

Pensions CIV Sectoral Joint Committee

Item no: 11

Stewardship and Voting

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Summary

This Committee agreed at its meeting on 27 May 2015 on an initial approach to stewardship and voting at which it was agreed to adopt LAPFF principles given the widespread membership of this amongst the London Local Authorities on the CIV. It was however, recognised that this was at a relatively early stage of development for the CIV and for pooling of LGPS investments more generally and that this issue should be re-visited at a future date.

This paper sets out further areas for discussion by the Joint Committee and considers proposals for looking at how stewardship and voting might be taken forwards by the CIV, but reflective of individual London Authorities positions.

Recommendations

The committee is recommended to:

- i. Note the contents of this report;
 - ii. Provide feedback on the possible options for taking stewardship and voting forwards as laid out in the report
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Stewardship and Voting

Introduction

1. Members of this Committee will recall that the issue of Stewardship and Voting was discussed at its meeting on 27 May 2015 before the CIV became fully operational as a company with assets under management. At that time the Committee resolved to adopt the voting principles of the LAPFF and to consider membership of LAPFF for London CIV to facilitate this approach. The rationale for this being that the majority of authorities that were participating in the London CIV at that time were members of LAPFF (this now stands at 20 participating funds or just over 60%).
2. Given that the foregoing discussions took place at a relatively early stage in the development of the CIV, it was always intended to return to the detail of stewardship and voting at a future date (later this year). However, as issues have arisen in this area more recently, including a recognition that London CIV's processes and procedures are not as robust as they need to be, it is appropriate to bring this Committee up to date with the work that has been done at officer level as part of the Investment Advisory Group and also to outline some proposed next steps to better define London CIV's stewardship and voting strategy.
3. It is recognised that good stewardship plays a key role in the management of assets, but it is also recognised that there are different views across London as to how matters of voting and stewardship should be implemented. Therefore future discussions about how to progress need to ensure that all views have the opportunity to be aired before any proposals can be implemented and that any decisions taken should ideally enable individual London Authority positions to be reflected.
4. In addition, since the 27 May decision was taken, the government has published its pooling Criteria and Guidance (covered under agenda item 4), which essentially changes the basis of pooling from one of voluntarism to a more compulsory footing and with expectations of a faster transition timetable than originally envisaged, This fundamental change has added impetus to the need to move forwards more swiftly with further consideration of the voting and stewardship arrangements.

Background

5. Following the 27 May resolution London CIV has engaged with the LAPFF Chair and officers with a view to becoming members. However, it has not been possible to progress this due to constitutional issues at the LAPFF (effectively the scope of membership does not include LGPS pools). It is understood that LAPFF will be considering constitutional changes in due course and that a decision may be made in the early part of 2017. However, in the meantime it has been agreed that London CIV can attend meetings as observers and will be provided with information and reports until such time as a formal decision has been taken on opening membership up to the various LGPS pools which are being formed around the country.
6. As the London CIV has opened its first sub-funds voting decisions have been delegated to the 3rd party fund managers. As Members will be aware the London CIV currently has two equity managers on its platform and a DGF fund, with other funds due to be

launched over the new few weeks and months. The two managers are Allianz and Baillie Gifford, officers from London CIV have reviewed their corporate governance guidelines and whilst these would appear to be fairly generic they are not out of line with best practice views in this area, although clearly how these policies are interpreted and applied in practice can vary from case to case, particularly in areas such as executive remuneration. The policy statements from the two managers are attached for information at Annex A and B. Going forwards when undertaking due diligence for manager appointments to the London CIV, more emphasis is being placed on ensuring greater understanding of the manager's approach to stewardship and voting to ensure that the CIV's policies can be applied by the manager including voting in accordance with LAPFF guidelines. However, this may ultimately require the appointment of an external provider in this area, to ensure that managers are able to consistently apply the CIV's agreed policy decision, particularly as the CIV has recently become aware of a voting decision taken out of line with the CIV policy position. In the short term improvements are being put in place to ensure that closer engagement with and monitoring of managers takes place, with reports being provided to the Joint Committee to enable closer scrutiny of the stewardship and voting of authority assets in accordance with the policy decisions of this Committee.

7. The Investment Advisory Committee has been considering how the CIV might approach this area and earlier in the year formed a Responsible Investment sub-group to look at member Fund requirements. (with a report on the work of that Committee included as agenda item 10).
8. At the outset, the group looked to understand the views across the London pension funds on how they regarded such matters and carried out a survey, which 26 or just over 80% of funds responded to. The key findings from the survey along with the questionnaire that was sent out are included as appendix C to this report. Key takeaways from the survey were that funds were keen for the CIV to develop a compliance statement in line with the Stewardship Code (which is in line with most fund managers) and for engagement with fund managers and /or underlying companies along with membership of LAPFF. Attitudes towards voting varied between extremely important to not that important reflecting the wide range of views across London. Where preferences were expressed for having access to specific ESG type investment strategies, then low carbon, sustainable and exclusion were the key preferences. In addition the sub-group has also met with a range of managers including passive and index providers to develop a greater awareness of the issues surrounding responsible investment and to consider what investment options might be available for inclusion on the CIV at a future date.
9. Following the Criteria and Guidance being issued in November, a national cross-pools collaboration group was established covering the 8 LGPS pools to discuss issues of common interest and exchange of ideas. It was agreed that there were a further 2 key areas that needed to be addressed as part of that cross-pool group, namely infrastructure and responsible investment. Officers from the London CIV attend both the sub groups as well as the high level cross pool group. In respect of the Responsible Investment sub-group, this has adopted a number of high level principles to share guidance, best practice and support, as well as to identify risks and opportunities in this area.

10. Officers of the CIV are also engaged with the National LGPS Stewardship Framework procurement which is currently under development. The Framework will enable LGPS pools and funds to access wider stewardship services including voting and governance overlay services more easily. Depending on the needs of the CIV and the underlying requirements of the London Authorities, it will therefore be possible to access this framework with considerable understanding of the providers that are appointed to the framework.
11. The CIV is also mindful of the requirements that are likely to be placed on member funds to issue Investment Strategy Statements (replacing the Statement of Investment Principles) under the government's proposed new LGPS Investment Management Regulations, and how London CIV will assist funds in meeting these policy objectives. For reference the extract below is taken from the Draft LGPS (Management and Investment of Funds) Regulations 2016, Regulation 7:

(e) the authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

Next steps

12. As outlined above, there is work underway to consider how the CIV takes forward the key areas of responsible investment, stewardship and voting which needs to be reflective of individual London Authorities positions. Proposed next steps for improving the current position and progressing more consideration of these issues are:
- i. London CIV to complete a full review of its stewardship and voting policies and procedures and to ensure that necessary improvements are implemented with immediate effect;
 - ii. A report to be presented at the September meeting of this Committee covering actions taken under (i) and a draft stewardship code for London CIV;
 - iii. A report to this Committee from the RI / ESG sub-group of the Investment Advisory Committee on the work of that group, including any proposals for action;
 - iv. Formation of a cross cutting group from the Joint Committee (up to 6 Members) to consider how the RI / ESG issues should be addressed through the CIV;
 - v. Consideration of a dedicated seminar for Members and officers on responsible investment and stewardship in the autumn for those funds that are keen to explore these areas in greater depth.

Recommendations

13. The committee is recommended to:
- i. Note the contents of this report
 - ii. Provide feedback on the next steps proposed in paragraph 12

Financial implications

14. There are no financial implications for London Councils

Legal implications

15. There are no legal implications for London Councils.

Equalities implications

16. There are no equalities implications for London Councils

Annexes

Annex A Allianz Global Investors Corporate Governance Guidelines

Annex B Baillie Gifford Global Corporate Governance Principles and Guidelines

Annex C London Funds Responsible Investment / ESG survey

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Preamble

Allianz Global Investors is a trusted partner for clients across all major asset classes. Our teams can be found in 19 markets worldwide, with a strong presence in the US, Europe and Asia-Pacific. With an integrated investment platform consisting of approximately 500 investment professionals, we cover all major business centres and growth markets. Our global capabilities are delivered through local teams to ensure best-in-class service.

Our parent company, Allianz SE, is one of the leading financial service providers worldwide with strong business fundamentals. Allianz SE operates in 70 countries, serving more than 76 million customers around the globe.

This document lays out the Corporate Governance Guidelines and Proxy Voting Policy for Allianz Global Investors GmbH.

The Corporate Governance Guidelines and Proxy Voting Policy are detailed as follows in the form of voting criteria, which provide a framework for analysis but are not necessarily applied systematically in the form of box-ticking. Their objective is to give a generally applicable answer for the all points, as well as indications to help each entity with regard to those voting criteria that need to be modified to reflect local corporate governance “Best Practice”. We will evaluate governance issues on a case-by-case basis, using the Corporate Governance Guidelines and Proxy Voting Policy but taking into account the variances across markets in regulatory and legal frameworks, best practices, actual market practices, and disclosure regimes (including, but not limited to, the UK Corporate Governance Code and the NAPF Corporate Governance Policy and Voting Guidelines, the ASX Corporate Governance Principles and Recommendations (Australia), the Dutch Corporate Governance Code, AFEP Corporate Governance Code of Listed Corporations (France), the German Corporate Governance Code, the Hong Kong Code on Corporate Governance, the Swedish Code of Corporate Governance, and the Swiss Code of Best Practice for Corporate Governance).

While the Corporate Governance Guidelines and Proxy Voting Policy often provide explicit guidance on how to vote proxies with regard to specific issues that appear on the ballot, they are not intended to be exhaustive. Rather, these guidelines are intended to address the most significant and frequent proxy issues that arise. Each proxy issue will be subject to rigorous analysis of the economic impact of that issue on the long-term share value. All votes shall be cast solely in the long-term interest of shareholders.

In order to ensure that all material conflicts of interest are addressed appropriately while carrying out its obligation to vote proxies, our Proxy Voting Committee is responsible for addressing how Allianz Global Investors GmbH resolves such material conflicts of interest with its clients.

Disclaimer

The Allianz Global Investors GmbH Corporate Governance Guidelines and Proxy Voting Policy represent a set of recommendations that were agreed upon by Allianz Global Investors GmbH's Proxy Voting Committee. These Guidelines and Policy were developed to provide Allianz Global Investors GmbH with a comprehensive list of recommendations that provide guidance in determining how to vote proxies for its clients.

