WALTER SCOTT

BNY MELLON | INVESTMENT MANAGEMENT

ANNUAL SUSTAINABILITY REPORT

2021

FOREWORD

JANE HENDERSON
Managing Director

Having decided to move the publication of our Annual Sustainability Report from a mid-year point to a calendar year timetable, this 2021 report comes just six months after our 2020-2021 report published last summer. There is, however, still much for us to report as we, continue to do more to support sustainability, prompt environmental action and address social inequality through investment.

Walter Scott, today, follows the same investment philosophy and process that it did when the firm was founded in 1983. But that does not mean the firm has stood still. The pursuit of continued improvement has remained central to our business strategy which rests upon meeting our stated investment objective whilst also striving for excellence across client service, client operations, administration, and communication.

Similarly, in building a long-term investment case for any company, we have always considered integrity and governance across all aspects of its operations and so our approach to responsible and sustainable investing has always been integrated. Yet our integrated approach has evolved. As the availability and importance of data and information has increased so the Research team certainly devotes more time to this area of analysis than they might have done a decade ago. With that has come the need to expand processes, provide effective training and additional resource to ensure every member of the Research team remains alert to best practice in all aspects of governance as well as the challenges and opportunities across environmental and social issues.

In that context of constant review and improvement, in recent years we have brought individuals together from across the firm to challenge existing practices, identify areas for improvement and prioritise our ambitions across sustainability and stewardship. As a result of that work, towards the end of 2020 and over the course of 2021 we were able to put new structures into place and into action. We are confident that we are well-placed to meet new regulatory requirements, which show no signs of slowing, whilst also building on our research around all aspects of sustainability and in our engagement with companies around the world.

“In that context of constant review and improvement, in recent years we have brought individuals together from across the firm to challenge existing practices, identify areas for improvement and prioritise our ambitions across sustainability and stewardship.”

OUR PURPOSE

Since Walter Scott was established in 1983, our purpose has been to build prosperity through considered long-term investing. We believe the interests of our clients, stakeholders and broader society are best served by an active investment approach that prioritises responsibly managed companies capable of sustaining exceptional levels of wealth generation.

This approach is underpinned by a commitment to disciplined research, rigorous analysis of company fundamentals, and a team-based decision-making framework that encourages debate and challenge. Our culture is simply a reflection of our purpose and investment beliefs: client-focused, collegiate and resolutely long term.

There is always more that can be done but we are confident that we have the expertise and the organisational structures to determine where we might do more, and in turn communicate the results of our efforts and ongoing progress.

We were particularly pleased to be accepted by the Financial Reporting Council (FRC) to be amongst the initial group of signatories to the revised UK Stewardship Code, providing assurance and recognition that our approach and our actions, meet the higher standards set by the FRC.

Over the course of 2021 we also made a determined effort to better communicate our work around sustainability. Adding to this annual report and our quarterly responsible investment commentaries, we now have a dedicated sustainability section on our website with a library of reports alongside articles and brief videos. Consideration of environmental, social and governance issues both within our investment approach and as a business has been longstanding. We now recognise that we must also share those efforts, both the successes and the work-in-progress. Work around more regular communication will continue this year and we hope those updates will prove to be of value and interest to you in the year ahead.

Best regards,

Jane Henderson, Managing Director

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ABOUT US

RESPONSIBLE

We are entrusted to invest on behalf of our clients around the world over a long-term investment horizon. In that context, it is inconceivable that we would not invest in a responsible way. We look for companies that meet our investment criteria. This places as much importance on management talent, operational efficiency, rigour and best practice, governance and culture as it does on financial metrics.

CONSIDERED

With a long-term investment horizon and a highly considered, and reflective, investment process, we take time to consider every company on its merits. We spend a great deal of time determining material issues and assessing company actions and reports through that lens. We don't apply broad-brush rules or impose a series of exclusions. Instead, we collectively consider the context and make informed, and collective, judgements.

INQUISITIVE

Our research is multi-faceted. From desk-based research to engagement with management, visits to factories or stores, discussions with, and analysis of, suppliers or competitors, we must build a comprehensive picture of any company, and then challenge it.

INTEGRATED

Every member of the Research team is responsible for understanding how companies' sustainability credentials stack up. There is no separate responsible investment team. This is deliberate. These factors are too important. They are integral to our investment analysis and decision-making, not an adjunct. Consideration of the opportunities and challenges relevant and material to any investee company must be integral to our research and decision-making. With our focus on 'bottom-up' research, our investment process is deliberately structured to attempt to avoid companies where ethical, governance, environmental or social standards pose material risk to the achievement of the long-term portfolio return targets.

In researching any company, regardless of geography or sector, we apply the same analytical framework. That framework forms an important part of the overall research process and is based on seven areas of investigation. It may be appropriate to consider sustainability factors across almost any aspect of a company's business and therefore all seven areas. One of those seven areas is titled integrity. Our analysis within that area is in turn structured around four important areas:

Environmental Considerations
What is the impact of a company's activities on its wider environment and how does it approach its environmental obligations?

Carbon Risk & Climate Change
What is the impact of a company's activities on climate change? What is its exposure to the physical and financial risks of climate change and the transition to a low carbon economy?

Human and Social Capital
How does a company approach its people, stakeholders, and wider society? How robust is its social license to operate?

Governance
Does a company adhere to appropriate standards of corporate governance and oversight? To what extent does management discharge its obligations to stakeholders in a fair and responsible manner?

ENGAGED

Engagement is what we do every day. It might have a specific goal, but equally there need not be a discrete objective. We expect every company we invest in to engage on issues of sustainability. We focus on getting to know and understand every business and its industry in order to seek out the issues that we believe matter most for the sustainability of those businesses and those industries. If a business is not well positioned, with our long-term investment horizon, it is uninvestable. In this way, we take a bespoke approach for each company and industry so that we focus on the issues that matter most. We avoid box ticking; simply put, it wastes management teams' time, our time and does not fulfil our fiduciary duty. Our focus is also very much on establishing two way conversations. Engagement, for us, is more often a nudge over time than it is a formal engagement for change.

EVOLUTION IN RESPONSIBLE INVESTING

1983
Firm founded

1990
First client with ESG restrictions

2008
Board committee structure introduced

2010
Response to UK Stewardship Code

2012
Walter Scott Proxy Voting Policy agreed (to replace previous guidelines)

2014
Response to Japan Stewardship Code

2015
Informal ESG working group established

2016
ESG Champions appointed from within Investment team

2017
Joined UN PRI

Walter Scott ESG Policy agreed (since revised)

2019
First Independent Non-Executive Board appointment

ESG@WS Group established

2019
Joined ICGN

Formal ESG Group established

Walter Scott Engagement Policy agreed

2020
Walter Scott Climate Change Policy agreed

Commenced formal project to review engagement activities, associated objectives and policies

2020
First Independent Non-Executive Chair appointed

2021
Head of Investment Operations and Sustainability and Investment Manager – Responsible Investment appointments

2021
Investment Stewardship Committee established

2021
Accepted as a signatory to revised UK Stewardship Code

FROM THE RESEARCH TEAM

ANNUAL REVIEW

ALAN EDINGTON
Investment Manager, Responsible Investment

The Covid-19 pandemic meant that the Research team at Walter Scott spent much of 2021 working from home, but different desk locations did not diminish the team's activity across sustainability and stewardship.

RESOURCES AND RESPONSIBILITIES

Following extensive work over the course of 2020, new committee structures and roles were put into place at the end of the year and embedded over the course of 2021. Those changes, including my own new role taking on oversight and direction across all aspects of responsible investing within our investment approach and activities, were made not only to strengthen oversight but to also provide the Research team with greater support both in their research and through the sharing of subject-specific knowledge in areas such as proxy voting.

INTEGRATED APPROACH

Our integrated approach and our 'tried and tested' research framework remain unchanged. So too does our belief in the merits of an integrated approach, whereby an individual Stock Champion is responsible for all aspects of research into a company as well as engagement and proxy voting. However, here again, changes were made early in 2021 to provide greater support and direction.

Integrity has always been one of the seven pillars of our research framework reflecting our longstanding belief that a company's governance and culture in its widest sense must be central to any assessment of long-term potential. Given the complexity of ESG research, particularly environmental as well as social metrics, that integrity pillar was expanded into its own document, helping each Stock Champion identify, address and report on risks and opportunities in a consistent manner. Within that document, research around environmental criteria and metrics was given particular attention to further aid and direct consistent, rigorous and robust research. We include climate scenario analysis which will be further enhanced in 2022 as we look to acquire more climate data sources. Further work around Principle Adverse Impact data is also a priority in the year ahead.

ENGAGEMENT

Ongoing communication with companies and the exchange of views has long been an important part of the work of our Research team. Engagement is not only a critical part of our research into a company and the construction of a robust investment case but we believe that our engagement over time, reflecting our long holding periods, is an important and valuable hallmark of our approach.

Again, whilst constructive conversations with company management teams, often over many years, is simply what we have

> *“Integrity has always been one of the seven pillars of our research framework reflecting our longstanding belief that a company's governance and culture in its widest sense must be central to any assessment of long-term potential.”*

> *“We now have a more formal process to record all those decisions and actions, and thereby better judge success over time.”*

always done, expectations around reporting on that engagement are now much greater. Across the industry, investment firms are being asked to report on their efforts, either alone or collectively, to engage for change, persuading, and where appropriate applying pressure, to effect positive change. Against that backdrop, we have added more structure around our engagement for change activities. From the point that the Stock Champion puts forward an idea, to the decision to proceed or not, to tracking progress and outcomes. We now have a more formal process to record all those decisions and actions, and thereby better judge success over time.

We have also added process around the framing of our engagement for change with companies. This is very much formalising what would have happened previously but given the importance we place on engagement we felt a more defined process would underline consistency and allow tracking of success over time.

Under this updated process, at the point that an initial investment is made in any stock, the Stock Champion is tasked with communicating with the company, outlining the firm's investment approach and expectations around engagement, typically also sending a copy of our proxy voting policy. We believe that helps shape effective engagement and communication from the outset. On the outright sale of any position, the stock champion will also contact the company to explain the sale rationale. This exercise is far more than courtesy or formality, our engagement with the company will sometimes continue after the sale of a position as that decision may well reflect a wish to sit on the side-lines awaiting clarity or further information. With a relatively small number of positions, we must have high conviction in any holdings, sometimes the long-term investment case appears intact but conviction and confidence takes a hit. In those situations, we often see value in ongoing engagement.

ENVIRONMENTAL RESEARCH

Over the past two years we have shared regular updates on the Research team's work around decarbonisation and the team's Carbon Project. That particular collaborative effort concluded in 2021 with highlights of the individual projects and overall conclusions shared with clients and on our website. However, this is a dynamic area. Expectations continue to rise, but equally evolving technology means what is possible is also constantly in flux. The team's work therefore continues, both monitoring previously identified areas of interest and investigated new areas, such as smart grids, where the need to change is growing alongside the emergence of possible solutions.

