Thesis

Baillie Gifford first invested in AUTO1, the used car online marketplace, when it was private and has continued to build on the relationships and insights that were initially established. We then took a holding for additional investment strategies after AUTO1's IPO in 2021. The share price has been very volatile since then, rising quickly and then falling significantly below the IPO price. We believe much of this relates more to investor sentiment and risk appetite rather than fundamentals.

Engagement prioritisation

As soon as we understood that that the management team were feeling the pressure from capital markets to try and balance growth and profitability at the same time, we met with the co-founder and CEO. During the virtual meeting and with a follow up email, we expressed our support and belief that this would impact long-term value creation given the importance to build scale first.

Purpose

As a long-term shareholder we need to provide challenge but, given the asymmetric payoffs in equity investing, it's even more important that we also provide behavioural and strategic support to companies while they grow into new market opportunities. This goes against the short-termism that seems to want to inhibit Europe's growth businesses.

Outcome

We believe this engagement helped build our relationship with the company and will support long-term value creation on behalf of our clients.

Experian – A constructive and purposeful board

Background and Sustainable Growth Thesis

Experian is an international consumer credit reporting company. Experian holds and manages the credit history and repayment data of approximately 1.3 billion people and 166 million businesses. There can be very few companies on a par with the opportunity such an extraordinary dataset brings.

Engagement prioritisation

The secure management of data and its responsible use is a vital task for Experian's management and therefore a priority engagement issue for us. It is also a key duty of the board to instil a corporate culture that balances data security and privacy with commercial opportunity. Over the course of 2021 we hosted a series of meetings with the Chair and Chair of Audit Committee to set out how the board approaches the governance of data. In parallel, we have shared our assessment of board skills and expertise in data security.

Outcome

Our proactive engagement has strengthened our confidence that the board has the appropriate diversity of technical skills and cognition to meet the challenge of governing Experian in the interests of shareholders, customers and wider stakeholders. The outcome of this successful engagement has been to increase Baillie Gifford's aggregate client holding in Experian.

Abiomed – Long-term focused remuneration with stretching targets

Background and sustainable growth thesis

Abiomed engages in the research, development and sale of medical devices to assist or replace the pumping function of the failing heart.

Engagement prioritisation

We engaged with the CFO and General Counsel to discuss changes to the compensation plan that took place in 2021. We had been supportive of compensation in previous years but had highlighted some areas for improvement. This year, however, we were concerned by the compensation committee's decision to grant recovery grants related to the Covid-19 pandemic. We believed these awards undermined the integrity of the standard compensation policy and misaligned the experience of the senior management team and shareholders. We disagreed with the rationale for granting these special payments, outlining our strong belief that we did not consider them to be appropriate and our intention to oppose the executive compensation resolution at the AGM.

Outcome

At the meeting, the pay proposal narrowly passed with 51 per cent support. Given the strong opposition, we think it is important for the company to engage with shareholders and will continue our discussions to ensure better pay practices in the future.

Ubisoft – Fair Treatment of Stakeholders

Background and Sustainable Growth Thesis

Ubisoft Entertainment is a French video game company with development studios across the world. Its market is global, fast growing and integral to transition to digital entertainment services.

Engagement prioritisation

Fair treatment of women in the workforce has been a flashpoint for the gaming industry in recent years, and Ubisoft is no exception. We have engaged with company since allegations of sexual harassment and a toxic work culture came to light in 2020. We noted that there were signs of progress, when we met with the Lead Independent Director, Didier Crespel, and new Chief People Officer, Anika Grant. It achieved its 2023 workforce gender diversity target early, with female employees now at 25 per cent. We have also observed a change in tone in external communications towards greater openness and proactivity. This is partly a response to a board request, so it is good to see some tangible evidence of the board's ability to challenge the executive. Talent management is a material area for a business with such a rich heritage of gaming intellectual property, and it is an area that we keep under close review.

Outcome

While we continue to engage on wider governance issues, we are pleased to see the continued commitment from the board and the executive team on this material social issue.

Alibaba – Sustainable business practices

Background and Sustainable Growth Thesis

Alibaba, through its subsidiaries, provides technology infrastructure and marketing reach to merchants, brands, retailers and other businesses to engage with their users and customers in the People's Republic of China and internationally. We have been holders of the company since before its IPO in 2014 and first engaged with the company on ESG matters in 2018 ahead of the release of its first Sustainability Report.

Engagement prioritisation

In 2021 we had engaged with the company's investor relations team to seek improvement in Alibaba's ESG reporting, which has been minimal since that first report in 2018. The other agenda items included Q&A to better understand some of the company's sustainable strategies in cloud, grocery and logistics. We also discussed Alibaba's continued commitment to being customer-focused and to developing services to support China's rural population. Both are critical to the company's licence to operate.

Outcome

The company offered encouraging responses to our request for enhanced ESG reporting and committed to a comprehensive report in 2022. In December 2021 Alibaba released an excellent climate report with strong targets for scope 1 emissions, with more to come in 2022. We offered our assistance in the development of this. We followed up our call with further communications illustrating good sustainability practice and reporting and will continue to meet with the company to encourage positive social and environmental developments at Alibaba. Our discussions have continued in Q1 2022 and we will provide an update in our 2022 Stewardship Report.

The case studies above provide detailed explanation of a small number of engagements. The table below highlights the variety of topics discussed with companies over the range of different ESG issues.

