WALTER SCOTT

SINCE · 1983

Response to Japan's Stewardship Code

Principles for Responsible Institutional Investors

Walter Scott commended the action of the Minister for Financial Services and the Financial Services Agency in introducing a Stewardship Code in February 2014. This marked an important step in the evolution of the rights and obligations of both investors and corporations in Japan. Walter Scott supports and accepts the implementation of the Code revised in May 2017 by the 'Council of Experts on Japan's Stewardship Code', convened by the Financial Services Agency.

Walter Scott's investment approach is wholly aligned with the objective of Japan's Stewardship Code: to promote sustainable growth of companies through investment and dialogue. Long-term ownership is central to Walter Scott's investment approach and in that context meaningful ongoing dialogue, based on in-depth knowledge of investee companies and their industry, is vital.

For Walter Scott, good stewardship means acting as a responsible owner on behalf of the firm's clients thereby creating investment opportunities and decreasing investment risk. Walter Scott believes that investing in a company carries with it the responsibility to consider and monitor how the company operates with regard to all stakeholders as well as the environment.

Walter Scott is solely focused on global equity investing on behalf of its clients. The firm's core conviction is that over the long term, returns to shareholders can only ever be as great as the wealth generated by the underlying businesses in which they are invested. The primary task is identifying companies capable of sustaining high rates of wealth generation over the long term. Walter Scott's investment philosophy and process, within which sustainability is an integral part, have been consistently applied since the firm was founded in 1983; all companies are analysed and monitored in the same in-depth manner. The investment rationale for each and every stock held is built around long term ownership with no defined expectation of sale. Longevity of compound return goes hand in hand with the concept of sustainability.

Please find below the firm's response to the principles contained within Japan's Stewardship Code.

PRINCIPLE 1

Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities, and publicly disclose it.

Walter Scott's investment process rests upon in-depth research into every individual company considered for inclusion in a portfolio. That research follows a defined structure common across sectors and geographies and has remained consistent over time. The firm's approach to research is also designed to ensure that the research effort is long-term in both its perspective and objective. The research effort is evidenced through written reports and financial analysis and is heavily based upon debate and discussion within the Research team both in formal meetings, generally held three times a week, and informal dialogue within that team. Investment proposals require the agreement of all members of the team and so all must be assured of the quality and integrity of the research undertaken across all relevant, including governance related issues. Any agreed proposal is then presented to the Investment Executive (IE), which comprises the firm's Executive Chairman, Managing Director and Investment Directors, for ratification. Before any investment is made, members of the team will generally have met with management and will then establish regular, purposeful dialogue with the company.

With a process that leads to investment in a relatively small number of companies, regular dialogue with management is typically both possible and meaningful. Walter Scott's long term investment outlook, and typically long holding period, also lends itself to more constructive conversations with management than might otherwise be the case. Face-to-face discussions provide an excellent opportunity to review a company's long term strategic direction and all relevant aspects of governance such as board composition, the sustainability of competitive advantage, and for some companies in particular the rationale of cross-holdings and the time-line for unwinding those, as well as environmental and social concerns where necessary. Additional engagement may occur relating to matters such as proxy voting, governance or consultation on revised remuneration policies.

With a focus on 'bottom-up' investment, Walter Scott's investment process is therefore deliberately structured to avoid companies where ethical, governance, environmental or social standards are deemed to put the achievement of the long-term portfolio return targets at risk. An investment will not be made if there are significant concerns about either management or matters of corporate governance.

Walter Scott's investment activities are overseen by an Investment Management Committee (IMC) which reports to the Walter Scott Board and comprises representatives from all areas of investment as well as other senior members of the firm.

Walter Scott's ESG Policy and Proxy Voting Policy can be found on the firm's website (www.walterscott.com).

PRINCIPLE 2

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

Walter Scott's Conflicts of Interest Policy underpins the firm's commitment to acting in the best interests of clients at all times. The policy outlines the procedures to be followed in the event of a conflict, or potential conflict. In regard to stewardship specifically, where Walter Scott manages assets for a publicly listed company, the client relationship has no bearing on Walter Scott's investment perspective on the company, nor on engagement with company management nor on proxy voting. The firm's Proxy Voting Policy sets out the guidelines to be followed in particular instances as well as the required approval processes for all votes cast. The policy addresses the steps to be taken should there be any ambiguity or potential conflict.

Generally, each member of the Research team, referred to as a 'stock champion', is responsible for a number of companies held. Typically, the stock champion will be the individual that proposed and presented the stock for investment and members of the team will be champion to a small number of stocks across sectors and geographies. Proxy voting is the responsibility of each stock champion. In situations where there is any doubt or potential conflict, a meeting with a sub-group of the IMC is convened.