We have also spent time judging environmental reporting at a company level, assessing available data and encouraging better disclosure where appropriate. During 2021, the Research team contacted all companies held across strategy portfolios to encourage alignment with

TCFD REPORTING STANDARDS*

49%
—
Aligned with TCFD

4%
—
Publicly stated a commitment to align with TCFD

*% of the companies contacted as of 31 December 2021

UPDATE ON THE RESEARCH TEAM'S CARBON PROJECT

ALAN LANDER
Investment Manager

TOM MIEDEMA
Investment Manager

MICHAEL SCOTT
Investment Analyst

In early 2021 we shared the team's collective conclusions from an eighteen-month research project around carbon transition. The aim was to challenge our existing assumptions, consider the latest evidence and assess opportunities and threats across a range of areas including fossil fuel extraction, carbon storage, electric vehicles, hydrogen and electrification amongst others.

This was obviously not a new area of research for us. Investments in oil and gas including companies involved in fracking and in tar sands had been a subject of extensive debate and discussion in recent years given the changing set of standards being applied to these companies and the increasingly urgent need to make environmental improvements. Likewise, we had also looked at numerous environmental technologies including those changing the business case for electric vehicles and for offshore wind farms. Given the importance and dynamism of the transition away from fossil fuels and the pressure upon all companies to address their emissions profile, this project was a chance to pause, reflect and consider.

NEXT STEPS

Just as this wasn't a new area of research, similarly, there was no expectation that reporting on the conclusions of our work marked an end point. Since sharing our work with clients early in the year and posting a range of reports and filmed interviews on Walter Scott's website, conversations around investments in the oil and gas sector have continued to be placed high on the Research team's agenda with extensive debate around individual holdings. To justify a place in portfolios, we must be assured that any oil and gas investment has a credible transition strategy. As we have increased our focus on true industry leadership and long-term prospects, we have exited a number of positions in this sector.

SMART GRIDS

We have also begun work into other areas of this complex puzzle of heightened risk and emerging technologies. One of those areas is smart grids. In much of the world the existing grid is a highly efficient system transporting electricity from traditional methods of generation (coal, natural gas, nuclear) via the transmission grid, then the distribution grid, to the end user. However, two fundamental changes are impacting that efficiency. The first is electrification. This comes in many forms, transport (EVs), industry (digitisation/automation) and buildings (heat pumps) to name just a few. The second shift is the increased use of decentralised renewable energy generation (rooftop solar panels, energy storage) compared to traditional methods of electricity generation.

These changes bring more volatility to the supply and demand of electricity and less concentrated electricity generation. The grid was originally designed as a system that allows a one-way flow of electricity and information, balancing the demand and supply of electricity efficiently. Investment will now be required to allow information and electricity to flow in both directions within the grid. Furthermore, to ensure maximum yield from renewable energy resources, the 'new' grid must also operate at maximum efficiency despite the new composition. Over the course of 2021, we met with

"We have also begun work into other areas of this complex puzzle of heightened risk and emerging technologies."

eight companies hoping to play a role in this smart grid transition, the task now is to separate those that will provide important but likely-to-be-commoditised hardware and those positioning themselves to play a higher value role within this profound switch. This work will certainly continue in 2022.

ENHANCED RESEARCH FRAMEWORK

During 2021, we also enhanced our research framework to better document the risks and opportunities associated with climate change, which integrates environmental factors alongside financial and strategic metrics amongst other criteria. We recognise that a company's direct emissions are not nearly as important as its contribution to the overall system. A company can have increasing emissions but if it results in lower overall emissions for the system then this is a good thing. Our strengthened, but still flexible, qualitative assessment and framework accommodates this more nuanced approach.

> *“We recognise that a company's direct emissions are not nearly as important as its contribution to the overall system.”*

OUR STARTING POINT

Lastly, this project strengthened our belief that every company in the portfolio should be relevant in, or making a positive contribution towards, an energy system capable of limiting global warming to 1.5 degrees Celsius above pre-industrial levels. Companies that are not relevant, face inexorably growing risks that increasingly threaten their long-term returns. That is our starting point for research and debate that will undoubtedly continue for years.

TCFD (Taskforce on Climate-Related Financial Disclosures) reporting.

KNOWLEDGE SHARING AND TRAINING

Training and development continued over the course of the year. As part of the Carbon Project academics from the University of Edinburgh and Imperial College London presented to the Research team sharing subject-specific expertise. Members of the Research team also presented their specific research to colleagues, both sharing knowledge and being challenged. More generally, there was training from the Climate Standards Disclosure Board on TCFD reporting and standards. Whilst travelling to meet with experts and attending conferences was not an option for much of 2021, members of the team were able to attend events at COP26 in Glasgow and virtual conferences and seminars were very much part of the Research team's diary.

THE YEAR AHEAD

2022 should see us further embed our integrity document and expand climate scenario analysis within that work. More work will certainly be done around decarbonisation, allowing us to continue to challenge existing holdings and identify new trends that might be fruitful for stock picking. In a similar vein in the retail and apparel sectors, work on social credentials and supply chain standards where we have devoted a lot of time and resource over recent years will also continue. We may not have been able to return to Bangladesh, Myanmar or Vietnam but we have continued to press company management on standards and next steps. The devastating impact of the Covid-19 pandemic on many of the third-party apparel manufacturers across these countries was a reminder, if one was needed, of the fragility of these businesses and the livelihoods of many factory workers.

Knowledge sharing and training will also continue. Sustainability in its myriad of guises is complex and so training will always be a priority, not only so that we are alert to latest thinking but so that we can continue to identify and assess what is material, be that risk or opportunity.

> *“Members of the Research team also presented their specific research to colleagues, both sharing knowledge and being challenged.”*

REPORTING BACK FROM COP26

In November, senior members of the Investment team attended COP26 in Glasgow to hear first-hand how climate change and efforts to decarbonise the global economy might evolve and the potential implications for our clients' assets.

Over the course of a day, a range of companies and business organisations shared their thoughts on how best to fund and manage the energy transition. Infrastructure investors and renewable energy providers, tech giants and innovative start-ups all firmly on the front foot on climate and working hard to decouple their growth from carbon emissions. There were insights into some of the emerging technologies that will help accelerate decarbonisation, from modular home building (effectively building a house in a series of modules on a factory production line), an energy efficient process that uses less materials and generates less waste, to analysis of eating habits that helps local farmers grow the right crops in the right volumes.

With innovation comes opportunity and keeping abreast of these trends will be vital. Perhaps most striking, was the real sense of a fundamental shift in the attitude of business towards climate issues. Until recently, climate was very much viewed as a reputational matter and a risk to be managed. Today, it's being embraced as necessity and more importantly as an opportunity. This change in mindset is both welcome and encouraging. Whether or not the Glasgow Climate Pact agreed at COP26 goes far enough in tackling climate change is now the subject of some debate. From our perspective, progress on major issues, such as methane emissions, deforestation and coal, was an undoubted positive, as was the presence of China at the negotiating table. But there was a failure to lay out concrete plans for how to get the required funding to where it needs to be, in effect the establishment of a mechanism for fulfilling the goals set out in Paris in 2015. Although many businesses are taking their own, very welcome, steps towards reducing their impact on the climate, it is for governments to set and enforce the parameters of the transition. A lack of a clear, achievable, and binding agreement was, in our view, a missed opportunity in Glasgow.

“From our perspective, progress on major issues, such as methane emissions, deforestation and coal, was an undoubted positive, as was the presence of China at the negotiating table.”

ENGAGEMENT

DEFINING STEWARDSHIP

Through the integration of sustainability analysis into our investment process and a commitment to the highest standards of stewardship, we can better protect and grow our clients' investments over the long term.

We are committed to being good stewards of our clients' assets. Through the responsible allocation, management, and oversight of capital, we aim to create long-term value for our clients and deliver sustainable benefits for the economy, the environment and society.

Regularly engaging with company management teams and exercising our shareholder voting rights in a considered manner help us make better, more informed investment decisions, and promote sustainability best practice.

Engagement remains a critical part of our investment process. Whilst face-to-face meetings were again curtailed in 2021, thanks to video conferencing the team held over 700 company meetings over the course of the year. As in 2020, ongoing travel restrictions seemed to result in improved access with more regular calls with senior management and a greater number of Board members.

Some examples of those meetings and the subjects covered are included in the pages that follow. The examples are split between Engagement for Information and Engagement for Change. The latter will always be less numerous but with a more formal process now in place to discuss possible initiatives, there was certainly greater debate around this area than in previous years with Stock Champions putting their ideas forward and then working with the Investment Stewardship Committee to discuss feasibility and strategy. Many more ideas were put forward than were approved to proceed and we would expect that pattern to continue reflecting a need to prioritise and pragmatically focus our efforts, whilst also considering timing and form of approach. We might decide collaborative engagement has a greater likelihood of success or if a company has begun to make improvements or has signified plans to do so, we might afford that company time to demonstrate that commitment before escalating our concerns.

Across the proposals put forward, Japanese board diversity was one of the particular themes of 2021. There is no question that this is an important issue but our discussions focused on how best to approach this subject and encourage change. We spent time discussing the recent changes to Japan's corporate governance code that aim to enhance board independence, with commendable suggestions on committee structures and requirement to disclose a matrix of board skills alongside other measures. Whilst formal letter writing has often been particularly effective in our engagement with Japanese

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DEFINING ENGAGEMENT

We distinguish between two types of engagement:

Engagement for Information – a meeting or correspondence involving a two-way exchange of information.

Engagement for Change – typically a series of one-to-one meetings and correspondence, where we seek influence with a defined objective. An engagement for change will often relate to sustainability issues and our tailored approach enables us to focus on the issues or concerns material to each company. Through constructive dialogue, we encourage management to take the steps necessary to address areas of concern. Engagements for change are very often long-term in nature, involving numerous meetings with management and close monitoring of progress. Our experience of engaging with companies suggests there is no perfect sustainability scorecard and all companies face different issues of varying materiality. Given the rigour of our analysis before making an initial investment, we find the need for engagements for change relatively limited when compared to engagements for information.

The decision to pursue a specific engagement objective can come from a number of sources:

- The stock champion responsible for a company identifies an objective and seeks confirmation to proceed from the Investment Stewardship Committee.
- Another member of the Research Team or Investment Executive identifies an objective and flags this to the stock champion responsible for the company. Agreement to proceed is then sought from the Investment Stewardship Committee.
- The Investment Stewardship Committee identifies engagement objectives for specific companies or a thematic engagement across multiple companies.