Issue	Topic	Number of times discussed
Environment	**Climate change**	121
	Natural resource use/impact (eg water, biodiversity)	70
	Pollution, Waste	20
Social	**Conduct, culture and ethics (eg tax, anti-bribery, lobbying)**	49
	Human and labour rights (eg supply chain rights, community relations)	28
	Human capital management (eg inclusion and diversity, employee terms, safety)	44
	Inequality	10
	Public health	8
Governance	**Board effectiveness – Diversity**	38
	Board effectiveness – Independence or Oversight	72
	Board effectiveness – Other	32
	Leadership – Chair/CEO	32
	Remuneration	168
	Shareholder rights	26
Strategy, Financial and Reporting	**Capital allocation**	51
	Financial Reporting	5
	Audit	22
	Sustainability Reporting	73
	Financial performance	4
	Strategy/purpose	119
	Risk management (eg operational risks, cyber/information security, product risks)	24

The following case studies provide two examples of ESG integration and our long-term stewardship approach at companies where we have been shareholders for over 15 years:

Rio Tinto

Overview and Objectives

Rio Tinto Group engages in finding, mining and processing mineral resources worldwide. The company is dual-listed in Australia and the UK. Since owning, we have engaged extensively with the company on a range of matters (last year's report highlighted our engagement on the Juukan Gorge incident).

Our engagement continued into 2021 both directly with the company and through collaboration with the Investor Forum and the Australian Council of Superannuation Investors. During the year we met with the new CEO, the Chair, the company's chief climate advisor and members of the company's iron ore department.

Our engagements have two key aims: to promote governance practices that support responsible operating behaviour and the creation of long-term stakeholder value following the incidents of 2020; and to ensure the company's climate strategy is suitably stretching to support future business growth in a low carbon world.

In our first meeting with the new CEO, we discussed his refreshment of the senior executive team, which was followed by an announcement of the planned departure of Simon Thompson in early 2022. These are significant changes, backed up by new governance policies and structures. Further work is required to demonstrate that these personnel and structural developments translate to a healthier corporate culture. However, we believe the company is making progress.

We disagreed with some of the executive remuneration outcomes reported during 2020/21, voting against the remuneration report at the 2021 AGM, however we believe the new pay policy is a marked improvement and felt comfortable supporting. This view was shared widely with 60 per cent of shareholders voting against the remuneration report but the remuneration policy receiving 96 per cent support.

On climate, we focused on two areas: the company's intention to submit a say-on-climate proposal at its next AGM and the strength of the company's scope 1, 2 and 3 emission reductions targets. Through our engagements, we repeated our belief that climate is a material consideration for the company and we believe the board has responsibility for ensuring successful implementation of the climate strategy.

On the say-on-climate proposal, we outlined some concerns, specifically that it is advisory, it will hand significant influence to proxy advisors and consultants, and may reduce the accountability of the board. We outlined our belief that an annual vote is not necessary as we want to avoid an endless cycle of shareholder engagement and short-term progress assessments. We see concerning parallels with the say-on-pay resolutions, which have disappointed in their ability to improve pay-for-performance and alignment. We encouraged the company to take a long-term, forward-looking approach, which explains how the climate strategy relates to the broader business plan, how it intends to meet targets and where it sees bottlenecks and opportunities.

We were pleased to see the company strengthen its scope 1 and 2 emissions reduction targets for 2030. However, these emissions only account for approximately 5 per cent of the company's total footprint, with downstream scope 3 emissions, particularly in the production of steel, the largest contributors. Accordingly, our conversation focused on how Rio intends to work with customers and other stakeholders to cut these emissions, what it sees as the key challenges and how these may impact the sustainability of the business. The company sees increasing demand for its commodities in a decarbonising world.

We reiterated that we think the company can do more to address its value chain emissions, including setting ambitious medium and long-term scope 3 targets. We encouraged Rio Tinto to lead the mining and minerals industry by setting stretching scope 3 emissions reduction targets. This should include a long-term strategy, including engagement with key stakeholders and appropriately material financial investments.

Outcome

We explained that these items will be important to secure our support for the 2022 climate transition resolution.

Kering

Overview and Objectives

Kering is a French-listed luxury goods company that develops, designs, manufactures, markets, and sells apparel and accessories. We benefit from a long-term and constructive relationship with the company, and have been engaging on ESG matters since 2016, specifically on supply chain management and remuneration linked to material sustainability objectives.

Action Taken

At the 2016 AGM, we took the decision to abstain on the remuneration report due to concerns regarding excessive relocation allowances being granted in addition to standard remuneration, and weak targets as part of the long-term incentive plan. These targets meant that the plan fully vested if there was progress, averaged over the three-year performance period, against any one of the three performance metrics. We escalated our voting action by choosing to oppose the remuneration report at the 2017 AGM. We continued to engage with Kering on our concerns regarding remuneration and continued to take voting action. In 2019 and 2020 we engaged directly with the chair of the remuneration committee. We encouraged greater ambition, both in terms of target stretch and through the incorporation of robust ESG metrics within the long-term incentive plan.

Outcome

We observed progress and noted positive changes made to the forward-looking remuneration policy that directly addressed our concerns. Updates to the Long-Term Incentive Plan included a more stretching tiered vesting schedule, which required progress across each of the three performance metrics for it to fully vest. The incorporation of an ESG metric linked to sustainable sourcing practices of Kering's key raw materials addressed the most environmentally impactful area of the value chain, as identified by Kering's pioneering Environmental Profit and Loss accounting practices. At the 2021 AGM, we were able to vote in favour of all remuneration-related proposals for the first time.