Whilst conflicts are infrequent, the most likely conflicts will occur where either Walter Scott manages assets for a company whose management is soliciting proxies or if a client of Walter Scott's is the proponent of a shareholder resolution. In such a situation a meeting of the sub-group of the IMC will be called. Once the sub-group has identified a potential conflict of interest, it will resolve the conflict prior to voting the proxy in question by verifying that the stock champion's voting instructions are entirely in line with Walter Scott's Proxy Voting Policy, and if necessary, changing the voting instructions accordingly. A member of the firm's Risk & Compliance team will also attend that meeting to ensure the Proxy Voting Policy is followed when a conflict arises. The Risk & Compliance function of Walter Scott is independent of the Investment and Operations functions of the firm as required by the Financial Conduct Authority.

Both the Conflicts of Interest Policy and the Proxy Voting Policy are supplied to all clients at the outset of the relationship and upon any material change thereafter. These policies underpin the firm's commitment to ensure that the best interests of all clients remain foremost in mind. The Proxy Voting Policy can be found on the firm's website (www.walterscott.com); further detail on the Conflicts of Interest Policy is available on request.

Walter Scott is a separate legal entity and a wholly owned subsidiary within the Bank of New York Mellon Corporation (BNY Mellon). The Board of Directors has ultimate responsibility for corporate governance. The Board consists of eight directors, two of whom are representatives of the shareholder. The board discharges its responsibilities through regular Board meetings and by delegating aspects of that responsibility through a formal Committee structure. Policies and procedures have also been established to ensure effective and appropriate governance of the business. The Operating Groups and Committees that report to the Board generally meet on a monthly basis.

Walter Scott, as a wholly owned subsidiary of BNY Mellon, operates autonomously from its parent in terms of its investment research, portfolio management, investment administration and other elements that impinge directly upon the investment management services provided to clients. The investment decisions reflected within Walter Scott client portfolios reflect its independent investment research.

PRINCIPLE 3

Institutional investors should monitor investee companies so that they can appropriately fulfil their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

Through in-house research and communication with investee companies, the Research team seeks to identify and review all relevant factors assessing a company's ability to generate wealth over the long term, including ESG factors. The investment process is deliberately structured to avoid companies where ethical, governance, environment or social standards are deemed to put the sustainable growth and meaningful wealth creation at risk. Walter Scott's ESG Policy can be found on the firm's website (www.walterscott.com).

Walter Scott's investment philosophy relies upon a long term outlook resulting in low portfolio turnover. As a consequence, careful monitoring of publicly available information pertinent to an investee company is fundamental to the investment process. Each member of the Investment Research team ('Research team') is responsible for monitoring a relatively small number of companies acting as stock champion for a particular stock. Monitoring is evidenced through extensive and detailed research and analysis by each stock champion as well as through communications within the team. Formally, at least once a week every holding across all portfolios is considered by the team with particular discussion in the event of notable news on a company or a marked share price move. With the Research team all based in a single location in Edinburgh, more regular dialogue is both possible and encouraged to further ensure that all investee companies remain under scrutiny at all times. Whilst Walter Scott's investment process is deliberately structured to discourage undue focus on short term market "noise", vigilant monitoring is integral to that process.

Continuing dialogue with company management is also a very important element of monitoring investments. That dialogue serves as a vital gauge of company management's attitude to corporate governance and their ambitions to improve on such governance as part of their overall strategy for growth over a long term horizon. A robust and constructive attitude to corporate governance, in its widest sense, is fundamental to sustaining a successful business model over time.

PRINCIPLE 4

Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

Regular dialogue with investee companies affords the opportunity to discuss events or concerns as they arise. On the rare occasion that concerns are not addressed through such communication a decision to escalate the level of engagement may be considered. An unsatisfactory conclusion to any discussion in this regard could lead to a sale of the position.

The decision on whether to escalate engagement will initially rest with the individual stock champion in discussion with the IE. In the past, engagement has typically entailed initiating a call or meeting with senior management of the company in question to deal with the specific matter of concern or a formal letter to the company outlining the particular issue and expressing Walter Scott's favoured course of action. Where there are concerns regarding management's remuneration, Walter Scott will generally seek to engage with the Chairperson of the Remuneration Committee.

Situations where Walter Scott would engage with investee companies in collaboration with other institutional investors are likely to be rare as it is Walter Scott's preference to engage on an individual basis. However, collective engagement would be considered where such action is deemed to be in the best interest of clients. The firm's Co-heads of Investment are the appropriate contacts in regard to any proposed collective engagement. The IE must approve any collective engagement or the initiation of any such engagement by Walter Scott.

Whilst Walter Scott strives to achieve constructive and regular communication with investee companies, Walter Scott's usual, and strong preference is to avoid being in receipt of Material Non-Public Information (MNPI). The firm believes that it must place its independence and its ability to trade on client's behalf above all, without the necessary limits imposed when in receipt of MNPI. That said, under certain circumstances the firm may receive MNPI but asks that such information only be conveyed with prior agreement. Investee companies are informed via a letter from the Chief Compliance Officer that any communication other than on matters which are already in the public domain be sent to compliance@walterscott.com.

