



FRC UK Stewardship Code – response statement

General approach to investment

1. We are an independent global charitable foundation, dedicated to improving health. The assets of our investment portfolio are used to fund health-related research and to support thousands of curious, passionate people all over the world to explore great ideas, at every step of the way from discovery to impact. Wellcome invests on its own behalf as principal, in support of its mission. We seek to use the advantages of our long-term investment horizon, our ability to tolerate high levels of short-term volatility, our AAA balance sheet and our proactive governance structure in the investment portfolio.
2. The management and performance of our investment portfolio is regularly reported to, and is under the direction of the Board of Governors.
3. The Investment Policy, including a broad outline of the corporate governance approach, is approved by the Board of Governors, as advised by the Investment Committee, and implemented by the Investment Executive.
4. It is our current policy not to allow investment in companies that derive material turnover or profit from tobacco or tobacco-related products. However, all other investments are assessed within the basis of the broadly defined risk and return objectives of the whole portfolio.
5. In order to maximise investment returns from global economic activity, our portfolio is very broadly diversified with no innate geographical bias, and is invested across a very broad range of assets and strategies. Public equity investments are made through a variety of arrangements, including direct investments managed by our Investment Executive, outsourced discretionary mandates with managers who invest on our behalf, and investments in collective investment vehicles of various kinds. The stewardship arrangements of our public equity investments vary with the nature of the management arrangement, and each is covered in detail below.

Approach to stewardship

6. We take our responsibilities as a shareholder seriously, and regard stewardship as integral to the wider investment process of equity investment. We are willing to be an active asset owner where we believe our actions will protect and enhance shareholder value, and to encourage strategic thinking which is consistent with our long term view.
7. We may actively engage with company management to raise issues relating to the company's strategy and performance, its capital structure, its governance or its approach to business risks. The decision whether to engage relies on a number of factors, such as the size of our holding relative to the size of the company and in the context of the Wellcome's entire investment portfolio, and whether our holding is

directly managed by us or is delegated to an external manager. We will escalate our engagement activities as appropriate on a case by case basis. In appropriate cases, the outcome of this engagement may involve exercising voting rights in ways counter to management, although typically we believe that direct discussions are a more effective way of achieving change.

8. As an international investor, we adopt a broadly consistent approach to stewardship and exercising our rights as a shareholder throughout the world, wherever possible. However, we do take account of different practices in different markets and also of the consequences of exercising our rights. For example, we are aware that in some markets, voting impedes a manager's ability actively to manage the shares by "share-blocking", and in these markets, we typically would not vote.
9. We invest in a large number of companies which are listed in the UK through our various investment arrangements, and find it is impracticable to consider all of the explanations made regarding compliance with the UK Corporate Governance Code. However, we are supportive of the principles set out.
10. We use an external proxy processing and voting system. Reports are run periodically for our investment team to monitor the use of votes. We do not subscribe to a proxy advisory service.
11. We are willing to act collectively with other investors where appropriate. Each case is considered on its merits and dependent on our view of whether the action will enhance shareholder value; accordingly, there is no explicit written policy in place on collective engagement. We are a founder member of the UK Investor Forum.
12. We are willing to be made an insider in some exceptional cases, depending on, amongst other things, the source of the information, the size of the holding, and the nature of the investment within our portfolio. Parties who might wish to take us inside should contact the Wellcome's Managing Partner, Investment Division, Nick Moakes, and indicate that they may wish to share price sensitive information before revealing any information; he will then consider whether and how any discussion should proceed. Where we have been made an insider, we have procedures in place to guard against breaching any securities laws.

Direct internally-managed investments

13. Where we take the decision to own shares in companies directly, we disclose these holdings to the market and can be directly identified on shareholder registers, even when not required to do so by regulation. We believe that management of companies should be aware of the identity and nature of their shareholders.
14. We typically seek to invest in strong franchises with effective management and therefore would generally expect to vote in line with management recommendations; however, we do not always vote in this way and will consider exceptions to this on a case by case basis. Decisions on how to vote are taken by the investment team.
15. The internal investment team monitor the directly-held public equity investments. We have regular interaction with companies in which we invest, at both management and board levels. Our main focus in this interaction is long-term strategic issues rather than short-term fluctuations in business or share price performance.

Investments managed by a third party discretionary manager

16. For investments held in mandates with third party discretionary managers, we review the proposed stewardship approach of each manager as part of the due diligence on the particular mandate, but do not delegate our voting rights. We recognise that the stewardship approach of our managers will vary based on the nature of the investment strategy.
17. We maintain regular dialogue with our discretionary managers, and have a clear understanding of how they are discharging their stewardship responsibilities within their mandates. We have a customised reporting and meeting process in place, and regularly review the investment approach, but do not separately monitor the individual companies purchased.
18. Although we would generally expect to vote in line with the recommendations of management of the underlying company, we encourage our discretionary managers to approach us where they have areas of concern regarding the corporate governance of holdings within their discretionary portfolio, and in particular where they have issues with holdings they have in common with our directly-held equity portfolio. We will carefully consider any voting recommendation made by an investment manager, and follow these where we agree it is appropriate.
19. As part of our internal processes, members of the Investment Executive review the AAF 01/06 or SSAE 16 reports, or equivalent, of our discretionary managers on an annual basis (where available), and note the managers' policies and processes.

Investments through collective investment vehicles

20. For long-only public equity investments held in collective investment vehicles with third party managers, we typically have limited scope to affect the stewardship approach taken by the manager, but do review and take into account the manager's stated stewardship policy as part of the process of investing.

Stock lending

21. We operate a securities lending programme for most public equity investments, as a means of generating additional income. The programme includes mechanisms to recall shares at any time if required, including to enable us to vote the shares, though it is not our common practice to do so.

Conflicts of interest

22. As we have no clients, funders or specific beneficiaries, few situations are likely to arise where there is a conflict of interest in relation to our stewardship activities.
23. We recognise, however, that situations may arise where members of staff, members of the Investment Committee and members of the Board of Governors with outside interests have or may have a conflict of interest when considering matters such as engagement and voting. It is important that all conflicts and potential conflicts are dealt with within a transparent, consistently applied framework. Robust procedures are in place for managing such conflicts and a copy of the policy is made available on our website.

Disclosure

24. We do not disclose publicly voting records or report formally to external parties on our voting activities. We have a large number of holdings in individual listed equities and believe that the resource implications involved in the publication of a full voting record would outweigh any possible advantage to any other investors or company stakeholders.
25. Where there is a continuing engagement with management of companies, we believe it is important to retain the freedom to keep the outcome confidential between management and ourselves. Equally, where we consider our responsibilities as a shareholder require the disclosure of our voting intentions, we will make an appropriate disclosure.
26. For similar reasons, we do not believe that a regular report of the totality of our stewardship activities would generally be sensible.

Administration

27. This statement, along with underlying policies, will be reviewed on an annual basis and updated where necessary to reflect changes in actual practice.
28. For further information, or for dialogue regarding collective engagement, please contact Nick Moakes on n.moakes@wellcome.ac.uk or 020 7611 7227.

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