

GOVERNANCE AND SUSTAINABILITY – A LONG-TERM APPROACH

PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Tom Walsh, Kathrin Hamilton and Matt Dey. January 2021.



Intrinsic to Long-Term Investing



*Shares are not mere pieces of paper:
They represent part-ownership of a
business. So, when contemplating an
investment, think like a prospective owner*

Warren Buffett

Intrinsic to Our Approach

Opportunity

Growth

Capability

**Competitive Advantage
Resilience**

Execution

Stewardship

Addressing a Fundamental Industry Challenge

The Pension Fund Supply Chain

Participants & Beneficiaries  **30+ Years**

Trustees of Governing Board  **4–6 Years**

Average Investment Manager  **1 Year**

Company Manager  **3–12 Months**

Source: Johnson, K.L., De Graaf, F.J. (2009), Modernizing pension fund legal standards for the 21st century, Rotman International Journal of Pension Management, International Centre for Pension Management/University of Toronto 2 (Spring 2009), p. 47.

What does Good Practice Look Like to Us?

Baillie Gifford Stewardship Principles



Prioritization of long-term value creation



A constructive and purposeful board



Long-term focused remuneration with stretching targets



Fair treatment of stakeholders



Sustainable business practices

An Evolving Approach

- Increased analytical resource
- Investment in systems and data providers
- Improved integration with core investment process
- Shift from reactive to proactive engagement

The Value of Sound Stewardship

Atlas Copco



Source: MSCI. US dollars. Data from January 1, 2002 to October 20, 2020.

Presenters



Tom Walsh

Tom conducts research for International Alpha portfolios and has been a member of the International Alpha Portfolio Construction Group (PCG) since 2018. He joined Baillie Gifford in 2009, working on the UK, European and Global Opportunities teams, as well as spending four years as a member of the International All Cap PCG. Before joining Baillie Gifford, Tom worked at Fidelity International, Merrill Lynch and Deloitte & Touche. He graduated LLB (Hons) in Law & Economics from the University of Edinburgh in 1999 and is both CFA and ACA qualified.



Kathrin Hamilton

Kathrin joined Baillie Gifford in 2002 and became a Partner in 2013. Kathrin is a Director in the Clients Department with responsibility for North American clients. She graduated MA (Hons) in Business & Economics from Heriot-Watt University in 1998 and gained ATII from the Chartered Institute of Taxation in 2001.
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Matt Dey

Matt is a Client Service Director in the Clients Department. He joined Baillie Gifford in 2013, having previously worked as a Business Development Manager at Newton Investment Management. Prior to starting his career in investment management, Matt played professional rugby for several years. He graduated BSc (Hons) in Applied Sport Science from the University of Edinburgh in 2003 and holds an MBA from Heriot-Watt University.
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Baillie Gifford Overseas Limited

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Our Stewardship Principles



Investment managers

Reclaiming Activism for Long-Term Growth Investors

Baillie Gifford's over-arching ethos is that we are 'actual' investors. We have a responsibility to behave as supportive and constructively engaged long-term investors. We invest in companies at different stages in their evolution, across vastly different industries and geographies and we celebrate their uniqueness. Consequently, we are wary of prescriptive policies and rules, believing that these often run counter to thoughtful and beneficial corporate stewardship. Our approach favours a small number of simple principles which help shape our interactions with companies.



Our Stewardship Principles

Prioritisation of long-term value creation

We encourage company management and their boards to be ambitious and focus their investments on long-term value creation. We understand that it is easy for businesses to be influenced by short-sighted demands for profit maximisation but believe these often lead to sub-optimal long-term outcomes. We regard it as our responsibility to steer businesses away from destructive financial engineering towards activities that create genuine economic value over the long run. We are happy that our value will often be in supporting management when others don't.

A constructive and purposeful board

We believe that boards play a key role in supporting corporate success and representing the interests of minority shareholders. There is no fixed formula, but it is our expectation that boards have the resources, cognitive diversity and information they need to fulfil these responsibilities. We believe that a board works best when there is strong independent representation able to assist, advise and constructively test the thinking of management.

Long-term focused remuneration with stretching targets

We look for remuneration policies that are simple, transparent and reward superior strategic and operational endeavour. We believe incentive schemes can be important in driving behaviour, and we encourage policies which create alignment with

genuine long-term shareholders. We are accepting of significant pay-outs to executives if these are commensurate with outstanding long-run value creation, but plans should not reward mediocre outcomes. We think that performance hurdles should be skewed towards long-term results and that remuneration plans should be subject to shareholder approval.

Fair treatment of stakeholders

We believe it is in the long-term interests of companies to maintain strong relationships with all stakeholders, treating employees, customers, suppliers, governments and regulators in a fair and transparent manner. We do not believe in one-size-fits-all governance and we recognise that different shareholder structures are appropriate for different businesses. However, regardless of structure, companies must always respect the rights of all equity owners.

Sustainable business practices

We look for companies to act as responsible corporate citizens, working within the spirit and not just the letter of the laws and regulations that govern them. We believe that corporate success will only be sustained if a business's long-run impact on society and the environment is taken into account. Management and boards should therefore understand and regularly review this aspect of their activities, disclosing such information publicly alongside plans for ongoing improvement.

We take our responsibilities seriously. We will encourage focus on the building of lasting competitive advantage, and we will enthusiastically support those with a thoughtful approach, using voting to support our five core principles. At a time when the word 'activism' is synonymous with those targeting short-term gains, we would like to reclaim the term for the long-term growth investor.

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