

China

Our Head of Environmental, Social and Governance recently spent six weeks in China. Based in Shanghai, but with trips to Beijing, Hong Kong, Shenzhen and Yunnan, she met a diverse selection of companies, regulators and NGOs.

The focus of the trip was to start to gain an understanding of what good corporate governance in China looks like, and how it differs between state-owned entities and smaller more entrepreneurial companies. Other objectives included seeking a sense of how governance rules and regulations are changing, hearing what Chinese companies say about the social and environmental pressures the businesses are facing, assessing how regulation and wider societal expectations are developing, and the importance of improving processes for managing environmental and social matters. Broadly, the key environmental and social issues in China are air and water emissions, labour conditions and wage rates, and health and safety performance.

The situation is not simple and is complicated by the size of China, its diverse geographies, business structures, and attitudes to foreign and minority shareholders. The State is the ultimate controller, but the

Provincial governments play an important role. It is a country of extremes. Clearly, this visit offered only an overview and confirmed that there are many more areas to address in ‘getting to know China’.

There were notable company meetings with CNOOC, China Merchants Bank, Ping An Insurance, Focus Media and China Shenhua. In addition, there were invaluable opportunities for discussions with the China Securities Regulatory Commission, China Banking Regulatory Commission, and Development Research Centre (DRC) of the State Council. All are looking at ways to improve corporate governance in China, both through board structures and procedural recommendations, as well as via national institutions such as an Institute of Directors type body. The NGOs – IPE (Institute of Public and Environmental Affairs), WWF and UNIRULE, an independent institute of economics – focused on market reform in China. All offered different perspectives which have generated new ideas and highlighted many more questions. Our research into and engagement with Chinese companies will continue to develop. There are many ESG challenges for Chinese companies as well as for those with operations there, but as economic development continues, upside opportunities to manage and take advantage of the challenges are sure to arise.



BIS

The UK Department of Business, Innovation and Skills (BIS) has several projects which could have a direct impact on listed companies, and indirect implications for investment managers. The most significant of these include:

- Executive Pay: Consultation on enhanced shareholder voting rights
- Women on Boards

We take executive remuneration seriously for our UK-listed companies, and increasingly for those elsewhere. For example, we recently completed a significant project on our US holdings following the first year of say-on-pay. The most significant proposal is to change the advisory vote on the director’s remuneration report to a binding vote. The consultation remains open until April 27 2012. We are considering the proposals at the moment, and will be happy to discuss our views on it after that time.

There has been a focus on increasing the number of women on boards. Rather than simply see an increase in the numbers of women, the Baillie Gifford corporate governance team prefers increased board diversity as a means of ensuring the right skills, experience and appropriate level of ‘challenge’ is present at board meetings. There was an increase in the number of women appointed to non-executive positions in 2011, but we note that only 15% of executive posts in the FTSE 100 were awarded to women. This highlights that cultural changes are still required within companies to ensure growth of the pool of future talented board members in order to maintain diversity in the boardroom.

We met the Department of Business, Innovation and Skills in February 2012 to discuss the progress of corporate governance consultations, and we will stay in touch with the discussions.

Clearly, both have the potential to influence board make-up and the structure of remuneration packages, as well as engaging with shareholders. Both of these issues will remain a core consideration for the governance team, and will be topics for discussion with company managements over the coming months.



Japan

In Japan, we continue to monitor corporate governance developments and actively engage with the key regulators and bodies. In January, we responded to the Ministry of Justice’s consultation on changes to company law and, in February, met both the Tokyo Stock Exchange and Financial Services Agency to discuss changes to the listing rules and company law. The most significant proposal is the mandatory appointment of independent directors to Japanese boards which we are supportive of.

Policy documents

We have recently updated our Global Corporate Governance Principles and Guidelines and the Environmental, Social and Governance Policy. Both are available on the internet at www.bailliegifford.com

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Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	4	Companies	2	Companies	None
Resolutions	31	Resolutions	4	Resolutions	None

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Company Engagement

Engagement Type	Company
Corporate Governance	Gazprom OAO , New Oriental Education & Technology Group Inc.
AGM or EGM Proposals	Whole Foods Market

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

Company	Meeting Details	Resolution(s)	Voting Rationale
Apple	AGM 23/02/12	7	We supported a shareholder resolution asking the Board to adopt a majority vote standard for the election of directors because we believe that this is in shareholders' best interests.
Whole Foods Market	AGM 09/03/12	5	We supported a shareholder resolution to amend the Articles of Association.
Companies	Voting Rationale		
Apple, Deere, Novozymes, Whole Foods Market	We voted in favour of routine proposals at the aforementioned meeting(s).		

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Apple	AGM 23/02/12	4-6	We opposed three shareholder resolutions as the resolutions were overly prescriptive and not in shareholders' best interests.
Whole Foods Market	AGM 09/03/12	6	We opposed a shareholder resolution to adopt a policy for an independent Chairman, as the board has an independent Chairman at present and the audit, remuneration, and nomination committees comprise independent non-executive directors, we believe that there is sufficient independent representation at this time.

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
Gazprom OAO	<p>Gazprom is the largest natural gas producer in the world. It owns and controls the gas pipeline infrastructure in Russia and enjoys a monopoly on Russian gas exports. The government owns over 49% of the company. We have been engaging with Gazprom over a number of years with the aim of gaining additional information and improved disclosure on governance, safety and environmental matters. We recently had the opportunity to discuss a range of issues with the only independent director on the board. Progress includes changes in directors' fees, replacement of government officials on the board with an independent director, and improvements in disclosure. We will continue to encourage improved disclosure and communicate the views of minority shareholders.</p>