

Baillie Gifford's Approach to Governance and Sustainability

ESG is the acronym for 'Environmental, Social and Governance' issues. It has emerged as an industry short hand for a very broad range of matters relating to how a company is governed and its impact on society. Whilst it is now a widely accepted term, we prefer to focus on governance and sustainability as broader interlinked concepts which also factor in a company's performance on environmental and social issues – a business with an unacceptable environmental record for example is a poorly governed one that should be a priority for engagement, and if necessary, voting action.

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 an in-depth knowledge of an individual company and a view on their long-term prospects. This focus on 'bottom up' research also applies to our work on governance and sustainability.

We are also comfortable with Baillie Gifford's various investment strategies taking different approaches to reach the same goal of properly assessing and weighing up governance and sustainability considerations in the investment process. The general principles outlined below are however valid across all of our investment teams.

Governance and sustainability considerations are not separate side issues, they are central to our investment process. All of our investment staff share the responsibility for identifying, analysing and monitoring issues and opportunities with our current and potential holdings. Our investment staff spend a very significant amount of time assessing the quality, integrity, motivation and culture of management teams, and then acting on their convictions. The work of our dedicated Governance & Sustainability team supports this.

As active managers we have regular meetings with management and board members to identify and understand issues and to monitor performance. Analysts from the Governance & Sustainability team regularly join our investors for these meetings, in addition to meetings that they will arrange directly with company representatives to discuss specific issues.

When engaging with companies on governance issues, we have clear objectives. Where we do have reservations about a company's approach, we prefer to encourage change through active ownership rather than divestment in the first instance. This will range from communications expressing concern through to face-to-face meetings with management and, where appropriate, voting against management. If we have been unable to exert any influence over a company on a material issue over a protracted period of time our investment managers will consider reducing or selling our holdings