



As 2011 drew to a close, the Corporate Governance Team remained busy on several fronts. Among the areas where we focused attention was the ongoing fallout from the financial crisis, which continued to create uncertainty and highlighted the importance of high quality engagement between investors and companies.

This uncertainty had been a feature of a year that proved to be a bedding down period for governance and stewardship following the significant reforms implemented during 2010. We saw the continuing evolution of the United Nations Principles for Responsible Investment (UNPRI) and the UK Stewardship Code, which reached its first anniversary.

In September, we attended the ICGN and UNPRI conferences in Paris, where we had the opportunity to engage with clients and other industry professionals over the five day period, make new contacts and hear about the work others are doing in this area. In the light of the current European debt crisis, one of the most debated subjects was the financial regulation enacted since the 2008 crisis, and the additional efforts that governments need to make. At the micro level, we discussed the efficiency of boards in understanding and managing companies' operational and financial risks. And, given the venue for the conference, we reviewed French Corporate Governance practices.

A key message from the UNPRI conference came from shareholder activist and corporate governance adviser, Bob Monks, who suggested that that the PRI must switch its focus away from expanding its signatory base. He urged greater coordination among members to ensure management is held accountable for delivering sustainable shareholder wealth. Encouragingly, his views confirmed that Baillie Gifford's current ESG research, voting and engagement practices are consistent with those upheld as best practice.

More details of the year's activities, case studies, sector reviews and a brief description of how we implement the UNPRI's six principles, appear in our Governance Review 2011/12 which is published at <http://www.bailliegifford.com/>.

Other recent events of significance included the High Pay Commission's final report which was published in November. It makes 12 recommendations under the headings: Transparency, Accountability, and Fairness. Essentially, it is not difficult to agree with the overarching points: that disclosure can still improve; pay for performance is paramount; and bonus/long-term incentive schemes need to be simplified. We have subsequently had a number of meetings with board chairmen and remuneration committees, and the recommendations have provided a basis for discussion. There is recognition that executive remuneration is a politically-sensitive area and investors will continue to come under increased scrutiny over the effectiveness of engagement and voting decisions.

We have made remuneration policies a topic of engagement for more than ten years. This year alone, 30 companies consulted Baillie Gifford about new schemes or amendments to current schemes. This is also true of many other fund management companies. However, this does not appear to have controlled the rise of executive pay, or the size of bonuses and long-term schemes. Our challenge is to ensure pay is truly linked to performance and remuneration committees are held to account, thereby ensuring incentives create value for external shareholders.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	3	Companies	1	Companies	None
Resolutions	28	Resolutions	1	Resolutions	None

The FRC's Stewardship Code is now one year old. Measuring engagement effectiveness continues to be a challenge.

Board diversity and increasing the number of women on boards is a current discussion European regulators, governments and investors are having.

Corporate Governance expectations in Japan continue to develop although the earthquake earlier this year has delayed some revisions to the Japan Companies Act aimed at protecting minority shareholder rights.

Company Engagement

Engagement Type	Company
Corporate Governance	Monsanto Company
Corporate Social Responsibility	Hermes International SCA, PPR SA [Pinault Printemps]

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

Votes Cast in Favour

Companies	Voting Rationale
HDFC, Inditex, Teva Pharmaceutical ADR	We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Inditex	AGM 19/07/11	10	We opposed the one-off share award to the new Chairman/CEO because several aspects, including a lack of performance conditions, do not meet best practice.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.

Company	Engagement Report
Hermès International SCA	<p>We had a meeting in Paris with Hermès International, the family-owned French designer and manufacturer of luxury products, to discuss the company sustainability strategy. We have never had concerns, as most of its suppliers are based in France and Italy. However, disclosure on the subject is minimal. Hermès only recently recruited a Chief Sustainability Officer, whose purpose is to organise and coordinate the environmental and social initiatives across the group. We should see the company start to disclose relevant material information in 2012. This meeting confirmed our view of Hermès as a family-owned company doing business with a very long-term perspective.</p>
Monsanto Company	<p>Monsanto is the leading producer of genetically modified seeds. We opposed the executive's remuneration in the first quarter of 2011 and contacted Monsanto to discuss the matter. Monsanto's Corporate Governance Team came to Edinburgh for a follow up meeting. We are encouraged by the company's increased efforts to engage with foreign shareholders and welcomed this opportunity to understand the remuneration policy and suggest possible amendments to increase alignment between shareholder and executive interests. We took this opportunity to discuss Monsanto's risk controls and how the board incorporates risk analysis into all business discussions and decisions. We look forward to continued engagement with the company.</p>
PPR SA [Pinault Printemps]	<p>We engaged with PPR Group, the French luxury goods retailer, on its corporate governance, efforts to reduce its environmental impact, and its growing focus on being a responsible and sustainable company. PPR has a 40% shareholder and a combined Chairman/CEO. We are aware of this and believe both are firmly focused on long-term financial sustainability and performance of the company. Succession planning is potentially one area which requires development. Three women were appointed to the board of directors last year. This meant they reached the new quota requirement of 40% of female board members five years ahead of the regulatory deadline. The company recently published environmental profit & loss accounts, and is discussing a social version for 2012. This innovative development aims to reduce environmental and social risks associated with the business and its supply chain, and improve operational efficiency. We look forward to seeing how the company uses this additional data for improved risk management and operational success.</p>