WALTER SCOTT

SINCE · 1983

Response to the UK Stewardship Code

Walter Scott supports the implementation of the UK Stewardship Code issued by the Financial Reporting Council in July 2010 and revised in September 2012.

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.

Walter Scott supports the seven principles laid out in the Stewardship Code.

PRINCIPLE 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

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. It is evidenced through written reports and financial analysis and is heavily based upon debate and discussion within the Investment Research team ('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 factors, 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 opportunity to review a company's long term strategic direction and all relevant aspects of governance such as board composition and management's remuneration. Conversations also focus on capital allocation, 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 robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

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.

PRINCIPLE 3

Institutional investors should monitor their investee companies.

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 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.

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 clients' 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 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

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.

Any formal engagement or any material deviation from the firm's Proxy Voting Policy requires the explicit approval of the IMC. Additionally, the firm's Proxy Voting Policy requires any contentious or unclear matter be referred in the first instance to a sub-group of the IMC.

PRINCIPLE 5

Institutional investors should be willing to act collectively with other investors where appropriate.

Walter Scott's investment approach is based on in-depth research and results in concentrated, highly selective client portfolios. Whilst investment is typically made globally, without reference to sectors or geographies, that breadth is not replicated in the number of holdings. Therefore, situations where such engagement might require to be considered are likely to be rare as it is Walter Scott's preference to engage on an individual basis. Furthermore, in such circumstances, past experience suggests that it is more likely that a stock would be sold. 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.

PRINCIPLE 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

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. 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.

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.

PRINCIPLE 7

Institutional investors should report periodically on their stewardship and voting activities.

Walter Scott communicates 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. Further, Walter Scott acknowledges and appreciates the value in reviewing its engagement and voting processes. An independent professional services firm provides an opinion on voting processes as part of the ISAE 3402 / SSAE 18 report, as well as an opinion as to whether the Statement describes fairly the application by Walter Scott of Principles 1, 2, 4, 6 and 7 of the UK Stewardship Code.