These guidelines allow Allianz Global Investors GmbH the discretion to vote proxies in accordance with local laws, standards and client requirements, as appropriate, independently of influence either directly or indirectly by parent or affiliated companies. The governance structures of each of the Allianz Global Investors legal entities allows that entity to execute proxy voting rights on behalf of clients independently of any Allianz Global Investors' parent or affiliated company. The individuals that make proxy voting decisions are also free to act independently, subject to the normal and customary supervision by the management/boards of these legal entities and to our fiduciary duty to act in the best interests of our clients. These Guidelines and Policy represent the views and guidance of Allianz Global Investors GmbH as at the date of publication. They may be subject to change at any time. The Guidelines and Policy are for Allianz Global Investors GmbH internal guidance purposes only and are not intended to be relied upon by any third party.

Section 1: Board of Directors

1.1 Composition and Structure of the Board

1.1.1 Chair and CEO

Allianz Global Investors GmbH believes that the roles of Chair and Chief Executive Officer should be separate, as there should be a clearly accepted division of responsibility at the head of the company. Allianz Global Investors will generally vote in favour of resolutions requiring an independent Chair.

1.1.2 Independence of the Board of Directors

Allianz Global Investors GmbH believes that there should be a majority of independent directors on the board, as far as legal regulations do not impose constraints on the composition of the board by law. In markets where independence of directors is currently not standard market practice, Allianz Global Investors GmbH will encourage moves towards a more independent board.

Allianz Global Investors GmbH considers independence to be an important criterion when voting for board members but will take into account other factors as well, as described elsewhere in these guidelines.

Allianz Global Investors GmbH expects companies to appoint a senior independent director, who acts as a crucial conduit for shareholders to raise issues of particular concern.

While dealing with specific corporate structures, Allianz Global Investors GmbH also considers the following points:

- State-owned companies: there should be a sufficient number of directors independent from the company and the government.
- Subsidiary of multinational organisations: there should be a sufficient number of directors independent from the group.
- Family-controlled companies should provide sufficient information, which makes the relationship of non-dependent directors to the family more transparent.

1.1.3 Competence and Experience of the Board

The board should have a requisite balance of special skills, competence, experience, and knowledge of the company and of the industry the company is active in. This should enable the directors to discharge their duties and responsibilities in an effective way.

1.1.4 Diversity of the Board

While the board members' independence, competence, skills and experience are of high importance, the board of directors is also encouraged to have a diversified representation in terms of education, age, nationality, gender, etc.

In this respect Allianz Global Investors GmbH generally votes in favour of requests for reports on the company's efforts to diversify the board, unless the board composition is reasonably diversified in relation to companies of similar size and industry as well as local laws and practices.

1.1.5 Size of the Board Allianz Global Investors GmbH generally supports proposals requiring shareholder approval to fix or alter the size of the board. Allianz Global Investors GmbH supports boards of between four and 18 directors.

1.1.6 Classified Boards

Allianz Global Investors GmbH votes against the introduction of classified/staggered boards and supports efforts to declassify boards.

1.1.7 Age Limits and Tenure Limits

Allianz Global Investors GmbH generally does not support minimum or maximum age or tenure limits.

1.1.8 Board Committees

Allianz Global Investors GmbH believes that there should be three key committees specialising in audit, director nomination and compensation issues. Such committees constitute a critical component of corporate governance and contribute to the proper functioning of the board of directors.

The remuneration committee should be responsible for setting remuneration for all executive directors and the Chair.

Allianz Global Investors GmbH supports having two audit committee members with some auditing/accounting expertise on audit committees at large cap firms. In addition Allianz Global Investors GmbH strongly supports the establishment of a separate and independent risk committee responsible for supervision of risks within the company.

In general the majority of the members of these committees should be independent non-executive directors.

Any committee should have the authority to engage independent advisers where appropriate at the company's expense.

1.1.9 Director Conflicts of Interest

Allianz Global Investors GmbH expects companies to have a process for identifying and managing conflicts of interest directors may have. Individual directors should seek to avoid situations where there might be an appearance of a conflict of interest. If a director has an interest in a matter under consideration by the board, then the director should recuse himself from those discussions.

1.2 Election of Board of Directors

1.2.1 Information on Directors

Allianz Global Investors GmbH expects companies to provide comprehensive and timely information on their directors, in order to be enabled to assess the value they provide. The company should also disclose the positions and mandates of the directors in the annual report.

The disclosure should include but not limited to the biographical information, information on core competencies and qualifications, professional or other background, recent and current board and management mandates at other companies, factors affecting independence as well as board and committee meetings attendance.

The list of candidates should be available in a timely manner.

While Allianz Global Investors GmbH encourages the possibility to vote for each director individually, a bundled proposition on the election (or discharge) of the directors may be considered if Allianz Global Investors GmbH is satisfied with the performance of every director. Nevertheless, sufficient information should be provided, and all the directors should fulfil also other criteria, as mentioned in 1.2.4., in such a case.

1.2.2 Term of Directors' Contract

For executive directors, long-term incentives are considered key. Overly short-term contracts may be counterproductive in this respect. Allianz Global Investors GmbH encourages instead that the contract terms state clear performance measurement criteria, while refraining from stipulating excessive severance packages.

For non-executive directors, Allianz Global Investors GmbH generally supports minimum contract terms of three years and maximum contract terms of five years

with annual approval, except when local market practices differ. In markets where shorter or longer terms are industry standard, Allianz Global Investors GmbH will consider voting against directors with terms which substantially deviate from best practice in those markets.

1.2.3 Attendance of Board and Committee Meetings

Allianz Global Investors GmbH believes that all directors should be able to allocate sufficient time and effort to the company to discharge their responsibilities efficiently. Thus, the board members should attend at least 75% of board and – in cases where directors are board committee members - committee meetings.

Allianz Global Investors GmbH expects information about attendance of the board and committee meetings to be disclosed, and will support initiatives to in this sense in markets where it is not yet standard practice.

1.2.4 Discharge of the Board

Allianz Global Investors GmbH will consider the criteria on attendance, performance, competence etc. when voting on propositions to discharge the board.

Allianz Global Investors GmbH will vote against single directors or the whole board in cases of established fraud, misstatements of accounts and other illegal acts.

1.2.5 Multiple Directorships

Allianz Global Investors GmbH believes that directors should be able to allocate sufficient time to performing their duties as board members efficiently. Therefore, Allianz Global Investors GmbH will vote against directors who are members of more than 6 boards of listed companies, or more than 3 boards of listed companies if the director is a Chair or CEO of a listed company (i.e. Chair or CEO mandate + 3 outside directorships). Only under exceptional circumstances (e.g. conglomerate) may we deviate from these maximums.

1.2.6 Majority Voting for Directors

Allianz Global Investors GmbH believes that one of the fundamental rights shareholders have is the power to elect or remove corporate directors. Allianz Global Investors GmbH generally believes that a majority voting standard is an appropriate mechanism to provide greater board accountability.

Based on our beliefs, Allianz Global Investors GmbH would in general vote in favour of proposals that would require the implementation of a majority

voting standard for elections of directors in uncontested director elections.

There should be no provisions in place that hamper modifications to the composition of the board or impede the ability to adapt quickly to changing environments.

Allianz Global Investors GmbH would support cumulative voting in case it substantially enhances minority shareholders' rights in a particular company and has the potential to add value.

1.2.7 Shareholders Access to Board of Directors

Shareholders should be able to nominate director candidates for the board.

1.2.8 Legal Indemnification of Board Members

Allianz Global Investors GmbH will consider

voting against proposals that would limit or eliminate all liability for monetary damages, for directors and officers who violate the duty of care.

Allianz Global Investors GmbH would also consider voting against proposals that would expand indemnification to cover acts, such as negligence, that are more serious violations of fiduciary obligations than mere carelessness.

If, however, a director was found to have acted in good faith and in a manner that he reasonably believed was in the best interest of the company, and if only the director's legal expenses would be covered, Allianz Global Investors GmbH may consider voting for expanded coverage.

1.2.9 Proxy Contests

Proxy contests are among the most difficult and most crucial corporate governance decisions because an investor must attempt to determine which group is best suited to manage the company. Allianz Global Investors GmbH will vote case-by-case on proxy contests, considering the following factors:

- Past performance relative to its peers;
- Market in which fund invests;
- Measures taken by the board to address the issues;
- Past shareholder activism, board activity, and votes on related proposals;
- Strategy of the incumbents versus the dissidents;
- Independence of directors;
- Experience and skills of director candidates;
- Governance profile of the company;

- Evidence of management entrenchment.

1.2.10 Reimburse Proxy Solicitation Expenses Allianz Global Investors GmbH will vote case-by-case on proposals to reimburse proxy solicitation expenses. When voting in conjunction with support of a dissident slate, Allianz Global Investors GmbH will support the reimbursement of all appropriate proxy solicitation expenses associated with the election.

Allianz Global Investors GmbH will generally support shareholder proposals calling for the reimbursement of reasonable costs incurred in connection with nominating one or more candidates in a contested election where the following apply:

- The election of fewer than 50% of the directors to be elected is contested in the election;
- One or more of the dissident's candidates is elected;
- Shareholders are not permitted to cumulate their votes for directors; and
- The election occurred, and the expenses were incurred, after the adoption of this by law.

Section 2: Remuneration and Benefits

2.1 Executive and Director Compensation

2.1.1 Compensation of Executive Directors and Senior Managers

Compensation should contain both a short-term and long-term element, which fully aligns the executive with shareholders and where superior awards can only be achieved by attaining truly superior performance.

Allianz Global Investors GmbH believes that executive directors should be encouraged to receive a certain percentage of their salary in form of company stock. Therefore Allianz Global Investors GmbH would generally support the use of reasonably designed stock-related compensation plans, including appropriate deferrals.

Each director's share option schemes should be clearly explained and fully disclosed (including exercise prices, expiry dates and the market price of the shares at the date of exercise) to both shareholders and participants, and should be subject to shareholder approval. They should also take into account appropriate levels of dilution. Overall, share options plans should be structured in a way to reward above-median performance.

Allianz Global Investors GmbH would generally vote against equity award plans or amendments that are too dilutive (e.g. greater than 5%) and expensive to existing shareholders, may be materially altered (cancellation and re-issue, re-testing and especially re-pricing of options, or the backdating of options) without shareholder approval, allow management significant discretion in granting certain awards, or are otherwise inconsistent with the interests of shareholders.

2.1.2 Performance Measurement and Disclosure of Performance Criteria and Achievement

Allianz Global Investors GmbH reserves the right to vote against boards or individual directors if performance has been significantly unsatisfactory for a prolonged time.