Principle 10 – Collaboration

We recognise the benefits of working alongside like-minded investors on both 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 on an individual basis 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 our holding. Collaborative engagement can be an important part of our engagement escalation and may be necessary in some instances to achieve our engagement objectives. When appropriate, we will undertake such collaborative engagement with other holders through a range of industry organisations and associations.

We are an active member of the International Corporate Governance Network, the Investor Forum, the Asian Corporate Governance Association and signatory to the Principles for Responsible Investment (PRI). We engage with other investor groups on a case-by-case basis where this could be of benefit to our clients.

Case Study: Investor Forum

In 2014, we were one of the founding members of the Investor Forum, a collective engagement initiative that arose from the 2012 Kay Review of UK equity markets and long-term decision making. The Forum helps investors to work collectively to escalate material issues with the boards of UK-listed companies with the aim of helping to build and restore trust between companies and their shareholders.

In 2021, we joined four collaborative company engagements with the Investor Forum with companies which we own of behalf of clients: Boohoo, BHP, Rio Tinto and Kingspan. Each of these companies have faced extensive ESG challenges over the past few years and we chose to collaborate with the Investor Forum in each instance to demonstrate the collective views of investors and the serious need for progress on the issues at hand. Each of these engagements have been multi-year and will likely continue. It is also worth noting that participating in a collaborative engagement initiative does not preclude us from engaging with the same company on an individual basis, indeed the combination can be positive. Our engagement with Rio Tinto is summarised earlier in this report under Principle 9, with the other engagements summarised below:

Boohoo Group – Ongoing

Following allegations of unacceptable supply chain practises in July 2020, we have been engaging both directly with the company and collaboratively with the Investor Forum to push for improvements in several areas including remuneration, sustainability monitoring, supply chain management and worker conditions. We met the company three times in 2021, following three meetings in 2020, in addition the collaborative project with the Investor Forum.

Although the issues covered in both types of meeting were similar, there were benefits to us from supplementing our own engagement with the Investor Forum's collaborative project. In particular, it provided a means to demonstrate to the company that a wide spectrum of its investors are aligned in their thinking regarding the need for significant and demonstrable improvements in ESG practices. It also enabled us to effectively monitor the board's progress towards meeting each of the milestones set by the board to deliver on all the recommendations from the independent review. We were able to question where progress appeared slow – for example, the commitment to appoint a non-executive director with specific ESG experience where it turned out the challenge was to find an individual who had the necessary sustainability experience and was also board-ready. We were also able to explore the board's response to unexpected developments along the way, such as the resignation of the company's auditor, and Boohoo's positive experience thereafter of working with a non-Big Four audit firm, where more senior resource was committed to the audit process.

By engaging in a constructive manner, we were well-placed to suggest further incremental steps that would not only further strengthen governance but also be of potential benefit to the board. One example would be our suggestion that all directors might stand for annual re-election (not required of AIM-listed companies) to avoid the risk of indiscriminate targeting by proxy agencies of those directors who happened to be standing by rotation. Such targeting in extremis could have significant unintended consequences for the company and its investors. We are still to see if this suggestion is adopted by the board.

Outcome: Reduced holding size at a firm level. For those strategies that continue to hold, we were pleased with the strengthening of the governance framework that took place over the period.

BHP Group – Ongoing

We joined the Investor Forum for an engagement with BHP Group to discuss the company's Climate Transition Action Plan ahead of the 2021 AGM. We explained our concern that say-on-climate proposals would repeat the mistakes of say-on-pay in failing to address underlying issues of alignment and pay for performance creating an industry of engagement and consultation without providing an effective stewardship tool for shareholders and their holdings.

Regarding BHP's climate strategy, we explained that we believe the company needs to do more to address downstream emissions which make up 95 per cent of its carbon footprint. Following the Forum discussion, we decided to oppose the Climate Transition Action Plan at the AGM. While we think that the company has made good progress with its approach to climate and climate-related goals focused on its own operations, we believe the material climate risks and opportunities relate to its scope 3 emissions. We believe the company needs to be more ambitious in how it addresses this part of its value chain, through target setting, engagement and investment.

Outcome: Opposed the proposed Climate Transition Action Plan and continue to engage.

Kingspan – Ongoing

See Principle 7 for further details of the collaborative engagement being undertaken.

Outcome: Reduced holding size at a firm level, engagement ongoing.

Case Study: Latin American sovereign debt issuers – ongoing

The Emerging Markets Debt Team looks to engage with sovereigns through a variety of 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. The EM Debt Team has been working with the EMIA, other asset managers and the International Budget Partnership to improve the quality and transparency of budget information in several Latin American countries. This is vitally important as clear and timely information allows citizens and investors to hold the government accountable and can feed through to the risk premium a country must pay to borrow.

Outcome: Thus far, we have seen positive actions from Chile and Colombia through our engagement and would expect them to score more highly on budget transparency in the upcoming Open Budget Survey.

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 issue and will be based on our detailed knowledge of an investment case at a company, country and sectoral level. For example, we might prioritise environmental issues at companies operating in the mining sector, health and safety issues at an auto manufacturer, or data security for a technology platform.

Once we have identified an issue, 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; we may engage suggesting change 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 area for engagement/issue occurs 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 an effective relationship 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. For example, as our ownership rights for fixed income investments differ in legal contract to 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 be different across asset classes and geographies, the escalation path will be broadly consistent.

Case Study: Fairfax Financial Holdings Limited

On our clients' behalf, Baillie Gifford was a long-term shareholder in Fairfax Financial Services. It is a North American company offering property and casualty insurance and reinsurance, and investment management services in the United States, Canada, Asia, and internationally having been holders of the stock for over 10 years. We exited the investment in 2021 following a lack of progress on key governance engagement topics.