Walter Scott has established a ring-fenced team (RFT) to process communication related to shareholder engagement which is potentially MNPI such as draft remuneration policies or executive appointments or departures. The RFT comprises of the Chief Compliance Officer and investment professionals who do not have direct responsibility for making investment decisions or day-to-day responsibility for investee companies. On receipt of such information clear procedures are in place to ensure that all necessary steps to comply with regulatory requirements are taken.

PRINCIPLE 5

Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.

Walter Scott has a clear and robust Proxy Voting Policy that requires the firm to vote all proxies in a timely manner and on a best endeavours basis. Stock on loan, jurisdictional restrictions, split voting, excluded markets and custodian related issues amongst other external factors can all impact Walter Scott's ability to vote.

Walter Scott does not undertake stock lending. Any such arrangement rests with clients and their appointed custodian. Walter Scott generally does not ask clients to recall stock on loan in order to vote.

Walter Scott's Proxy Voting Policy is publicly disclosed on the firm's website (www.walterscott.com). The Proxy Voting Policy does not aim to cover every possible eventuality. Instead it covers the most frequent areas of contention and provides a clear framework through which to escalate other areas of concern and reach a consensus on the most appropriate course of action thereby promoting sustainable growth of investee companies. Areas specifically covered within the Policy include corporate governance issues, including remuneration and board composition; changes to capital structure, such as undue and unacceptable dilution, poison pills; political donations, allocation of income and dividends and environmental, social and corporate responsibility issues amongst other factors. Walter Scott evaluates each agenda item separately and votes on all issues on a case by case basis.

To ensure that each stock champion has all the necessary information on any AGM or EGM, Walter Scott receives documentation on forthcoming votes from custodians and ISS. However, the stock champions vote independently of recommendations from any intermediary.

Where requested, clients are regularly provided with proxy voting records. Walter Scott will disclose proxy voting records on the firm's website from 2018.

PRINCIPLE 6

Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

Walter Scott communicates how it carries out its stewardship responsibilities with clients through meetings and conversations as well as through monthly, quarterly and ad-hoc reports which may include details of proxy voting activities and governance-related matters. On request, clients are provided with further detail including explanation of any voting against management recommendation, examples of recent engagement or research specifically related to issues across the ESG spectrum.

Both the Conflicts of Interest Policy and the Proxy Voting Policy are supplied to all clients at the outset of the relationship and upon any material change thereafter.

PRINCIPLE 7

To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment and skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.

Walter Scott's investment process is grounded in a consistently applied research framework and a team-based approach. That approach allows knowledge, expertise and experience to be shared amongst the group; the combined effort of the Research team is considered greater than the sum of the parts. Senior management is committed to ensuring that all employees undertaking stewardship activities are equipped with the necessary skills; underpinned by mentoring and continuing professional development. The firm offers both external and internal training, including a dedicated investment training programme, as well as encouraging gaining external qualifications where appropriate.

Whilst the team's remit is global, with a long-term outlook, a "buy and hold" philosophy and highly selective investment criteria, the efforts of the team are focused on a much smaller investable universe. In turn that allows robust and diligent research. It is the responsibility of the team to research all factors that may benefit or impact a particular company over the long-term. That task involves detailed analysis of publicly available financial statements and strategic reports. It involves conversations with the company itself, both senior and operational management as well as with peers and competitors. There is also regular dialogue between the team and industry and academic experts. Whilst investment decisions are made on the merits of each individual company with little reference to sector or geographical constraints, the team must remain cognisant of long term shifts in economies, society and industry. It is to these long terms shifts that world-leading companies should be aligned in the pursuit of long-term sustainable growth.

In this context, collective or activist engagement is rare as it is Walter Scott's preference to engage on an individual basis. However, it would be considered where such action is deemed to be in the best interest of clients. The firm's Co-Heads of Investment are the appropriate contacts in regard to any proposed collective engagement. The IE must approve any collective engagement or the initiation of any such engagement by Walter Scott.

Walter Scott, as a wholly owned subsidiary of BNY Mellon, operates autonomously from its parent in terms of its investment research, portfolio management, investment administration and other elements that impinge directly upon the investment management services provided to clients. The investment decisions reflected within Walter Scott client portfolios reflect its independent investment research. Furthermore, Walter Scott has its own Proxy Voting Policy.

Self-evaluation

Walter Scott will periodically review and update the firm's Response to Japan's Stewardship Code with respect to the status of our implementation of each principle, including guidance, and disclose the result of the 'self-evaluation' publicly.

Further to revisions to reflect updates to the revised Code, published in May 2017, Walter Scott has taken the following steps to enhance our adherence to the Code:

- Publicly disclosed the firm's Proxy Voting Policy on our website.
- Publicly disclosed the firm's ESG Policy on our website.
- Taken the decision to disclose proxy voting records on our website from 2018.