The criteria for engagement for change considered by the stock champion and the Investment Stewardship Committee include:

Does the company:

- have material risks and/or opportunities for change,
- that are addressable,
- where dialogue would contribute to positive change.

Where the answer to each of these is affirmative then the Investment Stewardship Committee has discretion to conclude that we should engage for change. The Committee and stock champion will agree objectives and milestones, which will be communicated to the company in question. Progress on an engagement for change is tracked and recorded through a number of potential stages:

- **Stage 1** – Raise the issue with the company (typically in writing)
- **Stage 2** – Company responds acknowledging that there is an issue
- **Stage 3** – Company demonstrates a plan to address issue
- **Stage 4** – Issue has been addressed, with evidence
- **Stage 5** – Issue has not been addressed – after consideration, the company reject our change objective
- **Stage 6** – The objective is no longer relevant (we have either sold the stock or the situation has evolved)

Should an engagement for change reach stage 5 or if the company has not acknowledged the issue, the Investment Stewardship Committee will consider escalating the issue. Issues are considered on a case-by-case basis, but possible escalation strategies can include:

- Communication with more senior management or board member.
- A formal letter.
- Engagement with the chairperson of the relevant board committee.
- Voting against or abstaining on management proposals.
- Collaboration with other investors.

Typically, our preference is to use our influence as long-term responsible owners to engage with companies on areas of concern rather than divest. However, should our escalation strategy prove unsuccessful, we may choose to sell our investment.

corporates, it was agreed that blanket letter writing would be less successful and that individual companies deserved time to implement change. That said, our conversations with companies on this important subject will certainly continue and more formal engagement for change may well be put forward again for discussion in the future.

“The Fortinet Security Academy, which has links with more than 400 academic institutions and 8,700 students, works to create a more diverse, equitable and inclusive cybersecurity workforce.”

ENGAGEMENT FOR INFORMATION*

Alphabet
In a video call with Alphabet in the third quarter we were able to quiz the company on how it is tackling the sensitive topic of content moderation on YouTube. Alphabet’s attitude towards its perceived social responsibilities has been the subject of some criticism in recent years but there is evidence that this is changing. The company wants YouTube users to enjoy a positive experience and understands that a negative experience is just one click away. Reflecting this, any content that violates Alphabet’s code of conduct will be removed, while there are also measures in place to limit the spread of content considered ‘borderline’.

Moderating a platform with some two billion users is no easy task, but with the help of AI and machine learning the ability to successfully root out inappropriate content is growing. Last quarter alone, nine million videos were removed. Even more impressive is the improvement in the user experience. In 2017, 70% of users were exposed to what the company defines as “harmful content”. Now that figure stands at a mere 0.02%. It’s not all stick and no carrot, however; users who post positive and trusted content are rewarded with increased reach.

This was an encouraging call on an issue that has become a major point of societal and political discourse. How to limit harmful online content is increasingly seen as a question in urgent need of resolution and some level of regulation is likely inevitable. Companies such as Alphabet have historically faced criticism for not taking seriously their perceived responsibilities so the work the business is doing on its YouTube platform is welcome.

Fortinet
A conversation with the management of Fortinet, a global leader in cybersecurity solutions, around the company’s commitment to environmental sustainability during the fourth quarter proved encouraging. The company had recently announced more demanding environmental commitments, as well as the completion of its new net-zero Sunnyvale headquarter campus as part of its broader commitment to social responsibility. Its carbon-neutral target is to be achieved using renewable energy, energy and carbon efficiency methodologies, and emissions offset programmes across its global operations, including offices, warehouses and data centres. Further to efforts in its own operations, the company is also focused on reducing the environmental footprint of its customers by providing innovative, highly efficient, integrated appliances and cloud-based security solutions.

During our call, management indicated that Fortinet’s product energy efficiency was 3x to 16x higher than the company’s competition and its new corporate headquarters should save around 30% of energy compared to the old building. Fortinet also published its first Diversity & Inclusion Report in 2021 and pledged to train a million people to help close the skills gap in cybersecurity. The Fortinet Security Academy, which has links with more than 400 academic institutions and 8,700 students, works to create a more diverse, equitable and inclusive cybersecurity workforce. Aligned with this effort, a Social Responsibility Committee of the Board of Directors has been established, while an independent consultancy conducted a materiality

“Moderating a platform with some two billion users is no easy task.”

*Examples of engagement during the first and second quarters of 2021 were included in our 2020-2021 Annual Sustainability Report published in Summer 2021 and so the examples in this section pertain only to the third and fourth quarters of 2021.

"The biggest sustainability risks for Inditex lie in its supply chain, where labour practices, carbon emissions and raw material use all pose major challenges."

assessment to define Corporate Social Responsibility (CSR) strategy and priorities. Fortinet has now committed to publishing its first CSR report by May 2022.

Inditex

A call with Inditex early in the fourth quarter was an opportunity to discuss progress on several sustainability initiatives. We have engaged with Inditex on its social responsibilities, in particular its responsibilities in regard garment suppliers, and those third-party factory workers, over many years and continue to regularly check-in on that topic. Whilst we have always been satisfied by Inditex's approach and commitments, our on-the-ground visits to factories and meetings with trade unions and factory workers in Bangladesh, Vietnam, Myanmar amongst other countries, have also cemented our recognition that more can be done. In the context we have continued to look for improvement and next steps.

In this most recent call, management noted their belief that the company's sustainability credentials are increasingly resonating with customers. While customers may not yet be making purchasing decisions solely on grounds of sustainability, the company's sustainable 'Join Life' label is gaining significant traction and is expected to account for 50% of all Inditex garments by 2022. Aligned with this consumer scrutiny, management believe that some form of regulation around sustainability labelling is inevitable and that the company's is well placed to capitalise should this come to pass.

However, the biggest sustainability risks for Inditex lie in its supply chain, where labour practices, carbon emissions and raw material use all pose major challenges. Initiating change on these matters can be difficult given such issues are often beyond management's control. Nonetheless, Inditex is taking proactive steps to address them. On supplier relations, management explained that its comprehensive supplier code of conduct is constantly updated and rigorously audited. But beyond social supplier standards, Inditex is now also focused on working closely with suppliers to promote positive change. Inditex believes this interaction will play a major role in helping it become net zero by 2040.

We have encouraged this more holistic approach to dialogue and partnership with its suppliers around the world in the belief that it can only help deepen those partnerships and may well improve outcomes across social and environment goals.

Nestlé

During a call with Nestlé's CFO in August, we discussed the financial and social challenges posed by the raw material inflation that is hitting the FMCG space. Nestlé has a range of 'PPP' (popularly positioned products), that are focused on the low end of the price-point spectrum. The company is keen to protect because, particularly in emerging markets, these products are at psychologically important price points and customers don't have the luxury of being able to absorb increases in prices. Management highlighted the differentiation in strategy between different parts of the portfolio when it comes to handling raw material price inflation to maintain accessibility for those who are most impacted by rising prices. We also covered how the company's plant-based portfolio continues to grow. At 800m CHF of revenues, it is still small in the context of Nestlé's overall portfolio but is growing rapidly. The new products being launched have a far smaller carbon footprint than their meat-based alternatives as well as health benefits.

TJX Companies

A call with TJX in October provided reassuring detail on the steps the company is taking to reduce its carbon footprint. Having announced a Paris-aligned emissions reduction target in summer 2020, the company is already more than halfway towards its aim of reducing direct absolute emissions by 55% by 2030 (from 2017 levels). Initiatives such as upgrading HVAC systems, and installing LED lighting, have

"Beyond social supplier standards, Inditex is now also focused on working closely with suppliers to promote positive change."

helped cut emissions from its store network and distribution centres, which comprise the bulk of the overall total. And where TJX can't reduce emissions, it is increasingly sourcing renewable energy, which now accounts for 25% of its overall supply. In some markets, it is pursuing a carbon-neutral strategy by purchasing carbon offsets. More challenging are efforts to measure and calculate Scope 3 emissions although the work done thus far has provided a rough estimate and identified areas of greatest impact within the supply chain.

ENGAGEMENT FOR CHANGE*

Cognex – Improved Environmental Disclosure
Walter Scott's Engagement Policy is grounded in a longstanding belief in the value of regular and constructive interactions with company management. The Policy also expressly cites the review of environment as one area where engagement for change is often particularly worthwhile. Our decision to engage with Cognex during 2021 reflected that position.

Having acted as the lead investor in CDP's annual engagement with the company, through its annual letter, a call with the CEO as part of our own engagement provided an additional route in expressing our wish to see improved disclosure.

Through that engagement we were reassured by the management's acknowledgment and awareness that the company's disclosure on sustainability issues is somewhat behind the times and that management are actively working to address this. The CEO mentioned that there has been much more board engagement on this issue in recent years and they feel they have a good story to tell, albeit not quite yet. Whilst acknowledging the letter that we had sent under the auspices of CDP, management explained that they did not feel in a position to respond to CDP this year, unfortunately. More constructively, on the company's request, we were able to share examples of similar industrial technology companies which we think are doing a good job in terms of ESG related disclosures.

> *"We were reassured by the management's acknowledgment and awareness that the company's disclosure on sustainability issues is somewhat behind the times."*

Walt Disney – Effective Board Oversight
We believe that effective board oversight is critical in ensuring companies are run well and so we regularly engage on this subject pressing for appropriate levels of independence and diversity as well as breadth of relevant skills.

Over several years, concerns around the Disney board's two-person Executive Committee as well as the absence of an independent Chair have been repeatedly raised within our engagement with the company and so at the beginning of 2021, we decided to consider this issue more formally as an engagement for change through which we would collectively consider options to encourage change and track progress.

In June 2021 we wrote to the company to request the appointment of an independent Chair of the Board following Executive Chair, Bob Iger's planned retirement. In October 2021, we then arranged a call with Susan Arnold, Disney's Lead Independent Director, and the company's IR team.

Encouragingly, it was strongly conveyed that the Board had heard our (and other shareholders') feedback on governance at Disney, particularly in respect to the role of Chair. There was unsurprisingly, and reasonably, an effort to justify the current position, which alongside the longstanding issue of remuneration, was set in the context of the achievements of Bob Iger over time. With the acknowledgement that this matter was now on the Board's agenda we were happy to allow some time to see evidence of change. Pleasingly, we didn't have to wait

> *"We were able to share examples of similar industrial technology companies which we think are doing a good job in terms of ESG related disclosure."*

*Examples of engagement during the first and second quarters of 2021 were included in our 2020-2021 Annual Sustainability Report published in Summer 2021 and so the examples in this section pertain only to the third and fourth quarters of 2021.

“Our conversations with management teams about improved reporting across a range of issues often comes down to management priority and pragmatism.”

too much longer for that evidence. In December 2021, the company announced the appointment of an independent Chair.