In 2020, we engaged with the company to encourage progress in two key areas where we felt improvement was required: board composition and auditor rotation.

Over the course of 2020, we had three separate calls with the CEO/Chair, Head of Investor Relations and the Senior Independent Director to better understand these topics and encourage change.

At the time, four independent directors were long-tenured directors and we considered them no longer independent. Diversity was also lacking. During discussions, we agreed it was important to have people with appropriate skills on the board and the company signalled that both diversity and independence was going to be a focus for future changes. Additionally, the auditor had been in place since 1985. While long audit tenure is not uncommon for North American companies, in 2019, the previous audit partner joined the Fairfax board as Senior Independent Director and Chair of the Audit Committee, following a one-year cooling off period. We felt this connection, alongside the long audit tenure, challenged the independence of the auditor. We stated to the company our expectation that the auditor be retendered.

Progress

We monitored progress on these two areas but felt sufficient progress hadn't been made in response to our engagement. In fact, the board composition was worse with the appointment of an additional non-independent director onto the board, who had previously been a consultant for the business. We therefore took the decision to escalate our activities and vote against the appointment of the new non-independent director candidate and also vote against the appointment of the auditor at the 2021 AGM.

Later that year, we revisited our investment case for the company and took the decision to sell the holding due to these governance concerns, alongside broader investment considerations.

Case Study: Ryanair

As discussed in the 2019 and 2020 Investment Stewardship Activities reports, we have a long history of engaging with the company. Over the past six years, we have seen sizeable shifts in the way Ryanair approaches customers, employees, shareholders and shareholder rights. Its governance structures are adapting to better support a business of Ryanair's size and over time we have pressed the company to improve its remuneration policy, the disclosure of carbon emissions, the composition of the board and the provision of shareholder voting to holders of the American Depositary Receipt (ADR).

In 2021 our engagement continued and moved on to the challenge pertinent to the entire airline sector, climate change. Following the company's AGM, we met with Chair Stan McCarthy, Non-Executive Director Louise Phelan and Director of Sustainability, Thomas Fowler. We discussed the company's recent order of planes from Boeing, the planned ramp up ahead of next summer as we hopefully return to anormal operating environment post Covid, and its efforts to reduce the company's carbon footprint. We have been encouraged by recent engagements that Ryanair is actively involved in finding solutions to its climate challenges.

Progress

The company submitted its carbon emissions data to the Carbon Disclosure Project (CDP) for external verification, which we recommended in our previous call, and has committed to improving its disclosure. The company has joined various third-party initiatives looking to develop sustainable decarbonisation technology within the aviation industry, and announced a sustainable aviation fuel target for 2030, as well as a partnership with Trinity University to research sustainable aviation fuel.

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 share price.

Our strong preference is therefore to take on this direct responsibility for our clients. The ability to vote 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 oversees our voting analysis and execution in conjunction with our investment managers. 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 will attend company general meetings where: we have large holdings, where there is a contentious issue, and where attendance in person rather than voting by proxy is in our clients' best interests.

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.

Our proxy voting activity is published quarterly on our website.

Looking forward: For 2022, we have updated *Our Stewardship Approach* to clarify our expectations and potential action we may take regarding climate change, including targets and disclosure, aligned with our Net Zero Asset Manager's initiative commitments made at the end of 2021. Additionally, we intend to do more analysis on the outcomes of improved diversity and inclusion at our holdings.

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 therefore able, in effect, to override our house policy and/or our intended voting decision.

Our proprietary CGS system facilitates the application of these client-specific policies. Information regarding client requirements is captured and retained on the system and therefore flagged at 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 recently responded to a consultation from Guy Opperman, MP on this topic. We feel that exercising voting rights on behalf of our clients is very much part of our overall responsibility as the manager of our funds. Indeed, if the asset management industry is to effectively contribute towards the proper functioning of capital markets then divorcing voting power from investment decision-making could have perverse results.

We will continue to engage with clients on this 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

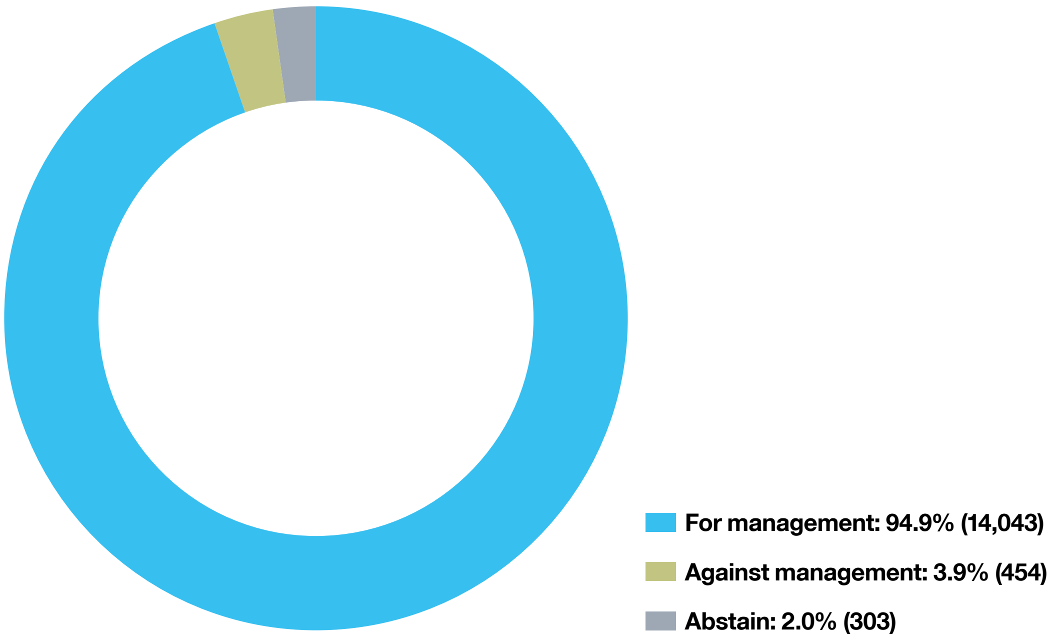
Baillie Gifford does not engage directly in stock lending. As stated, we believe that voting is a core element of effective stewardship. When shares are on loan, we lose our voting rights. We believe that stock lending comes into conflict with the principle of stewardship through complicating, and even 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 and why