For performance measurement different criteria should be taken into consideration:

- The management goals should be linked to the mid- and long-term goals of the company.

- It is not sensible to define companies' performance by only one dimension or key indicator (such as EPS). Therefore, a healthy mixture of various indicators should be considered.
- A very important criterion is the sustainability of companies' performance. Social, environmental and governance issues should be integrated into the companies' performance measurement to the degree possible.
- Performance measurement should incorporate risk considerations so that there are no rewards for taking inappropriate risks at the expense of the company and its shareholders.
- Performance should be measured over timescales (minimum 3 years) which are sufficient to determine that value has in fact been added for the company and its shareholders.

The performance criteria used by the companies as well as their achievement should be disclosed to the shareholders.

2.1.3 Compensation of Non-Executive Directors

Allianz Global Investors GmbH believes that compensation for non-executive directors should be structured in a way which aligns their interests with the long-term interests of the shareholders, does not compromise their independence from management or from controlling shareholders of the company and does not encourage excessive risk-taking behaviour.

In particular the following elements should be taken into account:

- Compensation should be in line with industry practice, with no performance link.
- The amount of time and effort that the directors can invest in the company, given other directorships they may have.

2.1.4 Remuneration Committee and "Say on Pay"

Any remuneration policy should be determined by independent remuneration committees, be transparent and fully disclosed (to shareholders for every executive and non-executive director) in a separate Remuneration Report within the Annual Report. In markets for which proposals to approve the

company's remuneration policy or the company's Remuneration Report, Allianz Global Investors GmbH will evaluate such proposals on a case- by-case basis, taking into account Allianz Global Investors GmbH's approach to executive and non-executive director compensation as described elsewhere in these guidelines.

In the US market, the Dodd-Frank Act requires advisory votes on pay (MSOP), and requires that the proxy for the first annual or other meeting of the shareholders occurring after the enactment includes vote item to determine going forward, the frequency of the say-on-pay vote by shareholders to approve compensation.

Allianz Global Investors GmbH will support annual advisory votes on compensation, which provide the most consistent and clear communication channel for shareholder concerns about companies' executive pay programs.

Allianz Global Investors GmbH encourages companies to increase transparency in this respect, and furthermore in general supports moves to empower shareholders with regard to having a say on the remuneration policy. Allianz Global Investors GmbH pays close attention to perquisites, including pension arrangements, and will vote against them if deemed excessive.

2.1.5 Special Provisions

Special provisions whereby additional payment becomes due in the event of a change of control are an inappropriate use of shareholder funds and should be discouraged.

Transaction bonuses, executive severance agreements, poison pills or other retrospective ex-gratia payments should be subject to shareholder approval and should not be excessive.

Allianz Global Investors GmbH believes that clawbacks should be used in order to better align long-term incentives of executive directors with the interests of the shareholders.

Allianz Global Investors GmbH also:

- Votes against retirement benefits for non-executive directors.
- Believes that severance pay should not exceed one year's fixed salary or two years if the executive is dismissed during his first term of office.

2.2 Employee Remuneration

Remuneration structures and frameworks for the employees should reinforce the corporate culture and foster above-average performance. In this respect and in accordance with applicable law Allianz Global Investors encourages companies to provide shareholders with information on the ratio between senior management and median employee compensation.

Performance measurement for staff remuneration should incorporate risk considerations to ensure that there are no rewards for taking inappropriate risks at the expense of the company and its shareholders.

Allianz Global Investors GmbH will consider voting against stock purchase plans with discounts exceeding 15%. Allianz Global Investors GmbH will also vote against share issues to employees which appear to excessively dilute existing shareholder capital.

Section 3: Audit

3.1 Role of Audit

Allianz Global Investors GmbH recognizes the critical importance of financial statements which provide a complete and precise picture of a company's financial status.

Allianz Global Investors GmbH would generally support the audit committee to scrutinize auditor fees and the independence of the audit function. Independence is vital for audit quality.

3.2 Role of Audit Committee

Allianz Global Investors GmbH believes that the most important responsibilities of the Audit Committee are:

- Assuring itself and shareholders of the quality of the audit carried out by the auditors as well as reviewing and monitoring their independence and objectivity.
- Requiring a maximum tenure period for auditors of 15 years in order to safeguard shareholders' long term interests. Audit committees should establish a system of mandatory tendering every 5-7 years, combined with mandatory rotation after no more than 15 years. The tender should involve at least two candidates (other than the incumbent) to ensure genuine competition and to open the market to new entrants. There should be a "clear water" period of at least 5 years before an auditor can be re-appointed. The transitional arrangements allow for up to six years from 2014 for firms with auditors in situ for more than 20 years.
- Ensuring that audit reports outline the key areas of judgment and audit risk, assumptions underlying fair value estimates and items of disagreements with management.
- Reviewing and monitoring key auditing and accounting decisions.
- Making recommendations to the board for consideration and acceptance by shareholders, in relation to the appointment, reappointment and, if necessary, the removal of the external auditors.
- Approval of the remuneration and terms of engagement of external auditors.

The board should disclose and explain the main role and responsibilities of the audit committee and the process by which the audit committee reviews and monitors the independence of the external auditors.

3.3 Independence of Auditors

Allianz Global Investors GmbH believes that annual audits should be carried out by an independent, external audit firm. The audit committee should have ongoing dialogue with the external audit firm without presence of management. Any resignation of an auditor as well as the reasons for such resignation should be publicly disclosed. Allianz Global Investors GmbH favours restrictions on non-audit work for audit clients. We believe the cost of non-audit work should not exceed 50% of the cost of audit fees. If the ratio rises above 50% the audit committee should bring down the ratio within 12 months, or select a new audit firm at the next tender. Whichever action is taken should be disclosed in the next annual report.

3.4 Remuneration of Auditors

Companies should be encouraged to delineate clearly between audit and non-audit fees. The breakdown of the fees should be disclosed.

Audit committees should keep under review the non-audit fees paid to the auditor and in relation to the company's total expenditure on consultancy. Audit fees should never be excessive.

Section 4: Risk Management and Internal Control

4.1 Role of Risk Management

Allianz Global Investors GmbH believes that boards with high standards of corporate governance will be better able to make sound strategic decisions and to oversee the approach to risk management. Boards need to understand and ensure that proper risk management is put in place for all material and relevant risks that the company faces.

4.2 Risk Management Process

The board has the responsibility to ensure that the company has implemented an effective and dynamic ongoing process to identify risks, measure their potential outcomes, and proactively manage those risks to the extent appropriate.

The Chief Risk Officer should be a member of the main Board.

4.3 Risk Management Documentation

Companies should maintain a documented risk management plan. The board should approve the risk management plan, which it is then the responsibility of management to implement. Risk identification should adopt a broad approach and not be limited to financial reporting; this will require consideration of relevant financial, operational and reputational risks.

Allianz Global Investors GmbH in general supports proposals which require the board to conduct a review of the effectiveness of the company's risk management and internal control systems and the risk management plan at least annually.

4.4 Risk Committee

Allianz Global Investors GmbH strongly supports the establishment of a risk committee responsible for supervision of risks within the company. If necessary the board or the risk committee should seek independent external support to supplement internal resources.

Section 5: Sustainability Issues

Allianz Global Investors GmbH customarily reviews shareholder proposals concerning sustainability issues. Consideration should be given to the circumstances of a particular environment, social, governance or ethical issue and whether this may have financial consequences, either directly or indirectly for the company.

In these cases, Allianz Global Investors GmbH would consider:

- whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;
- whether the company has already responded in some appropriate manner to the request embodied in the proposal;
- what other companies have done in response to the issue in question.

Allianz Global Investors GmbH generally supports proposals that encourage increased transparency on forward-looking and strategy-related sustainability issues deemed material to the financial performance of the company.

Allianz Global Investors GmbH can leverage its dedicated Sustainability Research team to formulate coherent and insightful opinions reflecting best practice for all industries globally, guided by national and international law and voluntary codes of good practice developed by authoritative bodies.

As a signatory to the UN Principles for Responsible Investment (UN PRI), Allianz Global Investors GmbH is committed where appropriate, to actively implementing the principles into its voting activities.

Section 6: Capital Structure and Corporate Finance Issues

6.1 Capital Increases

6.1.1 Increase in Authorised Common Stock

Allianz Global Investors GmbH in general considers acceptable capital increases for purposes which aim to increase shareholder value in the long term. Any capital increase should take into consideration appropriate levels of dilution.

Allianz Global Investors GmbH regards the protection of minority and existing shareholders as a fundamental task for companies, and generally favours pre-emptive rights – i.e. for any new issue of shares to be first offered to existing shareholders. For companies in markets which have conditional capital systems (e.g. Germany, South Africa, etc.) Allianz Global Investors GmbH will in general support non-specific capital increases (i.e. not tied to any particular transaction) with pre-emptive rights to a maximum of 100% of the current authorised capital. Capital increases without pre-emptive rights will in general be accepted to a maximum of 20% of the current authorised capital. Only in exceptional circumstances will Allianz Global Investors GmbH consider voting for higher ceilings.

However, given wide variations of local market practices, Allianz Global Investors GmbH will support lower ceilings in markets where they are industry standard (e.g. in the UK, where NAPF guidelines stipulate an amount for share issuances with pre-emptive rights no more than 33% of the current issued share capital that could be used under the general issuance and no more than an additional 33% pursuant to a rights issue, and for share issuances without pre-emptive rights up to a maximum of 5% of the current issued share capital).

An issuance period for a capital increase is favoured to be limited to a reasonable amount of time in line with local market practice, but normally not longer than 18 months.

For companies in markets which have authorized capital systems (e.g. US, Brazil, etc.), Allianz Global Investors GmbH will in general support proposals to increase authorized capital up to 100% over the current authorization unless the increase would leave the company with less than 30% of its new authorization outstanding.

6.1.2 Issuance or Increase of Preferred Stock

Allianz Global Investors GmbH generally votes against issuance of securities conferring special rights conflicting with the principle of “one share, one vote” (e.g. preferred shares).

Allianz Global Investors GmbH will in general support the issuance or the increase of preferred stock if its conditions are clearly defined (in terms of voting, dividend and conversion possibility, as well as other rights and terms associated with the stock) and are considered reasonable with a view of the overall capital structure of the firm, as well as with previously issued preferred stock.

Allianz Global Investors GmbH will in this respect also consider the impact of issuance/increase of preferred stock on the current and future rights of common shareholders.