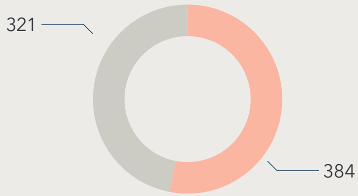
Kuehne & Nagel – Remuneration
In assessing governance at Kuehne & Nagel, transparency around remuneration, and specifically performance targets, has long been an area of weakness in our view. Our attempts to speak to the company on this subject as part of our regular dialogue had not been openly received and so as a next step, we decided to vote against management on the remuneration report at its AGM. By way of further escalation, in 2021, we decided to pursue a more formal engagement for change which we hoped would result in a more successful outcome bringing greater clarity and openness around the company’s approach to executive remuneration as well as its specific targets and objectives. In formulating our engagement approach, we decided to focus on two issues. The first, greater disclosure on the targets used for STI awards alongside the introduction of caps on maximum pay outs, in line with the broader industry. The second, setting and then communicating the performance conditions attached to the share matching awards within the company’s LTIP.

Having outlined our concerns and hopes to the company, a call was arranged in September 2021. Unfortunately, it was made clear on the call that the board have no wish to disclose any more details and are very unlikely to do so. They recognise that current disclosure is limited but believe it to be sufficient. They are confident that other features within its overall remuneration structure prevent excessive pay-outs and that the current structure is beneficial in that it allows the company to reward individuals based on service to the business and tenure rather than a dogged alignment with sometimes inflexible KPIs. The company’s hesitancy to share greater detail in the remuneration report was also attributed to the often unwelcome political and public debate that surrounds executive pay. There was acknowledgement that should remuneration calculations become more complex, then there would be a case for more formal and detailed reporting but for now, we should not expect any material change in communication and reporting on this matter.

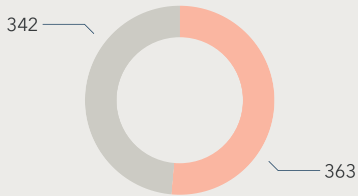
Our conversations with management teams about improved reporting across a range of issues often comes down to management priority and pragmatism. With the bar of expectations in terms of reporting and publicly shared data across all sorts of metrics, we often sympathise with the need to focus on select areas, rather than respond to every ask. That said, we do feel detail on targets around executive pay should be viewed as one of the areas to the prioritised. This does not amount to a material issue or risk in terms of our overall investment case, but it is a matter that we will continue to pursue, making our case to the company and encouraging an approach that at least begins to move towards best practice.

“We decided to pursue a more formal engagement for change which we hoped would result in a more successful outcome bringing greater clarity and openness around the company’s approach to executive remuneration as well as its specific targets and objectives.”

COMPANY MEETINGS[1]



ESG discussed – 384
No ESG content – 321



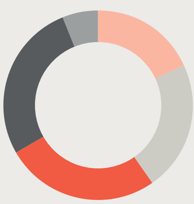
Owned companies – 363
Non-owned companies – 342

COMPANY MEETINGS – BY COMPANY DOMICILE

	North America	Europe ex. UK	UK	Dev. Asia ex Japan	Japan	EM	EM
Total	228	212	86	34	64	79	2
With ESG content	132	112	53	22	29	34	2

Total With ESG content

MEETINGS WITH ESG CONTENT SPLIT BY SUBJECT (2021)[2]



Carbon Risk and Climate Change – 18%
Environmental Considerations – 22%
Governance – 26%
Human and Social Capital – 27%
Other – 7%

[1] 1 January–31 December 2021.
[2] More than one subject might be raised in a single meeting.

PROXY VOTING

As long-term investors, we have always considered proxy voting an important part of equity ownership. Reflecting that commitment, the member of the Research team responsible for an individual portfolio holding – the Stock Champion – is also responsible for proxy votes in regard to that holding just as they are responsible for research and engagement.

"Remuneration remains amongst the highest profile and often contentious areas within proxy voting."

OVERSIGHT

There is of course oversight and support. Given the rising complexity and breadth of items on AGM agendas today the extent of the support provided has increased particularly in recent years. The firm's Proxy Voting Policy offers a robust starting point in ensuring consistent voting decisions. The Investment Stewardship Committee (ISC) adds a further layer of guidance and oversight. That Committee was established in 2021, taking over from the former Proxy Voting Group, and was structured to both strengthen oversight of the proxy voting process and encourage greater discussion around particular, or topical, items and issues.

The ISC is responsible for oversight and monitoring but also holds a formal advisory role. Where the Proxy Voting Policy is silent, a new issue has arisen or where there is any potential conflict the ISC is empowered to challenge and consider that decision.

The Investment Operations team also provides extensive day-to-day support in providing the Stock Champion with annotated materials and reports and where useful joining calls with company management or board members ahead of an AGM.

POLICY

Walter Scott's Proxy Voting Policy, which is available publicly within the sustainability section of the Walter Scott website, has evolved over the years but has always been considered from our own standpoint with regards area of focus. That said, whilst prepared by us independently, we are confident that it is aligned with industry best practice and more specifically, IGCN guidelines.

In March 2021, the Proxy Voting Policy was updated as part of an overall review of all policies falling under the remit of sustainability and responsible investing and then updated again in July 2021. That second update principally reflected a change from a previous stance to abstain on ad-hoc items. The Policy now reflects a stance to vote against such items.

ACTIVITY AND TRENDS

Remuneration remains amongst the highest profile and often contentious areas within proxy voting. Within our conversations around remuneration-related proxy items during 2021, adjustments stemming from the Covid-19 pandemic continued to be common subject of debate. As compared to previous years more time was also spent discussing climate change proposals and as well as shareholder proposals around social and environmental issues which continue to increase in number and complexity. The examples below are just a few of the many decisions made in 2021 with associated engagement and collective deliberation.

ENGAGEMENT AND VOTING DECISIONS*

CSL – Remuneration and Board Composition

Prior to CSL's AGM we engaged with the Chair of the company's HR and

*Examples of engagement related to proxy votes and forthcoming AGMs during the first and second quarters of 2021 were included in our 2020-2021 Annual Sustainability Report published in Summer 2021 and so the examples in this section pertain only to the third and fourth quarters of 2021.

INVESTMENT STEWARDSHIP COMMITTEE

Extract from Walter Scott's Proxy Voting Policy: Voting is overseen by the Investment Stewardship Committee and all votes are signed off either by the Chair or Vice Chair of the Investment Stewardship Committee, Head of Investment Operations and Sustainability, Co-Head of Research, Executive Director Investment Operations or in their absence a director of Walter Scott. The Investment Stewardship Committee will decide how to vote in the event a voting item does not fall within our policy or the investment manager or analyst has requested further guidance. Contentious issues also go to the committee for a final voting decision. The Investment Management Committee reviews any contentious voting decisions on a quarterly basis. The Investment Operations Team is responsible for managing the proxy voting process. The team works with the investment managers and analysts to ensure voting is consistent and aligned with our current thinking and approach. The process is overseen by the Investment Stewardship Committee.

Remuneration Committee, and the Company Secretary & Head of Group Governance. Whilst the focus was remuneration and changes to the board we also covered sustainability and R&D developments. With two new non-executive directors up for election, this was an opportunity to get further detail on the relevant individuals and the skills they will bring to the board. We were also provided with the rationale for some tweaks to the company's short-term and long-term incentive plans, both of which we deemed reasonable in better aligning CSL's remuneration practices with global pharma and biotech peers. For 2022, the business will also introduce a group ESG metric that all executives will be held accountable for. This will complement the ESG measures already embedded in personal KPIs. Following our call, we voted with management on all items.

Nike – Remuneration

Nike was just one of the companies that sought to change its remuneration arrangements in the wake of the Covid-19 pandemic and in our call with the company's leadership team ahead of its AGM executive compensation was the main item of discussion. This was also an example of a decision by Walter Scott that ran contrary to ISS' recommendation.

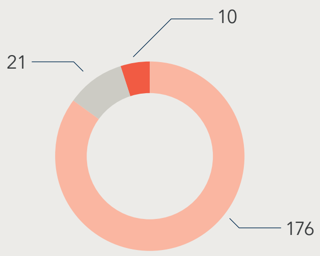
In 2020, there was only modest support for Nike's compensation proposal at its AGM, primarily due to poor disclosure on the Covid-19 related adjustments to executive compensation. In response, ahead of its 2021 AGM, Nike engaged with shareholders and provided more robust disclosure regarding fiscal-year 2021 annual bonuses and proposed changes to the future structure of executive compensation.

In this instance, ISS recommended that shareholders vote against the new proposal primarily because of insufficient performance criteria in the long-term investment plan (LTIP). Another concern raised by ISS was the quantum of the proposed total pay for Nike's executive chairman. However, our call with management provided reassurance and cemented our view that the proposals were reasonable and justifiable.

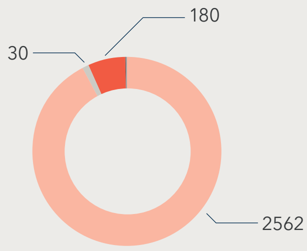
Regarding the LTIP, we concluded that the 2021 proposal was in fact valid, in our view and perhaps more importantly feel confident that the new structure for 2022 will further align compensation with performance. Regarding the executive chairman's pay, whilst notable, we were satisfied by the explanation that the high quantum reflected the award of a previously approved one-off special transition payment of US$10m that was designed to ensure an effective transition from his role as CEO to executive chairman. This will not be repeated. The award was also subject to the achievement of clearly defined transition-related performance goals and there was a robust process in place for determining achievement. An external consultant was appointed to look at how his pay should change to reflect his changing responsibilities, and his target pay has been reduced on several occasions. Taking all this

“This will complement the ESG measures already embedded in personal KPIs.”

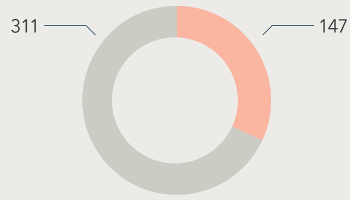
PROXY VOTING OVERVIEW



- Total Voted AGMs
- Total Voted Special Meetings
- Total Mix Meetings



- Total proposals voted 'For'
- Total proposals voted 'Abstain'
- Total proposals voted 'Against'
- Total proposals voted 'Withhold' (1)
- Total proposals voted 'One Year' (1)



- Total votes against Management recommendation
- Total votes against ISS recommendation

VOTES AGAINST MANAGEMENT RECOMMENDATION RATIONALE

89 Due to potential dilution >10%

15 Ad Hoc Items

9 Political donations

3 Bundled resolutions

9 Vague/poorly defined proposal

2 Shareholder proposal

11 Remuneration proposal

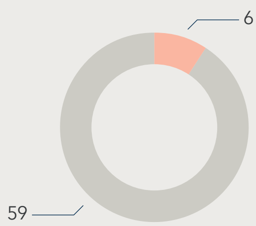
8 Corporate governance issue

0 Persistent failure to attend Board meetings

0 Excessive non-audit fees

1 Preference for a one vote per share structure

SHAREHOLDER PROPOSALS



- Shareholder proposals voted 'For'
- Shareholder proposals voted 'Against'
- Shareholder proposals voted 'Abstain' (0)

This voting summary for the full year 2021 reflects the votes cast by Walter Scott & Partners Limited during the period on behalf of our clients for whom we have full voting discretion.

into consideration, we decided to vote with management on these items.