The following chart summarises Baillie Gifford's proxy voting activity in 2021. As we have said, we endeavour to vote all our clients' shares, but there will be occasions when we cannot. The most common reasons we do not vote at meetings are adherence to our Conflicts of Interest policy, and due to market restrictions (share blocking) that prevent us from trading during the period between the votes being cast and the date of the meeting.

In 2021, we voted at 1,656 company meetings out of a possible 1,695 company meetings. This represents 98 per cent of the total meetings we were eligible to vote at.

Baillie Gifford Proxy Voting Activity 2021



It is no surprise that as long-term owners, seeking to invest in a relatively small number of exceptional companies, that we are generally supportive of management. When opposing a management recommendation, we look to 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

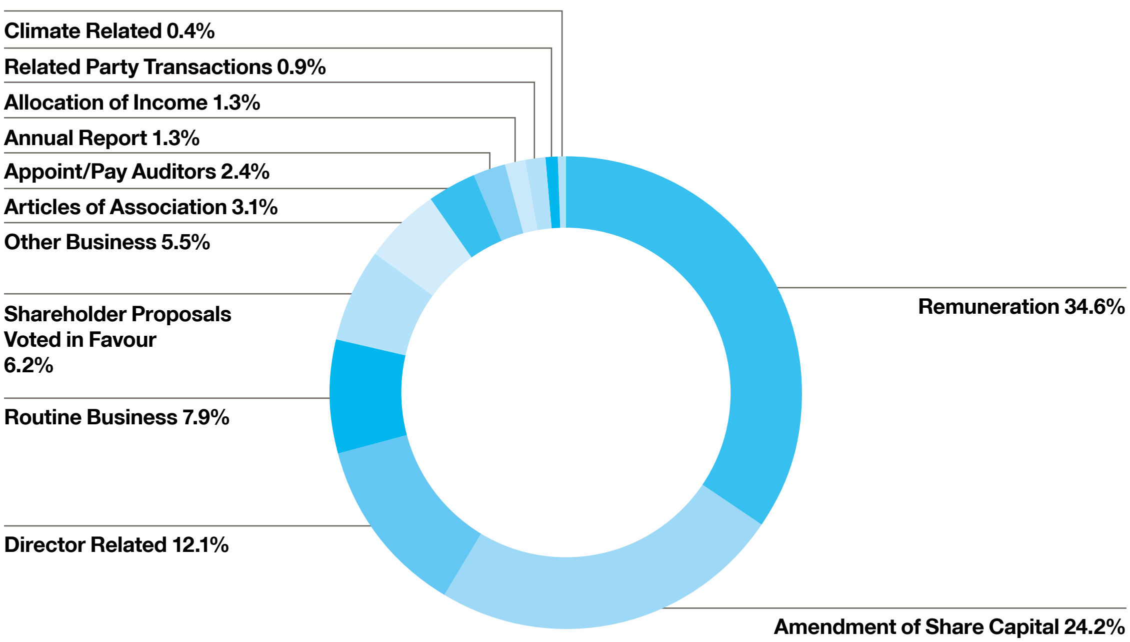
For clients that have delegated their voting discretion to Baillie Gifford, we include a portfolio-specific proxy voting report in their quarterly report.

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 management 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[3], director elections, capital management[4] and voting in favour of shareholder proposals.

Breakdown of Votes Against Management



3. Includes employee equity plans and directors' remuneration.
4. Includes amendment of share capital and share repurchase.

There are many occasions where, as one of the largest shareholders in a company we will engage and communicate in advance of any general meeting that if an issue identified by our investors remains unresolved, we will vote against the relevant resolution(s). For example, we are the largest minority investor in Rational AG, the German manufacturer and retailer of combi steamers and ovens. During 2020 we engaged on several occasions with the company regarding its decision to combine the roles of CEO and CFO beyond a short-term, interim basis. Had this arrangement persisted we would have voted against the board. This was understood by the company and recognised as a significant divergence from our long-standing supportive stance. At the time of the engagement our shareholding held on behalf of clients was 7.1 per cent of issued equity.

For example, in February 2021 we were notified that Jörg Walter, via an internal promotion, would be appointed as CFO of Rational effective 1 March 2021. We responded with our support for the decision and commended the Supervisory Board on its considered approach to addressing our concern on this most material corporate governance issue. Because of our private engagement, our voting decision at the 2021 AGM was in favour of all directors. We remain the company's largest minority investor. This case provides an example of our active use of voting rights as an effective engagement tool.