Allianz Global Investors GmbH will generally oppose “blank check” preferred stock where the conditions are left at the discretion of the board, in particular when no clear statement is provided by the board that the preferred stock will not be used to prevent a takeover. Allianz Global Investors GmbH will only approve preferred stock deemed reasonable in light of the overall capital structure of the company, as well as previously issued preferred stock.

6.2 Issuance of Debt

Allianz Global Investors GmbH is in favour of proposals that enhance a company’s long-term prospects and do not result in the company reaching unacceptable levels of financial leverage. Allianz Global Investors GmbH is in favour that shareholders should be consulted on the significant issuance of debt and the raising of borrowing limits.

When convertible debt is to be issued, Allianz Global Investors GmbH will analyse such a proposal also in light of its criteria to approve issuance of common shares.

6.3 Issues Related to Mergers, Takeovers and Restructurings

6.3.1 General Criteria for Mergers and Restructurings

A merger, restructuring, or spin-off in some way affects a change in control of the company’s assets.

Allianz Global Investors GmbH expects companies to provide sufficient information to be able to evaluate the merits of such transactions considering various factors such as valuation, strategic rationale, conflicts of interest and corporate governance. Allianz Global Investors GmbH expects significant changes in the structure of a company to be approved by the shareholders. Allianz Global Investors GmbH may support a merger or restructuring where the transaction appears to offer fair value and the shareholders presumably cannot realise greater value through other means, where equal treatment of all shareholders is ensured and where the corporate governance profile is not significantly altered for the worse.

6.3.2 Poison Pill Plans

In general, Allianz Global Investors GmbH will not support Poison Pill plans and similar anti-takeover measures. Allianz Global Investors GmbH is clearly in favour of putting all poison pill plans to shareholder vote.

6.3.3 Anti-Greenmail Provisions

Greenmail is the practise of buying shares owned by a corporate raider back at a premium to the market price.

Allianz Global Investors GmbH will generally support anti-greenmail provisions that do not include other anti-takeover provisions. Allianz Global Investors GmbH believe that paying greenmail in favour of a corporate raider discriminates against other shareholders.

6.3.4 Fair Price Provisions

Allianz Global Investors GmbH will generally favour fair price provisions that protect minority shareholders and that are not merely designed for the purpose of imposing barriers to transactions.

Allianz Global Investors GmbH will vote against “standard fair price provisions” that are from Allianz Global Investors GmbH’s view marginally favourable to the remaining disinterested shareholders.

Allianz Global Investors GmbH will vote against fair price provisions if the shareholder vote requirement imbedded in the provision is greater than a majority of disinterested shares.

Allianz Global Investors GmbH will vote for shareholder proposals to lower the shareholder vote requirement embedded in existing fair price provisions.

6.3.5 Control Share Acquisition and Cash-Out Provisions

Control share acquisition statutes function by denying shares their voting rights when they contribute to ownership in excess of certain thresholds. Voting rights for those shares exceeding ownership limits may only be restored by approval of either a majority or supermajority of disinterested shares. Thus, control share acquisition statutes effectively require a hostile bidder to put its offer to a shareholder vote or risk voting disenfranchisement if the bidder continues buying up a large block of shares.

Allianz Global Investors GmbH will support proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareholders. Allianz Global Investors GmbH will oppose proposals to amend the charter to include control share acquisition provisions. Allianz Global Investors GmbH will support proposals to restore voting rights to the control shares.

Control share cash-out statutes give dissident shareholders the right to “cash-out” of their position in a company at the expense of the shareholder who has taken a control position. In other words, when an investor crosses a preset threshold level, remaining shareholders are given the right to sell their shares to the acquirer, who must buy them at the highest acquiring price.

Allianz Global Investors GmbH will generally support proposals to opt out of control share cash-out statutes.

6.3.6 Going Private/Going Dark Transactions

Allianz Global Investors GmbH will vote case- by-case on going private transactions, taking into account the following:

- Offer price/premium;
- Fairness opinion;
- How the deal was negotiated;
- Conflicts of interest;
- Other alternatives/offers considered; and
- Non-completion risk. Allianz Global Investors GmbH will vote case-by-case on going dark transactions, determining whether the transaction enhances shareholder value by taking into consideration:
 - Whether the company has attained benefits from being publicly-traded

(examination of trading volume, liquidity, and market research of the stock);

- Balanced interests of continuing vs. cashed-out shareholders, taking into account the following:
 - Are all shareholders able to participate in the transaction?
 - Will there be a liquid market for remaining shareholders following the transaction?
 - Does the company have strong corporate governance?
 - Will insiders reap the gains of control following the proposed transaction?
 - Does the state of incorporation have laws requiring continued reporting that may benefit shareholders?

6.3.7 Joint Ventures

When voting on proposals to form joint ventures, Allianz Global Investors GmbH will consider the following factors:

- Percentage of assets/business contributed;
- Percentage ownership;
- Financial and strategic benefits;
- Governance structure;
- Conflicts of interest;
- Other alternatives; and
- Non-completion risk.

6.3.8 Liquidations

Allianz Global Investors GmbH will consider liquidations on a case-by-case basis, taking into account the following:

- Management's efforts to pursue other alternatives;
- Appraisal value of assets; and
- The compensation plan for executives managing the liquidation.

Allianz Global Investors GmbH will support the liquidation if the company will file for bankruptcy if the proposal is not approved.

6.3.9 Special Purpose Acquisition Corporations (SPACs)

Allianz Global Investors GmbH will consider SPAC mergers and acquisitions on a case-by-case basis taking into account the following:

- Valuation – Is the value being paid by the SPAC reasonable?
- Market reaction – How has the market responded to the proposed deal?

- Deal timing – A main driver for most transactions is that the SPAC charter typically requires the deal to be complete within 18 to 24 months, or the SPAC is to be liquidated.
- Negotiations and process – What was the process undertaken to identify potential target companies within specified industry or location specified in charter?
- Conflicts of interest – How are sponsors benefiting from the transaction compared to IPO shareholders? Potential conflicts could arise if a fairness opinion is issued by the insiders to qualify the deal rather than a third party or if management is encouraged to pay a higher price for the target because of an 80% rule (the charter requires that the fair market value of the target is at least equal to 80% of net assets of the SPAC).
- Voting agreements – Are the sponsors entering into any voting agreements/ tender offers with shareholders who are likely to vote against the proposed merger or exercise conversion rights?

6.4 Other Corporate Finance Issues

6.4.1 Stock Splits and Reverse Stock Splits

In general Allianz Global Investors GmbH will support stock splits.

Regarding reverse stock splits, Allianz Global Investors GmbH will support them in case their purpose is to fulfil a minimum stock exchange listing requirement.

6.4.2 Share Repurchase Programs

Allianz Global Investors GmbH will approve share repurchase programs when they are in the best interest of the shareholders, when all shareholders can participate on equal terms in the buyback program and where Allianz Global Investors GmbH agrees that the company cannot use the cash in a more useful way.

Allianz Global Investors GmbH will also view such programs in conjunction with the company's dividend policy.

6.4.3 Dividend Policy

Allianz Global Investors GmbH believes that the proposed dividend payments should be disclosed in advance to shareholders and be put to a vote.

6.4.4 Creating Classes with Different Voting Rights/ Dual-Voting Share Class Structures

Allianz Global Investors GmbH will in general support the principle "one-share, one-vote" as unequal voting

rights allow for voting power to potentially be concentrated in the hands of a limited number of shareholders.

Therefore, Allianz Global Investors GmbH will normally favour a conversion to a “one-share, one-vote” capital structure and will in principle not support the introduction of multiple-class capital structures or the creation of new or additional super-voting shares.

6.4.5 Conversion of Securities

Allianz Global Investors GmbH will vote case- by-case on proposals regarding conversion of securities. When evaluating these proposals the investor should review the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.

Allianz Global Investors GmbH will support the conversion if it is expected that the company will be subject to onerous penalties or will be forced to file for bankruptcy if the transaction is not approved.

6.4.6 Private Placements/Warrants/Convertible Debentures

Allianz Global Investors GmbH will consider proposals regarding private placements, warrants, and convertible debentures on a case-by-case basis, taking into consideration:

- Dilution to existing shareholders’ position;
- Terms of the offer (discount/premium in purchase price to investor, including any fairness opinion, conversion features, termination penalties, exit strategy);
- Financial issues (the company’s financial condition, degree of need for capital, use of proceeds, effect of the financing on the company’s cost of capital, current and proposed cash burn rate, going concern viability, and the state of the capital and credit markets);
- Management’s efforts to pursue alternatives and whether the company engaged in a process to evaluate alternatives;
- Control issues (potential change in management/board seats, change in control, standstill provisions, voting agreements, veto power over certain corporate actions, and minority versus majority ownership and corresponding minority discount or majority control premium);
- Conflicts of interest (as viewed from the

perspective of the company and the investor), considering whether the terms of the transaction were negotiated at arm’s length, and whether managerial incentives are aligned with shareholder interests;

- Market reaction – How has the market responded to the proposed deal?

Allianz Global Investors GmbH will support the private placement or the issuance of warrants and/or convertible debentures in a private placement, if it is expected that the company will file for bankruptcy if the transaction is not approved.

Section 7: Other Issues

7.1 General Issues regarding Voting

7.1.1 Bundled Proposals

Allianz Global Investors GmbH in general favours voting on individual issues and therefore votes against bundled resolutions.

Agenda items at shareholder meetings should be presented in such a way that they can be voted upon clearly, distinctly and unambiguously.

7.1.2 "Other Business" Proposals

Allianz Global Investors GmbH in general opposes "Other Business" proposals unless there is full and clear information about the exact nature of the business to be voted on.

7.1.3 Simple Majority Voting/Elimination of Supermajority

Allianz Global Investors GmbH in general supports simple majority voting and the elimination of supermajority. In certain cases, Allianz Global Investors Europe GmbH may consider favouring supermajority in cases where it protects minority shareholders from dominant large shareholders.

7.2 Miscellaneous

7.2.1 Re-domiciliation

Allianz Global Investors GmbH will oppose re-domiciliation if the reason is to take advantage of a protective status and if the change will incur a significant loss of shareholder power.

7.2.2 Shareholder Right to Call Special Meeting/Act by Written Consent

Allianz Global Investors GmbH believes that companies should enable holders of a specified portion (e.g. 10-25%) of its outstanding shares or a specified number of shareholders to call a meeting of shareholders for the purpose of transacting the legitimate business of the company. Shareholders should be enabled to work together to make such a proposal. Shareholders should be able to exercise both rights to call special meetings and act by written consent.