Paychex – Remuneration
A call with the CEO, CFO, and Head Legal Counsel of Paychex in the final quarter of 2021 offered clarity over two proposed changes to executive remuneration. The changes in question pertained to a Covid-19 related adjustment to the company's long-term incentive plan, and an alteration to the structure of the company's annual equity award. Having discussed the rationale behind both proposals with management the Stock Champion deemed the proposals proportionate and was happy to vote in line with the company's recommendation at the upcoming AGM.

This was, however, another example of where that stance was contrary to ISS' recommendation. ISS noted its concern of the discretion applied in raising the pay-out within the LTIP to recognise, in Paychex words, the success of management in mitigating the impact of the COVID-19 pandemic on the company's results. Whilst the percentage pay-out was increased materially, we concurred with the company's view that management did a good job during the pandemic and that therefore the use of discretion is warranted. This view was supported by the fact that previous pay-outs have been around the median when looking at the peer-group and so this uptick was not made from an aggressive base. ISS also objected to the proposed removal of performance-related play for the July 2020 LTIP with any pay-out instead in the form of RSUs (60%) and at-the-money options (40%). Again, in contrast to ISS, our view was that this approach was sensible given the difficulty in trying to set meaningful 2-year performance targets during a pandemic. At-the-money options will only be worth something if the future share price is higher, so in the context we agreed that this was reasonable substitute for performance-based pay. Furthermore, the company was clear that July 2022 plan will revert to the previous situation with the inclusion of performance-based stock allocation.

“Having discussed the rationale behind both proposals with management the Stock Champion deemed the proposals proportionate and was happy to vote in line with the company's recommendation at the upcoming AGM.”

Amadeus IT – Remuneration
This was another example of a vote that centred on a change to remuneration because of the impact of the Covid-19 pandemic and where our view was at odds with the ISS recommendation and we voted for the recommendation. At the AGM, however, the vote against was carried. The proposal in question centred on a ‘special recognition payment' to the CEO.

The restrictions that stemmed from the Covid-19 pandemic profoundly impacted Amadeus' business but, we were certainly aligned with ISS in being of the strong view that investors also suffered through a combination of share price weakness, a dividend freeze and dilution from a small equity raise. Further, for the company to retrospectively alter the criteria used to determine the CEO's bonus is certainly not best practice.

However, in the context of our long-term lens, as opposed to ISS' stance that appeared largely grounded in the short-term, we were also cognizant of the success of management in navigating through this exceptional period for the company. Management's response to the pandemic, finding cost efficiencies, strengthening the balance sheet and liquidity, and continuing to invest in new technology and other long-term growth initiatives was commendable in our view. Add to that the management's strong track record and actions to retain and rewards this team are justified, in our view. The industry context was also a factor in our decision, Inclusive of the ‘special recognition' bonus, the CEO's total pay for 2020 fell by 31% to €3.7m. Amadeus' closest peer, Sabre, increased its CEO's pay for the same period by 20% to US$11m.

“We were certainly aligned with ISS in being of the strong view that investors also suffered through a combination of share price weakness, a dividend freeze and dilution from a small equity raise.”

“Oil Search was another example of where the Stock Champion decided to vote with management and against the ISS recommendation regarding an item centred on executive remuneration.”

Oil Search - Remuneration
Oil Search was another example of where the Stock Champion decided to vote against the ISS recommendation regarding an item centred on executive remuneration. ISS recommended that shareholders vote against this item reflecting its view that there was a low degree of alignment between lead executive remuneration, the company’s performance and consequent shareholder outcomes. In this instance, the vote against was carried at the AGM. Our decision to vote for this proposal was based on several factors demonstrating both our focus on what is reasonable and justified and our approach to consider ISS recommendations but reach conclusions independently. The first factor in our decision to vote for this particular proposal was our belief that the aggregate pay-out for Lead Executive Keiran Wulff was not excessive in the context of comparably sized peer organisations. The second factor was, our view that the lack of alignment between executive remuneration and financial performance over the previous year was justified in the context of external market factors such as oil and gas prices out-with the control of company executives. The third factor within our decision was our view that the level of executive remuneration was consistent with the previously approved and established remuneration policy.

Booking Holdings – Climate-Related Proposals
Following a meeting of the Investment Stewardship Committee, it was agreed to vote against two shareholder proposals related to climate disclosure and reporting. In both instances ISS’ recommendation was to vote for the items.

The first proposal was to require an annual report on climate transition. Improved climate disclosures are an issue that we have discussed on a number of occasions with the company through the course of our regular engagement and whilst in principle we encourage more disclosure, in this instance the company has shown steady improvement in this area and has stated its commitment to ongoing improvement. Further, we recognised that Booking sits in a sector amongst the most materially impacted by the Covid-19 pandemic and that has placed immediate and significant pressures on management. Weighing up those factors, we decided in this instance to vote against this proposal. Our decision to vote against the second shareholder proposal to require an Annual Investor Advisory Vote on Climate Plan was made in the same context. As it stands, we concluded that the potential benefits of an annual advisory vote on a climate plan would be limited.

For the past two years, Booking has improved its disclosure through a sustainability report that includes details on Scope 1 and 2 emissions. From here, we will be looking for the company to include Scope 3 emissions detail, alongside specific targets and other disclosures recommended by TCFD. On a previous call we had been assured by the Head of Sustainability that the company’s ambitions are very much in line with the proposals and they have been investing. Through ongoing engagement, we will continue to remind the company of our expectations for continued progress in this area, within a reasonable timeframe.

The conclusion was that the company is moving in the right direction currently will certainly be looking for a step-up in progress by the company by the time we come to discuss voting at its 2022 AGM.

“From here, we will be looking for the company to include Scope 3 emissions detail, alongside specific targets and other disclosures recommended by TCFD.”

COLLABORATION

Collaboration around environmental standards and reporting was again the focus of much of our collaborative efforts in 2021. Of most note, we participated in eleven collaborative engagements under the auspices of CDP's annual campaign, being the lead investor in approaching six of those eleven companies.

“We also continue to participate in industry initiatives to support the proper and effective functioning of financial markets.”

Our involvement in collaborative efforts around Raytheon's environmental reporting also continued in 2021. Having led CDP's engagement with Raytheon under its 2020 Non-Disclosure Project, collaborative engagement efforts continued with a focus this year on CA100+'s mission to encourage companies to align policies with its goals. In line with our own objective to seek better environmental disclosures and improve governance structures around climate change across holdings, this most recent effort was focused on CA100+'s Net Zero company benchmark. With the company's low initial score, management had expressed a willingness to continue engaging to find ways to improve their benchmark score. As is often the case, the company felt they had been doing good work internally but that communicating that work had not been a priority, until now.

In the past Raytheon had been reluctant to publish medium and long-term emissions targets, however, the company is currently conducting a review to determine what type of targets or commitments may be most appropriate. The fact that Raytheon is now considering new emissions targets is a step in the right direction, however, the results of their ongoing, internal review will be the ultimate determinant of whether new targets are released. We will continue to monitor this situation and our engagement approach will also remain under review.

INDUSTRY INITIATIVES

We also continue to participate in industry initiatives to support the proper and effective functioning of financial markets. Given Walter Scott's size, and therefore resource, alongside our focus on global equities only, rather than across financial markets, we continue to be selective in regard our involvement in industry groups and campaigns. That said, our efforts have increased in recent years and we would expect that trend to continue. Below, a number of the initiatives and reports that we chose to get involved with during 2021:

FCA Consultation Paper 21/17: Enhancing Climate-related Disclosures by Asset Managers
We submitted our views to the Investment Association as part of its collective effort and separately also provide feedback as part of the group-wide response from BNY Mellon Investment Management.

IOSCO Consultation Paper: Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management
Feedback submitted to the Investment Association as part of its response to this consultation paper.

Department of Labor, ESG Rule
We provided initial feedback and then contributed to a letter sent by BNYM Investment Management to the US Department of Labor on this proposed rule.

FCA Discussion Paper 21/4: Sustainability Disclosure Requirements and Investment Labels
We submitted our responses to the questions within this paper to BNYM Investment Management who in turn submitted a co-ordinated response from all the BNYM investment boutiques.

Stewart Investors Led Investor Initiative on Conflict Minerals
Along with a number of other investors we signed a letter led by Stewart Investors on the subject of conflict minerals in the semiconductor supply chain. The letter was sent to 29 companies involved in the manufacture of semiconductors.

MEMBERSHIPS

We are members of or signatories to several groups that we believe best-represent client interests in pushing for meaningful change in matters of sustainability, including:

Principles for Responsible Investment
Signatory since 2017
Membership reflects our commitment to responsible investment. We adhere to the PRI's six principles and report annually on our activities. Our 2020 rating was A+, A, A.

CDP (Formerly Carbon Disclosure Project)
Member since 2017
CDP is a not-for-profit charity that runs the global disclosure system used to establish company environmental impact and disclosure assessments.

Climate Action 100+
Signatory since 2018
Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Collaborative investor engagement involves interaction with over 100 of the most polluting companies in the world encouraging standard setting and improved disclosure.

UK Investment Association
Longstanding member
The IA is the trade body and industry voice for investment managers in the UK. Several Walter Scott representatives now participate in IA working groups. The aim of which is to agree/shape industry best practice and provide input into policy making and regulation.

ICGN (International Corporate Governance Network)
Member since 2019
Founded in 1995, the ICGN is a leading authority on global standards of corporate governance and investor stewardship.

We have also stated our commitment to the **UK Stewardship Code** and **Japan's Stewardship Code**.