Remuneration

Effective remuneration policies help to recruit, retain and motivate the best available talent, while also 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 2021, we opposed remuneration for several reasons including, but not limited to, discretionary bonus awards, retrospective changes to remuneration outcomes and insufficiently stretching targets. Examples of companies where we opposed executive remuneration due to insufficiently stretching targets included: AJ Gallagher, Align Technology, Ameren Corporation, Ambarella, Annaly Capital Management, Analog Devices, Consolidated Edison, CH Robinson, Danone, Deutsche Wohnen, Dolby Laboratories, Edenred, Fortive, Hefei Meyer Optoelectronic, National Instruments, Nestlé, PepsiCo, Verisk Analytics, Veeco Instruments, Waters, Wheaton Precious Metals and WEC Energy Group.

Director Elections

When considering the election of directors, we consider 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, as well as 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 around the board and/or individual directors, we will oppose the appropriate director(s) election.

Examples of companies where we opposed director elections due to independence concerns include: Fuyao Glass Industry, Ping An Insurance, Findex, Nickel Mines, MMG, ICICI Prudential, Iida Group Holdings, United Spirits, DLF, IDFC First Bank, Quess Corp, Frontier Developments and Ningbo Peacebird.

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 clearly how they intend to use the additional capital. We will consider supporting higher levels of capital issuance if we believe it will be of benefit to 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 continuous uncertainty caused by the pandemic, in 2021, we applied greater discretion to requests to issue shares in to allow companies to raise capital quickly and manage their balance sheet appropriately.

Examples of companies where we opposed capital issuance requests due potential dilution concerns include: Eurovestech, LVMH, Vonovia, Convivio REIT, Nanobiotix, Schneider Electric, Danone, Hermes International, John Laing Group, ANTA Sports and Home24.

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 hold companies accountable on their wider impact on stakeholders. We assess each resolution on a case-by-case basis and will support those resolutions that address key governance, social and environmental approaches of target companies, or accelerate progress on material governance and ESG issues, where we feel improvement is required. We do not however expect these proposals to be repetitive, prescriptive or to seek to micromanage companies. 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.

Examples of where we have supported shareholder proposals that called for increased disclosure on ESG matters include: T. Rowe Price, Charles Schwab, UPS, Amazon, Royal Caribbean, Booking Holdings, Netflix and Tesla.

Full disclosure of our rationale for all votes against, all abstentions, and all shareholder proposals can be found on our *website*.

Monitoring of Shares and Voting Rights

Our proprietary Corporate Governance System (CGS), discussed elsewhere in this report, combines the ESG team's proxy voting, research and engagement work on one platform. CGS utilises 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. The system highlights 'exceptions'. For example, if a ballot has not been received or has been received in error, our ESG Services 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 is shared across the investment floor. Our proxy voting systems and procedures are independently reviewed annually as part of our internal controls review by our external auditors. 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 your role or level of experience.

CGS utilises electronic data feeds with external voting agents, Broadridge and ISS, to allow straight through processing of proxy votes, directly connecting voting action to client quarterly reporting. CGS is an exceptions-based system and reconciles the voting ballots received from external voting agents with our front office systems.

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

iRobot

iRobot, a US-listed robotics company, is an example of why companies should ensure that good governance standards are established from the start.

Over the years, the Board attempted to improve its bylaws, including the declassification of the Board, the provision of a right to call special meetings to shareholders and the removal of a supermajority voting requirement. However, due to the low turnout, the above proposals repeatedly failed, despite receiving majority support of votes cast, including our favourable votes. At the 2021 AGM, Baillie Gifford sought to assist the passage of these proposals by voting all shares at our disposal, including reaching out to clients for their assistance in ensuring that we can exercise the maximum potential voting rights.

Outcome: We were disappointed to see that despite our efforts and the increased level of voter support, the resolutions failed due to the said supermajority voting requirement, which the company had attempted to remove. However, we will continue to support iRobot in enhancing its corporate governance standards.

Netflix

Netflix, a streaming service provider and a production company, was among a number of US companies that received a shareholder request to produce a report on political contributions in 2021. We believe that this is an important topic and that enhanced transparency on the company's political activities will be beneficial for all stakeholders. Therefore, we supported the shareholder proposal at the 2021 AGM.

Outcome: We were pleased to see that the proposal passed, having received over 80 per cent of for votes. We will be following the company's progress in addressing views expressed by Baillie Gifford and other shareholders.

Makita

Makita Corporation is a Japanese manufacturer of power tools. Since 2016, we have raised concerns over the low level of independence of the main board of directors, which was below our expectation of at least 33 per cent independence in the Japanese market. We held the board chair accountable for the failure to ensure sufficient independence and cast against votes on his re-election in 2017 and 2019. When voting the 2021 AGM, we were pleased to see that the company re-evaluated its governance structures and proposed to shift its board structure from a traditional two-tier to a one-tier board, thus increasing the participation of unaffiliated directors in board deliberations and meeting our independence threshold. Notwithstanding our appreciation for the proposed change, we were disappointed to see that this proposal was bundled together with amendments to bylaws to remove the requirement of putting dividends to a shareholder vote. We have been taking voting action on the dividend vote for four years due to our continuous disapproval of the company's modest dividend payments. Due to this and the effect on the rights of our clients and other shareholders, we were unable to support the proposal.

Outcome: The dividend proposal passed with 89.4 per cent support. The amendment to articles passed with 93.55 per cent support. While we are happy with the progress on board independence, we will continue to engage on the shareholder dividend vote.