7.2.3 Disclosure and Transparency

Allianz Global Investors GmbH believes that companies should apply high standards of disclosure and transparency. In this regards, Allianz Global

Investors Europe GmbH shows a preference for:

- at least half-year or full-year reports;
- adherence to consistent internationally accepted financial standards;
- availability of financial information and investor communication in a Business English translation;
- personal accessibility and availability of top management for investors;
- preparation of two reports (simplified and detailed versions) in at least two commonly used languages;
- full disclosure on political donations; and only as required by law for shareholder approval of such donations;
- a guide to reading financial statements and clear explanations of proposed resolutions;
- publication of documents on the Internet;
- mandatory presence of directors at general meetings;
- video link for shareholders not physically present;
- adoption of electronic voting;
- standardisation of voting forms.

7.2.4 Proposals to Adjourn Meeting

Allianz Global Investors GmbH will generally oppose proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal.

However, Allianz Global Investors GmbH will support proposals that relate specifically to soliciting votes for a merger or transaction if supporting that merger or transaction.

7.2.5 Amend Bylaws without Shareholder Consent

Providing the board with the sole ability to amend a company's bylaws could serve as an entrenchment mechanism and could limit shareholder rights. As such, Allianz Global Investors GmbH will oppose proposals giving the board exclusive authority to amend the bylaws. However, Allianz Global Investors GmbH will support proposals giving the board the ability to amend the bylaws in addition to shareholders.

7.2.6 Routine Agenda Items

Many routine proposals are operational issues of a non-controversial nature. The list of operational issues includes, but is not limited to: changing date, time, or location of the annual meeting; amending quorum requirements; amending minor bylaws; approving financial results, director reports, and auditor reports; approving allocation of income; changing the company's fiscal term; and lowering disclosure threshold for stock ownership.

While these proposals are considered to be routine, they are not inconsequential. Fiduciaries remain charged with casting their votes, so these proposals must be evaluated on a case-by-case basis, taking into account shareholders' rights and the potential economic benefits that would be derived from implementation of the proposal.

7.2.7 Succession Planning

All companies should have succession planning policies and succession plans in place, and boards should periodically review and update them.

Guidelines for disclosure of a company's succession planning process should balance the board's interest in keeping business strategies confidential with shareholders' interests in ensuring that the board is performing its planning duties adequately.

Allianz Global Investors GmbH will generally support proposals seeking disclosure on a CEO succession planning policy, considering at a minimum, the following factors:

- The reasonableness/scope of the request; and
- The company's existing disclosure on its current CEO succession planning process.

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BAILLIE GIFFORD

Global Corporate Governance
Principles and Guidelines

2016



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Authorised and regulated by the Financial Conduct Authority.

Introduction

Baillie Gifford¹ recognises that it has a fiduciary duty to act in the best interests of its clients. This document describes our approach to corporate governance and voting for companies in all markets in which we invest. Our Global Corporate Governance Principles and Guidelines are an integral part of our approach to protecting our clients' long-term interests and the value of the investments made on their behalf. This document is divided into two main sections covering global principles and local guidelines.

We have adopted as our global principles the Principles of Corporate Governance developed by the Organisation for Economic Co-operation and Development (OECD). The OECD Principles represent a concise statement of minimum corporate governance standards that are appropriate for most markets and which underpin our views on a global approach to corporate governance. Since their publication, they have received widespread support from institutional investors and they have been adopted and expanded upon by the International Corporate Governance Network (ICGN), of which Baillie Gifford is a member.

In order to provide an indication of how the global principles should be interpreted in practice, we have included some 'best practice' guidelines. However, given the differences in national corporate and market regulation, one set of guidelines is unlikely to be appropriate for all of the markets in which we invest. In addition to taking an active role in defining and interpreting what constitutes good corporate governance in our home market, we seek to influence the debate in certain overseas markets, as appropriate. Therefore, we have written detailed corporate governance guidelines for the UK, US, Japan, Emerging Markets, and Europe (please see the appendices for further information), and we seek to adopt overseas corporate governance codes, where these are available and consistent with our overall approach.

Where appropriate and practical, we seek to learn from and support the efforts of local investors in overseas markets to improve corporate governance practices.

We recognise that companies operate under significantly differing conditions and for this reason we do not seek to interpret our guidelines rigidly. Rather, we apply them with care, giving due consideration to the specific circumstances of individual companies in the context of their local markets. Therefore, we take a pragmatic and flexible approach to corporate governance.

We look to have confidence in the quality and integrity of management. Consequently, our investment process involves keeping in touch with company management, learning how they plan to take the company's business forward and seeking to understand their goals and attitude towards shareholders.

Nevertheless, where the formal aspects of a company's corporate governance fall short of our guidelines and this is not fully supported by its circumstances, we encourage improvements through engagement. This ranges from letters expressing concerns through to face-to-face meetings with management and, where appropriate, we will vote against management recommendations which are not in our clients' best interests. Our policy and quarterly engagement and voting reports are available from the Baillie Gifford website at www.bailliegifford.com.

¹ As a registered investment adviser in the US, Baillie Gifford Overseas Limited has a duty to comply with Rule 206(4)–6 of the Investment Advisers Act of 1940. This document is intended to comply with this rule.

In general, we focus on the issues we feel are most significant and where we can be most effective. Such issues include the alignment of management's interests with those of shareholders, the effective operation of the board and its committees, and the protection of shareholder rights. We recognise that as a single institution, Baillie Gifford may have a limited impact on a company's activities. Therefore, we build and maintain relationships with like-minded institutions and representative bodies within the fund management industry, allowing us to exchange information with other major shareholders in relation to specific company and market issues. We are a member of several groups and forums including the ICGN and the Asian Corporate Governance Association (ACGA). We closely monitor developments and consider the implications for our clients.

Proxy Voting Administration

The Corporate Governance Team consists of nine analysts who are responsible for coordinating Baillie Gifford's proxy voting policy. All voting decisions are made in-house in conjunction with the relevant investment managers, and in line with the Global Corporate Governance Principles and Guidelines (the 'Guidelines').

The Governance Team processes all voting decision via our bespoke IT system. This system has been developed in-house in order to meet the specific requirements of the Governance Team and our clients.

In order to successfully exercise the voting rights delegated to us by our clients, we must receive the appropriate ballots from the custodian bank or relevant third party and the required Power of Attorney (POA) documents must be in place.

When evaluating each meeting agenda, the team considers company proxy documents, Baillie Gifford's own research and our discussions with company management, as well as third party analysis. When gathering information and making our voting decisions, we endeavour to engage with companies and their advisers. Whilst we are cognisant of proxy advisers' recommendations, we do not delegate or outsource any of our stewardship activities or rely upon their recommendations when deciding how to vote our clients' shares.

We strongly believe that proxy voting is an integral part of our stewardship responsibilities and therefore where we plan to vote against management we routinely advise investee companies of our voting decision and the corresponding rationale.

Global Corporate Governance Guidelines

We recognise that regulation, levels of disclosure and transparency, and management accountability can vary between markets. Therefore, we seek to assess companies against prevailing best practice in their own markets². Our own in-house analysis is supplemented by external research, which expands upon the OECD's core principles.

There are certain recurring issues in all markets, and we endeavour to adopt a consistent approach. This list is not exhaustive and we interpret proposals in the context of the specific market and/or company circumstances.

Board and Committee Structure

When electing directors to the board we take into account their knowledge, skills and experience, as well as other board positions which may affect their ability to devote sufficient time to their role. We strongly believe that in order to effectively oversee management's activities and fulfil their duties to shareholders, non-executive directors should possess a diverse range of skills and experience relevant to the company's industry and areas of operation. Where appropriate, they should also receive sufficient training and objective professional advice to carry out their role.

We will consider opposing the re-election of non-executive directors if we believe they do not possess the relevant skills and experience, or where we believe they have not been effective in overseeing management and protecting shareholders' best interests.

The Audit Committee

The audit committee should comprise a minimum of three directors, all of whom should be independent non-executives. At least one member should have recent and relevant financial expertise. The audit committee should be responsible for assessing both internal and external risks faced by the company and ensuring these are well managed throughout the organisation. The committee

should also be tasked with ensuring that suitable and adequate internal controls and risk management systems are in place and being followed, in order to protect both the company and shareholders' investments.

Accordingly, we believe that the audit committee is best placed to select the accounting firm(s) which provide audit and non-audit services. The committee is responsible for reviewing the scope, cost effectiveness and results of the audit and the independence and objectivity of the auditors. This review should specifically address the nature and extent of non-audit services provided by the company's auditors, while the audit committee report should provide a thorough insight into the financial state of the company.

We will consider voting against the appointment of the auditors if we have concerns about their independence, level of non-audit fees, audit quality, or where a company changes its auditor without providing an adequate explanation to shareholders.

The Remuneration Committee

The remuneration committee should comprise a minimum of three directors, all of whom should be independent non-executives. We expect that such a committee, taking independent advice as necessary, is well placed to construct remuneration packages necessary to recruit, retain and motivate executive directors, as well as aligning their interests with the company's stakeholders. Please see appendix six for further information.

The Nomination Committee

The nomination committee should comprise a minimum of three directors, the majority of whom should be independent non-executives. The committee plays a key role in succession planning and the process for nominations and appointments to the board should be formal and transparent. This process should be fully disclosed in the annual report.

² For example for two leading financial markets, the UK and the US, these include:

a) UK – The UK Corporate Governance Code, Pre-emption Group Guidelines, Financial Conduct Authority (FCA) Listing Rules.

b) US – Securities and Exchange Commission (SEC) Regulations, the Council of Institutional Investors Guidelines on corporate governance.

Board Evaluation

We support regular evaluations of a board's performance and we encourage companies to disclose, where appropriate, the outcomes to shareholders. We believe that an effective and transparent board evaluation process can identify any skills or experience gaps, and provide reassurance to stakeholders that the board has sufficient expertise to support future strategy.

We endorse the recommendation in the UK Corporate Governance Code that the board evaluation should be externally facilitated at least once every three years. However, we appreciate that this is not currently common practice in other markets.

Shareholder Rights

We support the development and preservation of shareholder rights that promote and maintain effective stewardship of our client's investee companies for the benefit of all stakeholders.

Anti-takeover Devices/Poison Pills

We will generally oppose anti-takeover devices that entrench management and potentially damage shareholder value. We will also support shareholder proposals that request the company to submit a shareholder rights plan to a shareholder vote, revoke a poison pill, or remove a classified board structure.