2010
Our first response to the UK Stewardship Code

2017
Membership of CDP

2017
Our first response to Japan's Stewardship Code

2017
Signatory of Principles for Responsible Investment

2018
Signatory of Climate Action 100+

2019
UK Investment Association, Stewardship Reporting Working Group

2019
Membership of ICGN

2021
Accepted as a signatory to revised UK Stewardship Code

WE EXPECT NO LESS OF OURSELVES

ANNUAL REVIEW

HILDA WEST
Head of Investment Operations and Sustainability

Building on work undertaken during 2019 and 2020 to challenge our processes around responsible investment and stewardship we started 2021 with strengthened oversight through new group structures, expanded procedures and more dedicated resource. Within the structures that oversee our research and investment activities, we expanded the remit of the previous Proxy Voting Sub Group, establishing an Investment Stewardship Committee and an ESG Project Group. From a business standpoint we also clarified and strengthened responsibilities around environmental improvements and reporting, and we underlined our commitment to Diversity, Equity and Inclusion (DEI) with the creation of a DEI Group with senior representation from across the firm. At the beginning of the year, Alan Edington and I also assumed expanded roles with clear responsibilities to lead these efforts and continue our progress. Whilst remaining very much part of the Research team, with Stock Champion responsibilities, Alan is now also responsible for championing our research and engagement across sustainability and stewardship, supporting and directing the Research team to ensure we continue to maintain the highest standards and make the most of the new tools and data sources available to us. As well as leading those activities, my role is to oversee Walter Scott's approach to responsible investment working across departments to implement and improve upon sustainable practices and co-ordinating the firm's response to all sustainability-related regulations and requirements.

SUSTAINABILITY AT WALTER SCOTT

As part of our commitment to acting responsibly and sustainably, we focus on three key areas:

Environmental Impact – We are committed to sustainability in all our daily business operations and to the ongoing reduction of our environmental impact. We monitor and work to reduce our carbon footprint and energy use, and to increase recycling and reduce waste.

People – Our people are our greatest asset. Without their motivation, talent, and commitment, we could not succeed. We want Walter Scott to continue to be a great place to work, where people feel fairly treated, included, and supported to do their job well and fulfil their potential.

Support for the Community – We recognise our responsibility to the wider community. By working with inspiring local charities and community groups, we hope to support some of society's most vulnerable and help tackle issues of opportunity, social mobility, and diversity, equity and inclusion.

“Whilst I am confident we have strengthened our approach in 2021, I am equally confident that in doing so, we will all be keen to raise those targets further in 2023.”

Changing regulatory requirements and higher industry standards were again a predominant area of work and will continue to be a focus in the year ahead. In 2021 we submitted our response to the UK Stewardship Code. TCFD was another focus for us during the year and we devoted significant time to considering how best to approach TCFD with our first report in 2022.

We have begun to review the requirements within the EU Taxonomy regulations, the technical standards of SFDR Level 2 and its UK equivalent Sustainability Disclosure Requirements. We are also working with a number of clients to help them comply with Article 8 under SFDR.

These new regulations will require us to again review our processes and systems to tailor our approach and thinking.

Beyond the benefits of focus, efficiency and shared knowledge that we saw in 2021 thanks to our evolved and strengthened structures and processes, another important benefit has been a shared ambition within the rejigged committees and newly established groups. Working collaboratively, I have seen each group challenge themselves to do more and reassess practices. I hope you get a sense of that ambition through the operational and reporting steps we have taken this year, and through reading the reports on DEI, the environment and our Giving Group contained within this Annual Report.

I hope those contributions also give a strong sense of our commitment, and eagerness to do more. Whilst I am confident we have strengthened our approach in 2021, I am equally confident that in doing so, we will build on this foundation in 2022.

There is still more to do and new regulations will continue to shape our approach. Where we are all clear is that there is no room for complacency with regards to our investment and operational approach across all aspects of sustainability and responsible investment.

ENVIRONMENTAL IMPACT

KAYU LI-AYTO
Head of Finance and Chair, Climate Change Working Group

2021 saw further steps forward in our work to reduce emissions and improve our environmental impact. In recent years we have focused on better understanding the firm's environmental footprint and gathering emissions data and in 2021 we were able to build on that work by continuing to decrease emissions, offsetting residual emissions and developing calculation methodologies for further emissions.

WE WANT TO ENSURE THAT OUR OPERATIONS MAKE A CONTRIBUTION TO MITIGATING CLIMATE CHANGE

In 2021 we achieved net zero in relation to our Scope 1 and 2 emissions relating to business travel, and office waste. We aim to achieve at least net zero going forward.

Of course, those headline targets, whilst important, don't always provide a full picture. We are equally proud of the steps taken in 2021 to further improve the breadth and depth of relevant data that we can now gather and monitor. That data will allow us to make informed decisions on further areas of improvement. It also allows us to improve our reporting. In 2022 we also plan to participate in BNY Mellon's ISO 14001 certification.

IMPROVED DATA COLLECTION AND ANALYSIS

As an example of our data collection, in the autumn we undertook a staff survey to better understand and measure the emissions generated through colleagues travelling from their homes to our office. We gathered data on a range of factors including mode of transport used, distance from the office and frequency of travel. It is worth noting that 46% of those that participated in the survey commute using a zero emissions mode of transport. The firm encourages that effort through office facilities that provide for staff who cycle, run or walk to the office. In that same survey we also asked about emissions associated with home working gathering information such as the type of energy tariff used at home, the number of electrical devices used and whether any additional heating or cooling equipment is typically used.

RECOGNISED CHALLENGES

Whilst having more data is undoubtedly a positive, the process of data gathering, and the subsequent data collection, can also highlight challenges. In that regard, like many others, we have and will continue to focus on trying to overcome the complexity and limitations associated with the calculation of other Scope 3 emissions. During the year we further developed methodologies to allow us to better measure of additional Scope 3 emissions. In addition to commuting and home working emissions, we also measured emissions from purchased goods and services and from investee companies. We recognise, however, that we have more to do and plan to work with a third party to review our current emission calculations, to strengthen our methodology and data quality and thereby identify further opportunities for improvement.

MAKING FURTHER PROGRESS

With an average of 80% of waste being recycled, the firm continues to exceed both UK and Scottish

> *“Whilst having more data is undoubtedly a positive, the process of data gathering, and the subsequent data collection, can also highlight challenges.”*

government recycling targets and during the year we added cardboard and stationery recycling points across our offices to encourage further progress. With regards non-recycled waste, we work with an Edinburgh-based waste management partner to ensure no waste goes to landfill but is incinerated with methane capture instead. Of course, the focus, as always must be on reduction of the absolute volume of waste. During 2021 the firm continued in eliminating single use plastics where possible. For example, plastic milk cartons were replaced with re-fillable glass containers and refillable soap and hand lotion containers were installed.

Keen to capitalise on the different working habits that have developed over the pandemic, which saw the volume of printing fall by over 80% from 2019 to 2020, paper reduction was also a focus in 2021. The firm reduced its printing fleet by 25% and is in the process of rolling-out secure pin-enabled printing and removing further printers. Against a backdrop of virtual client meetings in a Covid-19 environment, our view is that effective communication with our clients will continue to involve face-to-face meetings. To help with reducing the volume of paper we use, we are moving to "digital by default" presentations but the business is open to clients' views as to how they would prefer to communicate, and can provide paper copies where specifically requested. The firm has also invested in improved virtual conferencing facilities and built sound-proof pods where individual staff can meet by audio or video call with clients. We also held our first virtual conference in 2021, which enabled over three hundred attendees from around the world to join us live on the day listening to a selection of speakers and hearing updates from our team. Many more have been able to watch this event on catch-up. Like client meetings, we continue to believe in the value of in-person events but virtual events will certainly be a larger part of our overall events calendar in the future.

Travelling to meet our clients remains a very important part of our work, as does travelling to undertake investment research and meet with companies, with unavoidable environmental costs. However, we are working to make that necessary and valued travel as efficient as possible. We used the pandemic-related downturn in travel to onboard a new travel provider able to provide enhanced carbon reporting and help the business make better choices when it comes to travel. In 2022, we also intend to engage an external consultant to review our business travel practices as we work to do all that we can to mitigate the environmental impact of our travel. We are proud of the improvements we have made over recent years and acknowledge that making further material changes will become more difficult. That said, with maintained focus and more data at our fingertips, we remain committed to continued improvement in both our environmental impact, and our reporting.

ENVIRONMENTAL IMPROVEMENTS

We achieved net zero in relation to our Scope 1 and 2 emissions through a range of initiatives:

- Eliminating the use of avoidable single plastics from our Edinburgh offices
- Continued reduction in landfill and incinerated plastic waste
- Continued investment in technology and other services to provide virtual conferencing and meetings
- Embedding 'paper free' activities and practices
- Increased home working and more considered commuting to the office primarily due to restrictions associated with the Covid-19 pandemic
- Improved data gathering and processes around travel related emissions to allow both careful monitoring and off-setting through carefully selected projects.

With an average of 80% of waste being recycled, the firm continues to exceed both UK and Scottish government recycling targets and during the year we added cardboard and stationery recycling points across our offices to encourage further progress.

PEOPLE AND CULTURE

OVERVIEW AND OUTLOOK

RICHARD BARRY
Head of Executive Initiatives and Chair, DEI Working Group

The support and development of people and culture at Walter Scott continued throughout 2021. Indeed, with many colleagues working from home for much of the year, efforts to both engage with and support staff increased over the year alongside the maintenance and promotion of established training, career development and mentoring programmes.

INAUGURAL CULTURE SURVEY

Amongst the developments over the course of 2021, the company's first Culture Survey was launched in the first quarter of the year with responses from 85% of Walter Scott's employees. The results were very positive and were communicated to all in virtual briefings. The most prominent improvements suggested by staff were career development and the continuation of some home working once the pandemic allowed for a return to the office.

On the first of those themes, a career development framework was designed and rolled out to all employees in May and this was supported by specific sessions for managers and non-managers.

In line with a second area of focus from the survey findings, a Hybrid Working Policy was developed, communicated to all and then implemented once Scottish Government public health guidance allowed a return to office working. It has been supplemented by management development and training focussed on leading hybrid teams and building inclusion.

DIVERSITY, EQUITY AND INCLUSION

In the second half of the year the Diversity, Equity and Inclusion (DEI) Working Group was formed. The purpose of the group is to help Walter Scott be the best it can in DEI. The Group reports to the Executive Management Committee biannually, making recommendations and implementing agreed actions.

FUTURE INITIATIVES

Our People Plan for 2022 has been designed to ensure that the culture of Walter Scott continues to thrive. A large proportion of the plan bisects DEI and other people practices, for instance our objectives in Recruitment, Development, Employee Experience, Talent Management and Wellbeing that also have an impact on DEI.

SURVEY HIGHLIGHTS

99%
—
of Walter Scott staff agree that the interests of our clients are paramount

94%
—
of Walter Scott staff are clear about what the firm is trying to achieve/the purpose of the firm

86%
—
of Walter Scott staff agree that teamwork and collaboration in the firm is strong

OUR PARTNERSHIPS

- **2002** British Council
- **2012** Prince's Trust
- **2015** The Robertson Trust
- **2016** Girls Who Invest
- **2017** Future Asset
- **2018** Crankstart
- **2019** Women Returners
- **2020** Investment 2020
- **2021** Juniper Trust
- **2021** Girls Are Investors
- **2022** Black Professionals Scotland

SUPPORTING DEVELOPMENT (2021 COURSES)*

Courage to Lead	Development Planning	Resilience	Career Development	Leading Hybrid Teams	Foundations for Hybrid Teams**	Career Development
8 Managers	18 Managers	6 Staff	37 Managers	24 Managers	4 Teams	1 Team
	51 Staff		60 Staff			14 People

*Walter Scott training, does not include regular BNYM online development courses. **Team development with 4 teams taking part.