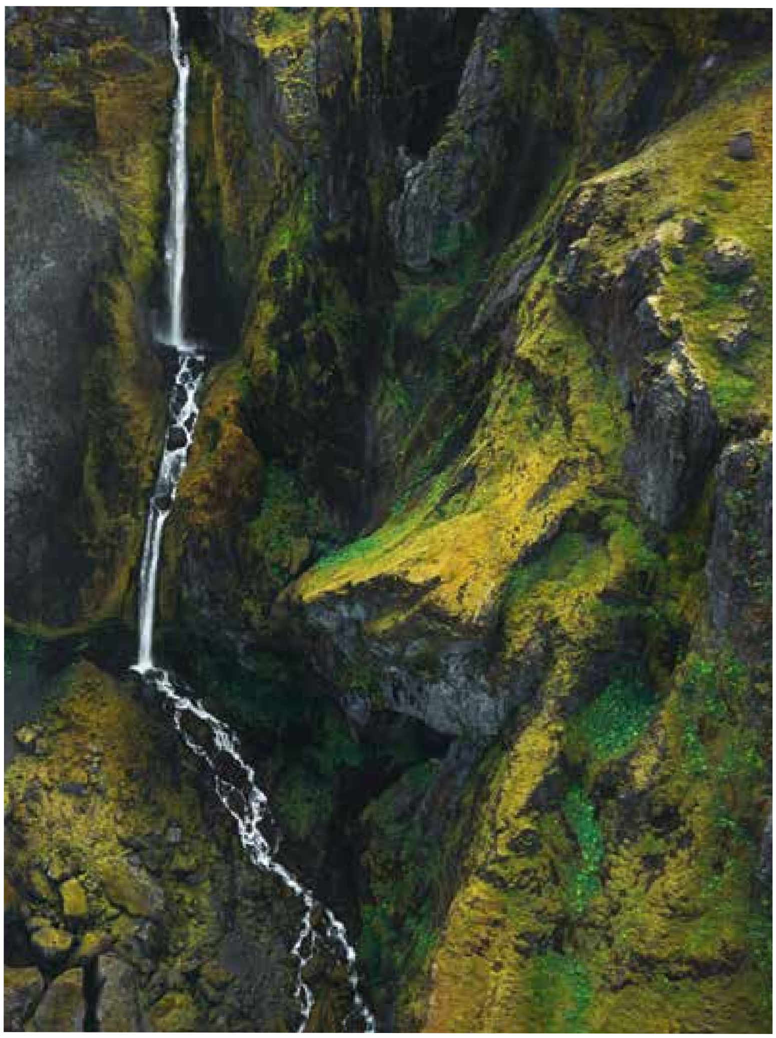
Amadeus

Amadeus IT Group, S.A., a Spanish listed company, operates as a transaction processor for the travel and tourism industry, which was particularly badly affected by the pandemic. Ahead of the 2021 AGM, we reached out to the company to discuss decisions taken by the remuneration committee with respect to the 2020 financial year. We were not convinced by the company's rationale to grant a sizable special bonus to the CEO and to make in-flight amendments to outstanding LTIP awards, which effectively assumed that the 2020 financial performance was 'on target'. We explained that this approach did not fairly represent the experiences of broader stakeholders and decided to oppose the remuneration report and against the remuneration committee chair in to demonstrate our disapproval of such practices.

Outcome: The remuneration report failed having secured only 38 per cent of favourable votes. The re-election of the remuneration committee chair passed receiving over 93 per cent of favourable votes.

Conclusion

We hope that this report has provided a comprehensive overview of how we put our commitment to good stewardship into practice. As well as aiming to do the very best job for our clients, there are also increasing expectations on businesses and investment managers alike to act responsibly and contribute to sustainable development goals. Good stewardship continues to be a vital consideration for Baillie Gifford in the face of systemic risks, such as the state of the climate emergency and increasing inequality. As such, we will continue to invest our resources and energy in this key area for our business.



Important Information

Baillie Gifford & Co and Baillie Gifford & Co Limited are authorised and regulated by the Financial Conduct Authority (FCA). Baillie Gifford & Co Limited is an Authorised Corporate Director of OEICs.

Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK Professional/ Institutional clients only. Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford & Co and Baillie Gifford Overseas Limited are authorised and regulated by the FCA in the UK.

Persons resident or domiciled outside the UK should consult with their professional advisers as to whether they require any governmental or other consents in order to enable them to invest, and with their tax advisers for advice relevant to their own particular circumstances.

Financial Intermediaries

This communication is suitable for use of financial intermediaries. Financial intermediaries are solely responsible for any further distribution and Baillie Gifford takes no responsibility for the reliance on this document by any other person who did not receive this document directly from Baillie Gifford.