Articles of Association

We review amendments to a company's Articles of Association within the context of the company's business strategy and shareholders' best interests. Accordingly, we will oppose any proposed changes that erode shareholders' rights or are otherwise inconsistent with the interests of existing shareholders. Furthermore, we will oppose bundled resolutions if we believe there are any changes that significantly impact shareholders' rights.

Shareholder Resolutions

Shareholder resolutions focus on a broad range of issues which may relate to any aspect of a company's business. They are most common at US shareholder meetings where they are seen by some institutional and activist shareholders as an effective tool for change. They are occasionally seen on European agendas. Their focus tends to be corporate disclosure and responsibility covering subjects such as improved transparency of companies' political donations; labour and human rights; and approaches to environmental issues such as climate change. We review each resolution on a case-by-case basis and prior to voting will consider the company's current approach to the issue, its response to the resolution, whether the resolution is workable and implementable, and whether it is in the best interests of all stakeholders. When considering a company's approach to the highlighted issue, we evaluate all publicly available information and when appropriate engage with the company.

Capital Raising and Capital Allocation

We consider companies' requests to raise capital on a case-by-case basis. Where appropriate, we also consider local laws, regulations and market practice when companies seek to issue equity or bonds with or without pre-emptive rights. We strongly believe that pre-emptive rights are important to protect shareholders from detrimental levels of dilution. Although we recognise that in some instances it is appropriate for companies to have the flexibility to issue a certain amount of shares with or without offering them first to shareholders on a pre-emptive basis, the onus is on the board to demonstrate clearly that the request is proportionate to the company's needs.

Mergers and Acquisitions

We recognise that a corporate restructuring can have a significant impact on shareholder value and we consider these proposals on a case-by-case basis. We will oppose proposals that are not in our clients' long-term interests.

Political Contributions

We generally oppose resolutions to approve intentional political contributions. However, in many markets companies do not require shareholder approval to make political donations. Therefore, in this context, we support shareholder resolutions which oblige companies to report to shareholders on their political contributions where the level of disclosure is poor.

Proxy Voting

Where our clients have delegated their voting rights to us, we endeavour to vote all of their shares in all markets. We believe the union of investment management responsibilities and voting power is in our clients' best interests. The Corporate Governance Team coordinates our voting policy in conjunction with the relevant investment managers, and in line with our engagement and investment strategy. Accordingly, the ability to vote our clients' shares strengthens our position when engaging with investee companies and supports the stewardship of our clients' investments.

Conflicts of Interest

We recognise the importance of managing potential conflicts of interest that may exist when we vote a proxy solicited by a company with whom we have a material business or personal relationship. The Corporate Governance Team is responsible for monitoring possible material conflicts of interest with respect to proxy voting. Application of the Guidelines to vote proxies will, in most instances, adequately address any possible conflicts of interest. However, as noted above, we do not rigidly apply the Guidelines. For proxy votes that involve a potential conflict of interest, or are inconsistent with (or not covered by) the Guidelines but are consistent with management's recommendation, the Management Committee, which comprises six senior Baillie Gifford partners, will review the voting rationale, consider whether business relationships between Baillie Gifford and the company have influenced the proposed inconsistent vote and decide the course of action to be taken in the best interest of our clients. The Management Committee's decision and rationale will be documented.

Stock Lending

Although Baillie Gifford does not lend stock directly, we recognise that in instances where our clients lend stock, they are unable to vote their shares at company meetings. Where material votes arise, or we believe the outcome of the vote may directly and significantly impact the corporate strategy or investment returns, we will advise our clients or their lending agent to recall any stock on loan and restrict the lending of additional stock. This is completed on a best efforts basis with the aim of maximizing the voting power of our clients' holding and our stewardship capability.

Appendix 1 – UK Guidelines

The Board and its Committees

We pay particular attention to the quality of the board, and whether its diversity, skills and balance between executive and non-executive directors enable it to act in the best interests of shareholders. In this respect, we also focus on the complexity and size of the business. When assessing board effectiveness, we consider board evaluation procedures, succession planning, and the committees' terms of reference.

Non-Executive Directors

We believe that company boards should include directors independent of executive management and without conflicts of interest, in sufficient number to represent effectively the interests of shareholders.

We generally support the re-election of non-executive directors who are not independent, provided at least three, and a majority of the board's non-executive directors are independent by the above definition. We encourage companies to provide full disclosure in their annual reports.

The Roles of Chairman and Chief Executive

We favour the separation of the roles of chairman and chief executive. We generally oppose any new appointment which combines these. If the roles are combined, there should be a strong independent non-executive element to the board, including a senior independent director with clearly defined responsibilities separate from that of the Chairman.

The UK Corporate Governance Code advises companies against appointing the retiring CEO as chairman. However, we recognise that in exceptional cases companies may believe that this is in shareholders' best interests. Therefore, in these circumstances, the board should explain why it is appropriate and we will consider the justification on a case-by-case basis.

The Role of Senior Non-Executive Director

We take the view that company boards should nominate a senior non-executive director or deputy chairman. The main responsibilities of this role are to provide a communication channel between shareholders and non-executive directors and to ensure that the non-executive directors' views are given due consideration.

Pre-emption Rights

The Rights Issue Review Group (set up by the UK Government in 2008 to review the efficiency of the equity capital raising process) produced guidelines for share issuance, increasing the maximum amount which may be sought under Section 551 of the Companies Act 2006 from 33% to 66% of the current issued share capital. The additional 33% being requested is to be reserved for rights issues. This change has come about due to the uncertainty which we saw in the market in 2009 when the banks were undertaking rights issues. We consider these on a case-by-case basis but generally oppose proposals where companies fail to provide an adequate rationale.

Executive Remuneration

In October 2013 the Department for Business, Innovation & Skills introduced a binding shareholder vote on UK executive remuneration policies. The new provisions aim to provide greater transparency and encourage increased engagement between shareholders and companies. Whilst we support the additional disclosure and the strengthening of shareholder rights, we continue to assess all remuneration policies on case-by-case basis with the expectation that they should be simple, transparent and provide appropriate pay-for-performance. We welcome the opportunity to consult with our investee companies on the construction of their executive pay plans and will support those plans which provide alignment between management and shareholders' interests. However we expect that our investee companies' pay policies should be relatively stable structures and will not support regular changes and amendments.

Appendix 2 – US Guidelines

Our main focus is on proposals which deal with board accountability and transparency. In the context of the US, some aspects of corporate governance are unique. These regularly include a combined chairman/CEO, the frequent use of shareholder resolutions and executive compensation.

Below, we have outlined our views on each particular issue. Again, this list is not exhaustive and we deal with all issues on a case-by-case basis.

Combined Chairman/CEO

In the US, a combined chairman/CEO is common. In this context, rather than routinely opposing the (re) election of a combined chairman/CEO on principle, a stance which is likely to be counterproductive, we expect companies to strengthen their corporate governance to mitigate the risks associated with combining the roles. Safeguards include: the appointment of a lead independent non-executive director, with a clear description and delineation of the roles and responsibilities; a majority of independent non-executive directors on the board; and audit and remuneration committees that comprise independent non-executive directors.

Executive Compensation

In accordance with SEC legislation, US companies are required to submit their compensation policies for shareholder approval via a non-binding (or advisory) vote. This is often referred to as ‘Say-on-Pay’ (SOP) with shareholders also delegated responsibility to determine whether company policies will require approval on an annual, biennial or triennial basis.

We have developed a firm understanding of the structural and cultural nuances specific to the US market. This has played a key role in our engagement and voting strategy as we actively encourage the development of compensation policies that are simple, transparent and include stringent pay-for-performance provisions. In instances where this is not the case, we will withhold our support from SOP proposals, confident that our rationale and voting practices are consistent with our clients’ best interests.

Majority Votes in the US

Whilst majority voting for the election of directors is now common practice within the S&P 500, plurality voting is maintained by a significant proportion of the market. We do not believe that a plurality voting standard promotes management accountability as it enables uncontested board nominees to be elected with a single affirmative vote, even if every other share is withheld. Consequently, we are supportive of management and shareholder resolutions calling for plurality voting to be replaced by a majority voting standard.

Shareholder Resolutions

Shareholder resolutions are prominent in the US and cover a diverse range of issues including corporate social responsibility, political donations, executive compensation, board structure, and company reporting. We review each resolution on a case-by-base basis, giving consideration to contextual factors such as the target company’s culture and operations, its sector and current provisions and policies. We assess each of these issues alongside the rationale and potential impact of the resolution before making an informed voting decision which we believe is in our clients’ best interests.

Proxy Access

Proxy access is the ability for a shareholder or group of shareholders to nominate candidates to the board. Standard proposals require qualifying shareholders to hold between 3–5% of the issued share capital for 3–5 years in order to nominate up to 25% of the Board. We are supportive of proxy access in principle, believing that long-term shareholders should have the ability to place director nominees on the proxy ballot. Whilst we are likely to support proposals based on the terms outlined above we will review each resolution on a case-by-case basis. We also welcome the opportunity to engage with investee companies in order to structure an appropriate policy which enhances board accountability and responsiveness to shareholders but also limits potential abuse by shareholders without a meaningful long-term interest in the company.

Appendix 3 – Japan Guidelines

A key component of Japan's economic revitalization program has been the improvement of corporate governance. Accordingly, the Financial Services Agency has introduced a Corporate Governance Code which will apply to all companies listed on Japanese securities exchanges and the Stewardship Code which relates directly to institutional investors. Consistent with our efforts to be responsible stewards of our clients' capital, Baillie Gifford is supportive of both initiatives.

Allocation of Income and Dividends

We support the efficient and effective use of shareholders' capital and normally expect to vote in favour of the allocation of income and the dividend. However, many profitable Japanese companies continue to propose unusually low dividend payments without an adequate explanation, deciding to retain cash on their balance sheets. In such instances we will routinely oppose the dividend. Furthermore, where we have ongoing concerns over a company's capital allocation policy, we will take voting action against the members of the board as part of the engagement process to encourage improved practices.

Appointment of Independent Outside Directors and Statutory Auditors

The inclusion of independent outside directors on the board of Japanese companies is increasingly common and is supported by the new Corporate Governance Code. We believe the role of independent outside directors is to add value to the business by overseeing management's activities and providing executives with advice on strategic issues. Accordingly, we are supportive of their appointment to the board. Furthermore, where a board lacks any independent outside representation then we will routinely withhold support from the re-election of the President and/or Chairman.

