WALTER SCOTT

BNY MELLON | INVESTMENT MANAGEMENT

ARTICLE 3

SUSTAINABLE FINANCE
DISCLOSURE REGULATION

SUSTAINABILITY RISKS POLICY

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THIS IS A SUMMARY OF THE POLICIES OF WALTER SCOTT ON THE INTEGRATION OF SUSTAINABILITY RISKS IN ITS INVESTMENT DECISION-MAKING PROCESS.

INTRODUCTION

Walter Scott has implemented this Sustainability Risks Policy (the "Policy"), which sets out our process in respect of the integration of sustainability risks in our investment decision-making process, as required by the Sustainable Finance Disclosure Regulation ("SFDR"). This document provides a description of the key features of our Policy for the purposes of disclosure on our website.

Under SFDR, "sustainability risk" means an environmental, social or governance ("ESG") event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment. The Policy therefore approaches sustainability risk from the perspective of the risk that ESG events might cause a material negative impact on the value of our clients' investments.

We maintain other policies relating to ESG and sustainability, including:
- Responsible Investing Policy
- Engagement Policy
- Proxy Voting Policy

SUSTAINABILITY RISK MANAGEMENT

As part of our broader risk management processes when investing, we have implemented procedures to **identify**, **measure**, **manage** and **monitor** sustainability risks.

Identify

We look to invest in businesses that will be successful in generating wealth for our clients over the long-term. As such, we must attempt to consider all material near- and long-term risks and opportunities that a business faces. With this approach, it is not possible to separate integrity, sustainability and governance considerations from the financial success of a business – over the long term, a company's approach to these factors will have a material impact on its financial success. Accordingly, we fully integrate the assessment of sustainability risks into our investment process. When we consider the sustainability risks associated with an investment, we are assessing the risk that its value could experience a material negative impact from an environmental, social or governance event or condition.

While our research is proprietary, we augment our work with information and analysis from external sources, including third-party research providers, academics and subject matter experts. When we research any company, regardless of geography or sector, we apply the same analytical framework. This framework involves analysis of historical financial records alongside consideration of seven key areas of investigation:
- Business activities and physical footprint
- Integrity, sustainability and governance
- Market characteristics
- Control of destiny
- Financial profile
- Management and board
- Valuation and trading

In our analysis of integrity, sustainability and governance practices, we assess and monitor companies on relevant and material factors across four key areas:

ENVIRONMENTAL CONSIDERATIONS

As a responsible investor and steward of client capital, we acknowledge the role we can play in promoting sound environmental practices. While we understand that for many companies some form of negative environmental impact will inevitably result from their business activities, we expect and encourage all companies in which we invest to take their environmental responsibilities seriously.

We assess and monitor companies across those environmental factors we consider material to their operations.

These may include:
- Pollution and waste management
- Water
- Natural resource usage
- Biodiversity
- Circular economy

CARBON RISK & CLIMATE CHANGE

We acknowledge the role we can play in addressing climate change and its associated risks. We expect and encourage all companies in which we invest to assess and monitor their contribution to climate change, as well as their exposure to the attendant risks and the risks associated with the transition to a low-carbon economy.

We assess and monitor companies across those climate-related factors we consider material to their operations.

These may include:
- Carbon risk and climate change
- Physical risk
- Transition risk
- Financial risk

HUMAN AND SOCIAL CAPITAL

We believe companies have obligations to their people and to society. We expect all our investee companies, regardless of geography or industry, to take these responsibilities seriously and to behave with integrity at all times.

We assess and monitor companies across those human and social capital factors we consider material to their operations.

These may include:
- Bribery and corruption
- Conduct and culture
- Cyber security
- Data privacy
- Diversity
- Human capital management/ labour rights
- Supply chain management
- Tax
- Community engagement and social license
- Product safety

GOVERNANCE

We only invest in companies that we believe have high standards of governance. We expect our investee companies to operate according to a clearly defined set of policies, processes and rules that foster a culture of integrity and excellence throughout the organisation. We believe robust and transparent governance is the most effective means of minimising risk and protecting the rights and interests of all stakeholders.

We assess and monitor companies across those governance factors we consider material to their operations.

These may include:
- Board diversity, skills and experience
- Board independence
- Executive remuneration
- Shareholder protection and rights

- Succession planning
- Insider selling
- Related party transactions
- Uncancelled treasury stock
- Poison pills

Measure

In measuring sustainability risk, we take account of the "physical" or tangible risks of a sustainability event (for example, the impact of severe climate events leading to business disruption or losses for its investment positions). In addition, we also take account of the "transition" risk, which is the risk to investments from the move towards a more sustainable environmental and social model.

Manage

While our investment managers and analysts are provided with information on sustainability risks and take these into account when making an investment decision, sustainability risk would not by itself prevent Walter Scott from making an investment. Instead, sustainability risk forms part of the overall risk management processes, and is one of many risks which may, depending on the specific investment opportunity, be relevant to a determination of risk. However, we do not apply any absolute risk limits or risk appetite thresholds that relate exclusively to sustainability risk as a separate category of risk.

Monitor

We update our analysis annually and record our findings. This allows us to monitor a company's progress over time. All annual updates are subject to team scrutiny.

Should our analysis reveal any negative trends or controversies, the Research Team may conclude to sell an investment. If a sale decision is not reached but the issues merit further action, the investment manager or analyst with responsibility for the stock will discuss the issue with our Investment Stewardship Committee. We may, for example, look to engage with a company's management team or board with a view to facilitating positive change. All engagements for change follow a well-established process, with clearly defined objectives and stages. Depending on the issue and the company, timescales for engagements for change can vary greatly.

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