“A new development guide will be provided to all managers with a focus on talent assessment, professional development, experiential development and career development.”

31
—MENTORS—
supporting new members of staff; taking on the role of ‘critical friend’ and helping mentees to understand the firm’s culture and structure

5
—STAFF MEMBERS—
qualified as Mental Health First Aiders in 2021

Recruitment

- We work with a number of diversity partners to help us attract a diverse range of applicants and this network will increase further in 2022.
- We use blind CVs in our internship programmes and this will be extended to all vacancies.
- Our recruitment process was redeveloped in 2020 to further encourage objectivity and this will be supplemented by development for all recruiting managers in 2022.

Development

Our annual plan focuses on management development, career development, mentoring, coaching, hybrid working practices, resilience, assertiveness, time management, influencing and personal productivity. Our overarching development objective is to equip leaders with the expertise and confidence to build on the firm’s success and to ensure that all staff have the skills they need to carry out their responsibilities.

Employee Experience

The 2022 Culture Survey will be judged alongside the 2021 survey results to detect any changes in perception. The results will be shared with all staff.

Talent Management

A new development guide will be provided to all managers with a focus on talent assessment, professional development, experiential development

2021-22 EFINANCIALCAREERS GUIDE

Alex Torrens, investment manager and co-head of research at Walter Scott & Partners, an equity portfolio management firm, says:
“With a team-based approach, it is critical that the team functions effectively, and that demands diversity. For that reason, we don’t rule anyone in, or out, based on the subject studied or the university. Instead, we look for people who are inquisitive and curious in nature, and who have a strong interest in how businesses work.”

Torrens says asset managers value cognitive diversity.

“Our job is to seek to invest in some of the best companies around the world, companies that will lead their markets over the next 10 or 20 years. In analysing companies and making those decisions, it doesn’t matter what subject you studied at university, but you do need to have a passion for finding and understanding those companies.”

“Our job is to seek to invest in some of the best companies around the world, companies that will lead their markets over the next 10 or 20 years.”

Extract from EfinancialCareers – Careers in Banking and Financial Markets, 2021/2022 – The definitive guide to working in banking and finance

RESEARCH JOURNAL 12

TRUST IN FLEXIBILITY

Richard Barry, Head of Executive Initiatives, Walter Scott.

I blame the industrial revolution. We work the hours we do because of a working construct developed in the 19th century – 35 hours a week in the office to show that you're putting in the hours. Over a hundred and fifty years of management style was based on watching people work. If you can't watch someone, then how can you trust them to do the work? It's a multi-generational habit.

Flexible working has been growing for years, albeit not without understandable resistance given so many years of collective, ingrained working behaviour. But the pandemic turned those behaviours and our idea of an office on its head. We can't see each other working, we only know we're working when we meet on a Teams call or we produce something valuable. If proven output is the only true way to know we're working, we must trust each other.

Last summer, we introduced training sessions for all staff focussed on that vital element of trust. The trust that we have in our colleagues is the glue that binds us, just as our clients trust us. Rather than trying to find a reason to trust someone, we find ways to build trust. It makes the conversations we have with colleagues different too. A new approach to performance development that we introduced last year focusses on frequent, open conversations and, most importantly, trust.

> *"Flexible working has been growing for years, albeit not without understandable resistance given so many years of collective, ingrained working behaviour."*

Will this lead to greater flexibility? I believe the pandemic experience will see more flexibility as employers focus on output and as flexible working moves beyond its typical confines of mothers and carers working part-time. Now we are learning to be more focussed on what each of us gives. This takes time. Old habits die hard.

From Walter Scott Journal 12

> *"Beyond doing more in recruitment and career development there is an onus on us to communicate success whilst also acknowledging areas for improvement."*

are unchanged, we recognise that we must not only demonstrate our commitment but also continue to do more. Despite best intentions our industry is under-represented with respect to ethnic, gender and socio-economic diversity, but that is not an excuse or an opt-out. Instead, it must motivate us. Over recent years we have put effort and resource into widening our recruitment efforts but that is not the end goal. With greater diversity comes a need to also do more to ensure that everyone has the opportunity to develop and grow within our business.

Beyond doing more in recruitment and career development there is also an onus on us to communicate success whilst also acknowledging areas for improvement. We are determined that 2022 will see a step-up in our communication both within the firm and externally. We will also focus on improved measurement and analysis to both evidence steps forward and guide future progress, to which we remained as committed as ever.

WALTER SCOTT GIVING GROUP

OVERVIEW AND OUTLOOK

DENNIS WYLES
Client Investment Manager and Chair, Giving Group

“One of the pillars of the Giving Group’s approach has long been a focus on specific projects where the project outline, budget, expected outcomes and evaluation are clear.”

In 2021 the Giving Group supported 53 charities across Scotland and in Boston with a focus on young people, education, mental health and wellbeing, homelessness and the community. The Group continues to look for local projects with a desire to build long term relationships with charities. These projects range from supporting employment training for young people from challenged backgrounds, mental health support in schools and providing shelter, food and recovery programmes for homeless people.

ENGAGEMENT AND ASSESSMENT

It is of no surprise that this was another difficult year for many charities as Covid-19 continued to present challenges in both the provision of services and fund-raising efforts. As in 2020, we saw the benefit of our emphasis on building long-term relationships allowing constructive conversations with charities and the ability to offer financial security through longer-term commitments. Many of the charities we work with have multiple stakeholders vitally dependent on the services being provided so it is important that they have the financial security to be able to plan with some confidence. In 2021, long-term relationships where there is a multi-year support programme comprised 45% of the annual budget. Whilst offering valuable support we have also actively encouraged a number of charities to diversify their income streams to provide greater resilience and security of funding.

One of the pillars of the Giving Group’s approach has long been a focus on specific projects where the project outline, budget, expected outcomes and evaluation are clear. This provides the Group with clear accountability for the efficiency and impact of the donations and the evaluation component is a key aspect of our assessment. This offers not only the ability to assess whether the outcomes have been delivered, but also the opportunity for further improvement to the programme in the future. We consider this to be an important part of our engagement with the charities and an area where we hope that we are able to provide value as a constructive sounding board and supporter.

SCOTTISH BOOK TRUST

The Giving Group supports 10 school residencies through the Scottish Book Trust, where an author goes into the school classroom and helps to inspire the creative writing skills of the schoolchildren. One outcome will often be a short story, poem or graphic novel, but importantly it is the softer evaluation measures of the progress of the child’s enthusiasm and confidence for reading and writing which are crucial to measuring success. A survey of both teachers and pupils at the end of each residency provides important insights particularly in regard to the pupil feedback with comments such as ‘I find writing more fun’ and ‘It has made writing less daunting’ frequently cited.

ROYAL SCOTTISH NATIONAL ORCHESTRA

The challenges of Covid have required charities to adapt and change to ensure the continuous and optimal delivery of their services.

Many lessons were learnt through the first period of Covid in the first half of 2020, and many of these enhancements have offered resilience in the delivery. Digital delivery, either in full or part, has been key in this continuity and extended reach. The resilience in the delivery of the programme is an important part of our proposal assessment. The Royal Scottish National Orchestra is just one example of a successful transition.

The Giving Group has a successful and established relationship with the Royal Scottish National Orchestra (RSNO) through its school concert programme and the recent online delivery of its Gaspard's Foxtrot production was a success, reaching over 46,000 children from every local authority across Scotland. That impressive total included over 1,600 pupils with additional support needs and almost 7,000 pupils from the 20% most deprived areas of Scotland. The feedback from pupils and teachers was very positive with recognition of the growing importance for children to be able to access fun and creative activities. This focus on young people and their wellbeing has long been an important area of support for the Giving Group.

THE GREEN TEAM

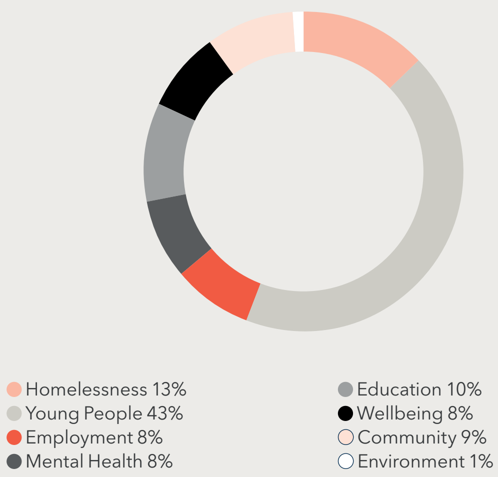
Children and young adults have been severely hit by the isolation, disruption and anxiety over the pandemic. The Giving Group supports The Green Team which organises outdoor activities to help children have fun, improve their wellbeing, develop skills and make friends. The reconnection with nature is a conducive environment to help towards a positive outcome for these young people. In addition to donating to their Thrive (mental health) programmes, the Giving Group supports the 'Green Angels' project. This project consists of all-girl groups aged 12-15 years who are 'quietly

PURPOSE AND AMBITION

Through Walter Scott Giving, the Board of Walter Scott hopes to share some of the firm's success with those in need across the local community. The purpose of the Walter Scott Giving Group is to agree on funding and ensure that such giving is impactful as well as efficient and transparent. The Group's ambition is to support local charities that focus on community, education and health. Through multi-year commitments to a number of charities, it is hoped a meaningful difference can be made. The Group has eight members from across the firm's operations and of deliberately varied levels of seniority.

> *"The challenges of Covid have required charities to adapt and change to ensure the continuous and optimal delivery of their services."*

2021 BUDGET SPEND BY AREA OF NEED AND FOCUS (%)



"Our focus for the year ahead remains unchanged in that our focus is to continue to strengthen our relationships with existing local charities as well as finding new charities to support."

struggling'. Targeting specific groups of people often from disadvantaged backgrounds and living in deprived communities is another theme which runs through many of the programmes supported by the Giving Group.

SCRAN ACADEMY

Whilst many of our charity partners are longstanding, the Giving Group also supports pilot projects and relatively new charities providing a platform to allow these organisations to move forward in a, hopefully, meaningful way. Scran Academy came together and has flourished since the start of the Covid-19 pandemic. Through its kitchens in Edinburgh, it aims to help the most vulnerable young people to transition from the classroom to the workplace and wider life. They have provided free meals to local elderly and shielded people over the pandemic. They have built on this success by developing a "Scransitions" project to help develop skills and employability specifically for young people experiencing exclusion and wider life barriers. The Giving Group is delighted to be supporting this three-year project alongside the National Lottery.