We believe that statutory auditors play an important role in defining audit policy, supervising the external audit of a company's financial statements and advising the board. Given their responsibilities we are generally supportive of outside nominees. We will assess internal candidates on a case-by-case basis giving consideration to the materiality of their relationship with the company and the presence of other external statutory auditors.

Retirement Bonuses and Deep Discount Stock Option Plans

Although this is a declining practice, many Japanese companies still award retirement bonuses to directors and auditors. The size of the bonus is usually based on the recipient's tenure and seniority. This type of award is specific to Japan and is tax efficient for both the recipients and the companies. Accordingly, we are generally supportive of these awards. An increasing number of companies are replacing retirement bonuses with executive share option schemes. We welcome this development as we believe it will provide more appropriate pay-for-performance and enhance management's alignment with shareholders. However, we do not support the use of deep discount option plans which lack performance conditions and can be exercised before retirement.

Poison Pills

Whilst the use and maintenance of poison pills is diminishing, their prevalence in Japan is greater than other developed markets. Consistent with our governance principles and expectations for investee companies we continue to oppose the introduction and renewal of these anti-takeover provisions. We believe they limit shareholder value by eliminating the takeover or control premium for the company. We continue to engage with current holdings to promote improved governance practices.

Appendix 4 – Emerging Market Guidelines

When voting clients' shares in emerging markets, we recognise that companies and markets adopt very different approaches to corporate governance, driven by local laws, regulations, best practice corporate governance codes and cultural factors. We have detailed these below, although this list is not exhaustive and we consider issues on a case-by-case basis.

Disclosure

Levels of disclosure in emerging markets on voting items including directors' biographies, executive remuneration, share issuance and dilution can be insufficient. In these circumstances, we endeavour to contact the company to gather more information. Where this is not forthcoming, and we have concerns about the impact on our clients' shareholdings, we will vote against management.

Bundled Resolutions

In emerging markets it is common for companies to bundle proposals such as the election of directors, or amending the Articles of Association, under one resolution. This practice reduces shareholder discretion by preventing us from voting on issues separately. For example, if shareholders have concerns about one specific director, the only option is to vote in favour or against the entire board, which may be counterproductive. Consequently, we will vote against bundled resolutions where we have serious concerns and it is in shareholders' best interests. We will subsequently communicate our views to the company and encourage the splitting out of all relevant matters as separate resolutions.

Majority Shareholders and Independent Directors

In many instances, emerging market companies have majority shareholders, often the government, which usually has significant representation on the board. While this often creates better alignment between shareholders and management interests, it does represent additional risks for minority shareholders, particularly if there is a lack of genuinely independent directors on the board. Although we vote in line with individual market corporate governance practices, we do encourage companies to increase independent board representatives to 50% of the board.

Share Issuances/Pre-emption Rights

Shareholders are entitled to vote on share issuances which could potentially dilute their shareholding. While we are generally supportive of proposals which limit the level of dilution to 20% of issued share capital, we consider these on a case-by-case basis.

Related Party Transactions

A common issue in emerging markets is the existence of related party transactions. Most emerging markets have specific disclosure rules on related-party transactions and require approval from minority shareholders. We consider them carefully to determine if they are a necessary part of the business operations and in our clients' best interests.

Appendix 5 – European Guidelines

When voting clients' shares in Europe, we recognise that companies and markets adopt very different approaches to corporate governance, including board structures, shareholder rights, and share ownership. This is often driven by local laws, European regulations, corporate governance codes and cultural factors. Nevertheless, we judge each company proposal on its merits and regardless of whether a proposal is local market practice or not, we only support management if it is in our clients' best interests.

We have summarised below some of the issues that are unique to the European markets, and which we are required to consider when voting on behalf of clients.

Capital Raising and Anti-takeover Devices

In some European markets, equity issuance could be used as an anti-takeover device. As previously mentioned, we are opposed to proposals which could entrench management and damage shareholder value by removing any takeover premium from the company's shares.

Dual Class Structures

The use of dual class share structures in Europe is quite common relative to other regions. Whilst acknowledge that the one-share, one-vote principle provides alignment of voting rights and equity stake, we appreciate that multiple share structures with different voting rights can enhance long-termism and protect the culture of some organizations. Accordingly, we will assess all proposals to introduce additional share classes or amend existing voting rights on a case-by-case basis, giving special consideration to company culture and the stewardship of long-term shareholders' best interests.

Equity Issuances

We analyse share issuance on a case-by-case basis and we are generally supportive of companies seeking authority to potentially issue up to 20% of share capital with pre-emption rights and 10% without pre-emption rights. We do not usually support resolutions which seek authority to issue equity above these thresholds as we believe that in these circumstances shareholders should be given the opportunity to vote on the issuance of capital after assessing the rationale and circumstances of the request.

Florange Act

The enactment of the Florange Act in France provides for the automatic granting of double-voting rights to any shares held in a registered form by the same shareholder for at least two years, provided that the company does not prohibit double-voting rights in its bylaws. The Act allows companies to amend their bylaws (with shareholders' approval) to opt-out of this automatic granting of double voting rights and thus continue under the one-share, one-vote principle. A similar policy has been adopted in Italy. However, companies are required to opt-in and are required to obtain shareholder approval.

The Florange Act further enables the board, facing a potential takeover, to adopt any provisions to thwart a takeover, without shareholder approval. However companies can choose to opt-out by-amending their bylaws subject to shareholders' approval. We are generally opposed to anti-takeover devices and will therefore oppose any efforts by companies to ignore shareholders best interests when assessing takeover offers.

Although this is specific to France at the moment, we are aware that similar structures are being discussed in other countries. We assess all governance developments based on the merits of the individual changes and our approach to voting on these matters will be consistent across each jurisdiction.

Remuneration

In recent years, many European markets have introduced regulations requiring companies to submit their executive remuneration policies to a shareholder vote, which is either binding or advisory. This has generally led to improved disclosure from companies on issues such as the balance between their long-term and short-term remuneration, performance targets, special bonuses, and ex-gratia payments. Consistent with our approach across all of our holdings, we support remuneration policies which incentivise long-term performance and align management with shareholders' interests.

Board Structure

Board structures vary considerably across Europe and, although we recognise the necessity for the board to reflect the shareholding structure and local market practices, we encourage all companies to increase independence, cultural and gender diversity on their boards.

Appendix 6 – Remuneration Principles

We strongly believe that effective remuneration policies are those which support a company's culture and incentivise the relevant behaviour and performance to deliver on its long-term strategy. Accordingly, we encourage our investee companies to develop simple, transparent pay practices which provide appropriate pay-for-performance and alignment with shareholders.

This document provides the framework we use to assess executive remuneration practices at each of our investee companies. We expect that each policy should meet the following criteria –

1. Simple, transparent and designed to promote long-term performance
 - a. Disclosure should enable shareholders to understand the pay structure and assess the stringency of the performance targets attached to variable pay components.
 - b. Performance for long-term incentives should be measured over a minimum three year period.
2. Balanced and proportionate
 - a. The majority of executives' total pay should be derived from performance-based variable pay elements.
 - b. Standard total pay (salary, annual bonus, long-term incentive, pension and benefits) should be sufficient to ensure retention and recruitment of key employees.
3. Consistent and focused
 - a. Executive pay arrangements should reflect the company's long-term strategy and also be aligned with the remuneration framework used for employees throughout the organisation.
 - b. Companies should use a consistent, long-term remuneration policy which provides line-of-sight for executives and shareholders.
4. Pay-for-performance
 - a. Incentive-based awards should promote a healthy approach to risk and should be sensitive to underperformance as well as outperformance.
 - b. Vested awards should reflect value creation for shareholders.

We review each policy on a case-by-case basis and will support innovative structures which do not necessarily fit with conventional practices, but are bespoke to a company's individual circumstances and will incentivise superior long-term performance.

Nevertheless, there are several pay practices which contribute to or will automatically result in our opposition of an executive remuneration policy –

- i. Repricing of equity awards
- ii. Retesting of performance conditions
- iii. One-off retention or special awards
- iv. Provision of discounted equity awards to executives
- v. Lack of stringent and appropriate performance criteria
- vi. Vesting of incentive awards for below median performance
- vii. Incentive-based awards for non-executive directors or their inclusion within the same plans as executives
- viii. Severance agreements which (i) are excessive relative to market practice and/or (ii) allow accelerated vesting of variable pay awards without pro-rating for time and performance.

We appreciate that it may be impossible to accommodate the explicit and detailed preferences of every shareholder. However, to enable effective assessment of a company's executive remuneration, disclosure of information regarding the development and operation of each policy is essential. Therefore, we promote the provision of clear and concise information, and welcome the opportunity to engage with our investee companies on these issues.

Contact Details

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LONDON BOROUGHGS – RI and ESG Survey

Background

In order to understand the future requirements of London Boroughs in relation to responsible investment and ESG, the IAC working group compiled a survey to gauge demand. The survey comprised 7 questions, which are attached as an appendix to this report. The survey looked at what Fund’s current positions in active and passive ESG type products were; what might they be interested in increasing exposure to; voting and how they thought the CIV might be able to meet their needs in this area. 26 Funds responded to the survey, or just over 80% of Funds on the CIV.