Europe

Baillie Gifford Investment Management (Europe) Limited provides investment management and advisory services to European (excluding UK) clients. It was incorporated in Ireland in May 2018. Baillie Gifford Investment Management (Europe) Limited is authorised by the Central Bank of Ireland as an AIFM under the AIFM Regulations and as a UCITS management company under the UCITS Regulation. Baillie Gifford Investment Management (Europe) Limited is also authorised in accordance with Regulation 7 of the AIFM Regulations, to provide management of portfolios of investments, including Individual Portfolio Management ('IPM') and Non-Core Services. Baillie Gifford Investment Management (Europe) Limited has been appointed as UCITS management company to the following UCITS umbrella company; Baillie Gifford Worldwide Funds plc. Through passporting it has established Baillie Gifford Investment Management (Europe) Limited (Frankfurt Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in Germany. Similarly, it has established Baillie Gifford Investment Management (Europe) Limited (Amsterdam Branch) to market its investment management and advisory services and distribute Baillie Gifford Worldwide Funds plc in The Netherlands. Baillie Gifford Investment Management (Europe) Limited also has a representative office in Zurich, Switzerland pursuant to Art. 58 of the Federal Act on Financial Institutions ('FinIA'). It does not constitute a branch and therefore does not have authority to commit Baillie Gifford Investment Management (Europe) Limited. The firm is currently awaiting authorisation by the Swiss Financial Market Supervisory Authority (FINMA) to maintain this representative office of a foreign asset manager of collective assets in Switzerland pursuant to the applicable transitional provisions of FinIA. Baillie Gifford Investment Management (Europe) Limited is a wholly owned subsidiary of Baillie Gifford Overseas Limited, which is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited and Baillie Gifford & Co are authorised and regulated in the UK by the Financial Conduct Authority.

China

Baillie Gifford Investment Management (Shanghai) Limited 柏基投资管理(上海)有限公司('BGIMS') is wholly owned by Baillie Gifford Overseas Limited and may provide investment research to the Baillie Gifford Group pursuant to applicable laws. BGIMS is incorporated in Shanghai in the People's Republic of China ('PRC') as a wholly foreign-owned limited liability company with a unified social credit code of 91310000MA1FL6KQ30. BGIMS is a registered Private Fund Manager with the Asset Management Association of China ('AMAC') and manages private security investment fund in the PRC, with a registration code of P1071226.

Baillie Gifford Overseas Investment Fund Management (Shanghai) Limited 柏基海外投资基金管理(上海)有限公司 ('BGQS') is a wholly owned subsidiary of BGIMS incorporated in Shanghai as a limited liability company with its unified social credit code of 91310000MA1FL7JFXQ. BGQS is a registered Private Fund Manager with AMAC with a registration code of P1071708. BGQS has been approved by Shanghai Municipal Financial Regulatory Bureau for the Qualified Domestic Limited Partners (QDLP) Pilot Program, under which it may raise funds from PRC investors for making overseas investments.

Hong Kong

Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 is wholly owned by Baillie Gifford Overseas Limited and holds a Type 1 and a Type 2 license from the Securities & Futures Commission of Hong Kong to market and distribute Baillie Gifford's range of collective investment schemes to professional investors in Hong Kong. Baillie Gifford Asia (Hong Kong) Limited 柏基亞洲(香港)有限公司 can be contacted at Suites 2713-2715, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. Telephone +852 3756 5700.

South Korea

Baillie Gifford Overseas Limited is licensed with the Financial Services Commission in South Korea as a cross border Discretionary Investment Manager and Non-discretionary Investment Adviser.

Japan

Mitsubishi UFJ Baillie Gifford Asset Management Limited ('MUBGAM') is a joint venture company between Mitsubishi UFJ Trust & Banking Corporation and Baillie Gifford Overseas Limited. MUBGAM is authorised and regulated by the Financial Conduct Authority.

Australia

Baillie Gifford Overseas Limited (ARBN 118 567 178) is registered as a foreign company under the Corporations Act 2001 (Cth) and holds Foreign Australian Financial Services Licence No 528911. This material is provided to you on the basis that you are a 'wholesale client' within the meaning of section 761G of the Corporations Act 2001 (Cth) ('Corporations Act'). Please advise Baillie Gifford Overseas Limited immediately if you are not a wholesale client. In no circumstances may this material be made available to a 'retail client' within the meaning of section 761G of the Corporations Act.

This material contains general information only. It does not take into account any person's objectives, financial situation or needs.

South Africa

Baillie Gifford Overseas Limited is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa.

North America

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005 and is registered with the SEC. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in North America. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

The Manager is not resident in Canada, its head office and principal place of business is in Edinburgh, Scotland. Baillie Gifford Overseas Limited is regulated in Canada as a portfolio manager and exempt market dealer with the Ontario Securities Commission ('OSC'). Its portfolio manager licence is currently passported into Alberta, Quebec, Saskatchewan, Manitoba and Newfoundland & Labrador whereas the exempt market dealer licence is passported across all Canadian provinces and territories. Baillie Gifford International LLC is regulated by the OSC as an exempt market and its licence is passported across all Canadian provinces and territories. Baillie Gifford Investment Management (Europe) Limited ('BGE') relies on the International Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

Oman

Baillie Gifford Overseas Limited ('BGO') neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently, BGO is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. No authorization, licence or approval has been received from the Capital Market Authority of Oman or any other regulatory authority in Oman, to provide such advice or service within Oman. BGO does not solicit business in Oman and does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. The recipient of this material represents that it is a financial institution or a sophisticated investor (as described in Article 139 of the Executive Regulations of the Capital Market Law) and that its officers/employees have such experience in business and financial matters that they are capable of evaluating the merits and risks of investments.

Qatar

The materials contained herein are not intended to constitute an offer or provision of investment management, investment and advisory services or other financial services under the laws of Qatar. The services have not been and will not be authorised by the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or the Qatar Central Bank in accordance with their regulations or any other regulations in Qatar.

Israel

Baillie Gifford Overseas is not licensed under Israel's Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 5755–1995 (the Advice Law) and does not carry insurance pursuant to the Advice Law. This material is only intended for those categories of Israeli residents who are qualified clients listed on the First Addendum to the Advice Law.

BAILLIE GIFFORD. ACTUAL INVESTORS.

bailliegifford.com/actual-investors

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Telephone +44 (0)131 275 2000 / bailliegifford.com