BRIDGE OVER TROUBLED WATERS

Supporting the homeless is an important focus both in Edinburgh and Boston. The relationship with Bridge Over Troubled Waters was further strengthened this year after initial support for its Rapid Rehousing programme in 2020. This project provides a safe and secure home for homeless, runaway and at-risk young people in Boston to help build a self-sufficient future. In 2021 the Giving Group further extended this relationship with support for the Bridge Welcome Center which is the charity's main centre in Boston providing overnight stays for the most vulnerable youth. This safe refuge allows and supports that initial engagement with their staff which in turn allows a support programme to be developed to help break the cycle of homelessness.

The conditions that lead to homelessness for youth are complex. As one youth staying at the Bridge Welcome Center observed, "being homeless, it's so easy to be in the wrong place and around the wrong people who can have a huge impact on you and what happens to you next. It's so scary". The Giving Group's 2021 donation provides for a 5-month programme of shelter for run-away and homeless youth at the Center.

SIKH SANJOG

Supporting the community is targeted through many local charities. Sikh Sanjog is a charity based in North Edinburgh which was established in 1989 to provide tailored support in the community for young Sikhs, particularly women. Following a Sikh Women's Conference in 2020, the Giving Group supported a report (Sikh Women Speak) which was published and presented to the Scottish Parliament in December 2021. This report collated views from Sikh women living in Scotland on a number of areas, including employment, health and wellbeing, culture, justice and education. The report revealed that Sikh women in Scotland faced many hurdles and barriers to raising their self-esteem, confidence and fair treatment in society. This report will hopefully provide the stepping-stone for improvements and the Giving Group looks forward to providing further support for Sikh Sanjog in the future.

FUTURE PLANS

Our focus for the year ahead remains unchanged. We aim to continue to strengthen our relationships with existing local charities as well as finding new charities to support. We are also keen to continue to do more to tell our colleagues about these relationships and the important work being funded, as well as continuing a focus on widening volunteering opportunities for individuals and teams across the firm.

"Whilst many of our charity partners are longstanding, the Giving Group also supports pilot projects and relatively new charities providing a platform to allow these organisations to move forward."

FURTHER READING

Relevant reports, articles and videos published over the course of 2021 are listed below. Many have been posted on our website but all are available on request from **clientservice@walterscott.com**

Response to UK Stewardship Code 2021

SRD II – Our Approach

Quarterly reports detailing significant votes in accordance with SRD II are also posted on our website **www.walterscott.com/sustainability/#library**

Quarterly Responsible Investment Commentary
Quarterly commentaries covering key themes and notable activity are available on our website **www.walterscott.com/sustainability/#library**

CARBON PROJECT

Written and video content that summarises the work of the Research team in its collaborative carbon project undertaken over 2020 and 2021 is listed below and available in our website **https://www.walterscott.com/the-journey-to-a-carbon-neutral-economy/**

The Journey to a Carbon Neutral Economy
Climate and carbon are themes set to define the investment landscape for generations to come. As long-term investors, how do we ensure that portfolios are best positioned to benefit in this lower-carbon world?

Carbon conclusions
The future of oil and gas investing – the million barrel question
What is the role of an oil and gas company today and are these companies still an investable proposition for a long term, responsible investor?

Talking about oil and gas
Fossil fuels have long been the crucial component of the global energy mix. As the world transitions towards a lower-carbon future, is there still a case for long-term investment in oil and gas companies today?

The transition to electrification
After more than a century of dependence on fossil fuels, there are now numerous alternatives that can not only provide the energy required to meet global demand but also reduce carbon emissions. With no quick fix or one-size-fits all approach, how do we get there?

Talking about electrification
In attempting to decarbonise the world's energy systems, there is no one-size-fits-all solution. Here, we discuss the role that electrification can play via power generation, electric vehicles, hydrogen and building systems.

Circular Economy – The end of the (straight) line in manufacturing?
We have all lived in a world where we "take, make and waste" products. With ever-greater awareness of the flaws of this approach, there is now a determined shift away from this linear economic model towards a more circular economy.

Talking about the circular economy

Putting a price on carbon
The concept of carbon pricing has been around for some time. However, as climate concerns have moved steadily up the political agenda in recent years, calls to put a price on carbon and charge polluters for emissions have intensified.

Talking about carbon pricing

Carbon Capture and Storage – Capturing the opportunity
The concept of carbon capture and storage has been around since the 1970s and most observers agree that it has

Depicts those articles that have corresponding videos on our website. Please do visit the Insights page on our website to watch them
https://www.walterscott.com

a critical role to play in meeting the targets of the Paris Agreement. So why is investment in this vitally important technology still lagging?

Battery Storage – Solving the intermittency problem
A lack of reliability and a mismatch between supply and demand are barriers to greater use of renewable energy. Could battery storage be the answer to this conundrum?

Electric vehicles charging ahead
The stars are aligning for electric vehicles, but investors will have to be careful in choosing the right companies to take advantage of investment opportunities that the growth in this sector affords.

Hydrogen – It's a gas!
Hydrogen has not quite lived up to its potential as a source of 'green' energy. New technology, the 'renewables' revolution and global government policy changes look set brighten its long-term prospects.

Methane – Why methane matters
Methane is well known for its warming effects but could the natural gas helpfully act as a bridge fuel in the transition from fossil fuels to renewables?

Nuclear – An increasingly difficult investment case
Nuclear is another area of the energy debate that starkly divides opinion, its advantages understandably obscured by tragic incidents. Yet it remains an important part of the global energy supply today.

The environmental bill for our built infrastructure
The construction and day-to-day running of buildings accounts for over 35% of global energy demand. With urbanisation driving construction around the world, how can that environmental bill be managed.

In Conversation with Alan Lander and Tom Miedema
A few months after the publication of our carbon reports, Alan and Tom provided an update on next steps and focus. **www.walterscott.com/in-conversation-with-alan-lander-tom-miedema/**

VIRTUAL INVESTMENT CONFERENCE

The sessions below were part of our virtual investment conference held in November 2021.

How courageous companies thrive, over the long term
Lindsay Scott, Investment Manager, in conversation with Paul Polman, co-author of Net Positive and founder and chair of IMAGINE
Former Unilever CEO, Paul Polan is widely recognised as a pioneer in sustainable business. In conversation with Investment Manager, Lindsay Scott he chats about innovation and sustainable sets forward in the most seemingly ordinary of products.

Technology and the surgeon
Professor Shafi Ahmed, Consultant, The Royal London Hospital
Professor Shafi Ahmed explains how he has harnessed virtual reality to widen and enhance his medical teaching around the world.

The pace of positive change; seizing human and technological advances
Helle Thorning-Schmidt, former Prime Minister of Denmark, previous CEO of Save the Children and current co-chair of Meta's Oversight Board.
Across politics, government, charity and business, how can leaders nurture and support innovation and creative thinking? Former Prime Minister of Denmark Helle Thorning-Schmidt shares her insights.

RESEARCH JOURNAL, 12TH EDITION

Flight of fancy?
Fraser Fox, Investment Manager and Joseph Friedland, Investment Analyst
Cutting emissions while keeping the world flying is a complex undertaking. This article explains why.

We're only human
Gillian Tett, Chair of Editorial Board and US Editor-at-large, Financial Times
In her new book, Anthro-Vision, Gillian Tett reveals how Anthropology could save us.

"We're fiddling while the forests burn"
Oliver Balch, author and writing specialising on the role of business in society
Focusing on rising temperature while ignoring our emptying natural habitats makes no sense. An approach that takes the hand of nature while forcing climate change to slow down is the best way forward, believes Oliver Bach.

Family matters
Jane van Zyl, CEO of Working Families,
Working Families is a charity that aims to remove the workplace barriers faced by people with caring responsibilities. As the remote-working revolution topples some of those barriers – while raising new ones – van Zyl tells us where things now stand for families that work.

Trust in Flexibility
Richard Barry, Head of Executive Initiatives, Walter Scott

Exploring the impact of the Covid-19 pandemic on the future working day at Walter Scott.

What sugar tells us about sustainable capitalism
Mimi Goodall, recipient of the 2020/21 Walter Scott & Partners Doctoral Studentship
The sugar trade was an early example of an industry that brings great wealth and prosperity, but also relies on unsustainable exploitation – of people or the planet. Mimi Goodall explains how as the world grapples with the transition to sustainable capitalism, we could learn a lot from the sweet stuff.

The circular argument
Peter Marsh, founder of Made Here Now, author and former Financial Times Industrial Editor
Can businesses make the circular economy work for consumers wedded to waste? It will take technology, partnerships, incentives – and boldness, says Peter Marsh.

WWW.WALTERSCOTT.COM

During 2021 we added a dedicated sustainability section to our website where we summarise our approach to sustainability and review recent activities. **https://www.walterscott.com/sustainability/**

Short videos provide an explanation of what we mean by responsible investing and stewardship in the context our investment approach and research as well as information on Walter Scott's own approach as a business to sustainability.

The sustainability section also includes a library of documents including reports pertaining to Stewardship Codes in the UK and Japan, Shareholder Rights Directive II, Sustainable Finance Disclosure Regulation (SFDR). Relevant policies are also posted on that section alongside proxy voting records.

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Walter Scott & Partners Limited (Walter Scott) is an investment management firm authorised and regulated in the United Kingdom by the Financial Conduct Authority in the conduct of investment business. Walter Scott is a 100% owned non-bank subsidiary of The Bank of New York Mellon Corporation. Walter Scott is registered in the United States under the Investment Advisers Act of 1940.

Walter Scott provides investment management and advisory services to non-UK clients and, Walter Scott is responsible for portfolios managed on behalf of pension plans, endowments and similar institutional investors.

Walter Scott is registered with the SEC in the United States of America, as an Exempt Market Dealer in all Canadian provinces and, with the FSCA in South Africa.

IMPORTANT INFORMATION FOR USA

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IMPORTANT INFORMATION FOR AUSTRALIA

This material is provided on the basis that you are a wholesale client as defined within s761G of the Corporations Act 2001. Walter Scott is registered as a foreign company under the Corporations Act 2001. It is exempt from the requirement to hold an Australian Financial Services License under the Corporations Act 2001 in respect of these services provided to Australian wholesale clients.

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David Schofield
The Homecoming

Walter Scott has been supporting emerging Scottish talent since 1988. In the same way that we believe that different perspectives within the team generate the best investment ideas, so we believe that our art collection should incorporate a wide range of work from an eclectic group of contemporary artists.

Our commitment to the art community is also reflected in our established partnerships with the Royal Scottish Academy, the Royal Glasgow Institute of the Fine Arts and the Royal Scottish Society of Painters in Watercolour.

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