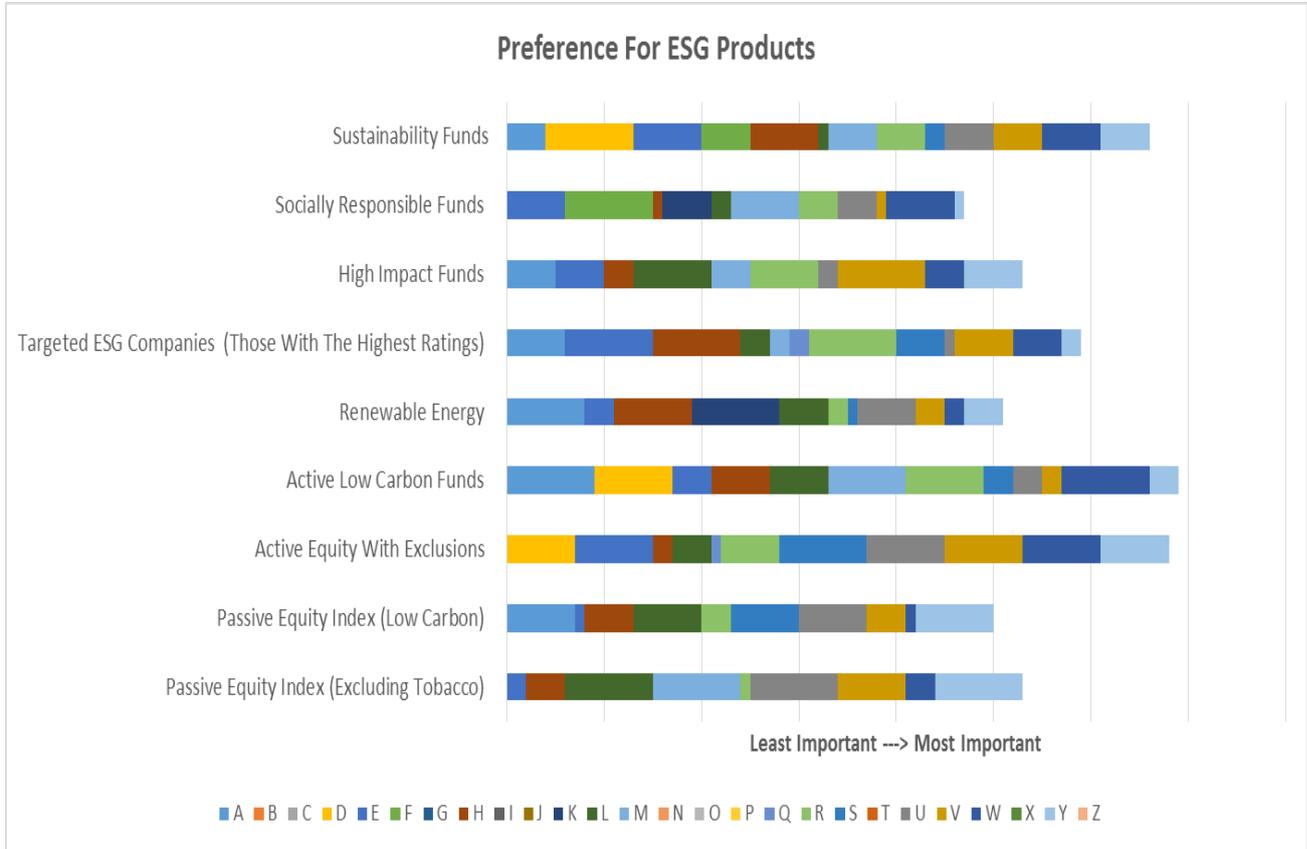
Survey Results

Current Exposure:- 2 funds only with passive products with an ESG approach, one with 5% or approximately £50m and the other with the other 58% or around £500m.

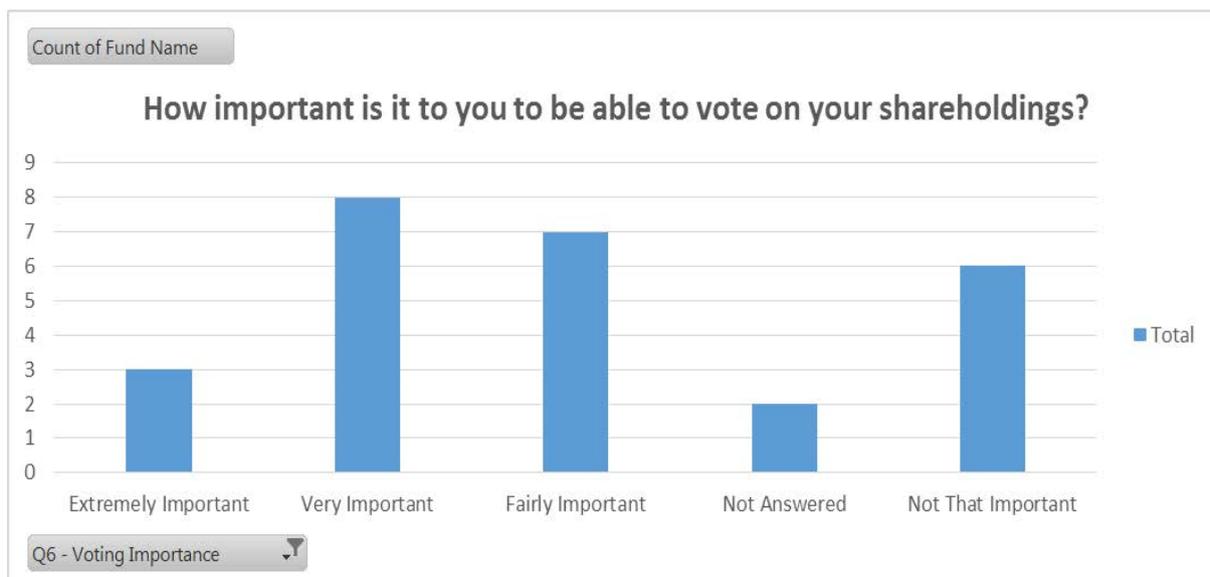
Looking to Gain Exposure:- 4 funds are currently looking to gain exposure in this area in the active equity space with exposures varying between 1.5%-5% of their funds. In addition 3 funds are looking to gain exposure to the passive space, again, between 1.5%-5% of their funds.

Exclusion of specific investments:- 5 funds that were either excluding or keen to consider excluding specific investments - focussed on tobacco and arms companies, but some focus on fossil fuels.

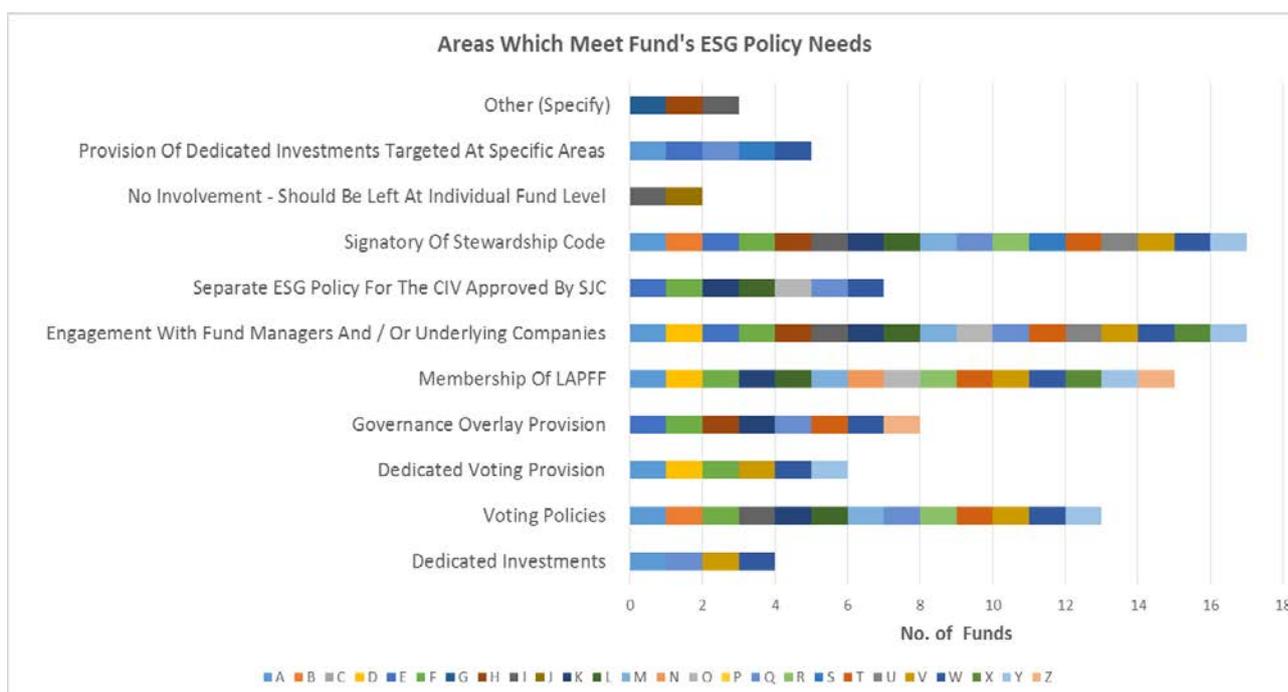
ESG type products:- table of preferences:



Voting:- Of the funds surveyed in London only 5 funds used a voting service, with 3 using PIRC. 18 funds or 69% felt voting to be extremely/very or fairly important, see below:



How the CIV can best meet the Boroughs ESG Requirements:- :- Funds were provided with a range of options as to how the CIV might be able to meet requirements for Responsible Investment and ESG going forwards, they were just asked to tick the areas they felt to be important rather than rank by importance, with the results shown below:



Responsible Investment / ESG Survey

The Investment Advisory Committee of the London CIV is conducting some research to look at the appetite amongst funds for dedicated investment options which have an environmental, social and governance focus. It would assist greatly with the work if you could indicate levels of interest and what particular areas would be of interest. Please could you complete the survey, thanks in advance for your co-operation. In order to move things forward, we may want to ask further questions to those who express preferences. Please provide your fund name

Survey Questions

1. Do you currently have exposure to an ESG type product? If so is it passive/active and value £m / percentage of fund?

Yes / No Passive / Active Value £m / %age

2. Do you have any interest in either increasing your exposure to ESG or building an exposure to ESG products and provide an indication of possible allocation £m / % and whether active or passive?

Yes / No Passive / Active Value £m / %age

3. Would your approach be to exclude certain types of investment e.g. tobacco/arms, etc.? If so which types of companies would you want to exclude?

Exclusions – Yes / No What exclusions?

4. If opportunities for investment in ESG products were available on the London CIV, please indicate your preferences, giving a ranking with 1 being the most important:

- Passive equity index ex tobacco
- Passive equity index, low carbon
- Active equity with exclusions
- Active low carbon funds
- Renewable energy
- Targeted ESG companies – those with highest ratings
- High impact funds
- Socially responsible funds
- Sustainability funds

5. Do you use a separate voting provider, e.g. PIRC to vote on your existing mandates and if so who?

Yes/ No Provider?

6. How important is it to you to be able to vote on your shareholdings?

Extremely Important
Very Important

Fairly Important
Not that Important
Not important

7. How do you think the London CIV might best be able to meet your ESG policy needs, please tick all areas which you see as relevant:

Dedicated investments
Voting policies
Dedicated voting provision
Governance overlay provision
Membership of LAPFF
Engagement with fund managers and/ or underlying companies
Separate ESG policy for the CIV approved by SJC
Signatory of Stewardship Code
No involvement – should be left at individual fund level
Provision of dedicated investments targeted at specific areas