WALTER SCOTT

BNY MELLON | INVESTMENT MANAGEMENT

RESPONSE TO THE UK STEWARDSHIP CODE

2021

FROM OUR MANAGING DIRECTOR

This is our second report outlining Walter Scott's Response to the UK Stewardship Code. It was with both pride and appreciation that our first report, published in early 2020, led to Walter Scott's inclusion in the first cohort of signatories to the UK Financial Reporting Council's revised Code. Our inclusion in that list of initial signatories provided encouraging affirmation of our approach. However, very much in line with the overall ethos as well as the specific requirements of the revised Code, we recognise the need for continual improvement. Our aim in this second report has been to both re-articulate our consistently applied investment approach and longstanding commitment to effective stewardship whilst also demonstrating our progress over the past year and our plans.

Just as we welcomed the Financial Reporting Council's efforts to strengthen the UK Stewardship Code through its revised code, we also recognise the value within the Code's requirement for an annual update. We appreciate the opportunity to report back on our ongoing enhancements whilst also articulating, what next. This is not an area where anyone can ever say, job done, but equally with our longstanding investment approach and the more recent improvements to governance structures that we have put in place, we believe we are well placed to respond to the broadening regulatory environment. By giving senior members of our team responsibility for leading and overseeing our work across all aspects of responsible investment whilst also empowering a number of working groups that bring expertise from across the firm together, we believe that we are in a position to respond to future regulations and ensure robust integration of sustainability factors into research. We are also now better able to seize the opportunity to incorporate ever-improving data feeds, across environmental metrics, into our company research.

This report also incorporates Walter Scott's annual update for the purpose of SRD II (EU Shareholder Rights Directive II) with the associated SRD II reports on proxy voting decisions available on our website. Over the course of the year, we have made a particular effort to say more about our efforts around sustainability and stewardship. As long-term investors, we have always believed that all facets of a company's business, culture, governance, and operations must be considered in building an investment case and that ongoing engagement and proxy voting has always been part of the job as an investment manager at Walter Scott.

Through research reports, filmed interviews, and more formal reporting, we hope that our website now gives a much fuller picture of what we do, outlining the integrated approach that we have always considered critical to long-term, buy-and-hold investment.

We will continue to do more to share our work, to evidence our commitment and our progress across sustainability and stewardship. This report forms part of that important effort. The Board of Walter Scott remains fully committed to the objectives and ethos of the UK Stewardship Code and the important work of the Financial Reporting Council in raising standards across our industry.

Jane Henderson, Managing Director

Edinburgh, March 2022

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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 defined investment criteria. This places as much importance on management talent, operational efficiency, rigour and best practice, governance and culture as it does financial metrics.

CONSIDERED

With a long-term investment horizon and a highly considered, and reflective, investment process, we take time to consider every investee 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 is integral to our research and decision-making. With our focus on 'bottom-up' research, our investment process is deliberately structured to discard 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 investee company and its industry in order to seek out the issues that 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 as 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

PURPOSE & GOVERNANCE

PRINCIPLE 1

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

PRINCIPLE 2

Signatories' governance, resources and incentives support stewardship.

PRINCIPLE 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

PRINCIPLE 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

PRINCIPLE 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

PURPOSE, STRATEGY & CULTURE

Walter Scott was founded in Edinburgh in 1983 as a global equity investment manager serving institutional clients around the world. An early focus on the UK subsidiaries of US companies led to the development of a broad institutional client base in North America and then later around the world. Walter Scott now manages £78.6bn* in assets for institutional clients and distribution partners in all major regions.

The firm has maintained its investment philosophy and process, deliberately and consistently. A long-term investment outlook underpinned by rigorous research and highly selective investment are hallmarks of Walter Scott's approach. Team-based research and investment decision making are also critical characteristics with members of the research team responsible for all aspects of company analysis, as well as engagement and proxy voting.

Edinburgh has remained Walter Scott's home since 1983, adding a client service presence in Boston in 2019.

Our history and strategy

In 1983, the ambition of the three founding partners was to be not the biggest but the best. To achieve that aim the partners laid out a strategy that would focus on global equity investment that was both highly selective and long term. An investment framework was created whereby each company, regardless of country of domicile or sector, would be analysed and assessed in the same way with demanding criteria around both qualitative and quantitative factors. From the outset, considerations such as governance and integrity, and the quality of management were researched and considered alongside financial strength and growth metrics. Walter Scott's investment team follows the same framework today.

The firm's team approach is another enduring hallmark of the firm. Investment research is collaborative and investment decisions are made collectively by the same team across all strategies. It is incumbent on every member of the team to challenge new investment ideas as well as existing holdings and all contribute to investment discussion, debate, and decision-making. As a consequence of our belief in teams and the bringing together of varied perspectives and experience in reaching an investment view on a company's long-term outlook and prospects, Walter Scott has always recognised the need to build diverse teams. The value that comes from diversity has also long been appreciated and more recently there have been concerted efforts to pursue ongoing improvement across Diversity, Equity and Inclusion.

*As at 31 December 2021.

"At Walter Scott, stewardship is the responsible allocation, management and oversight of capital to create long-term value for our clients and beneficiaries, which also provides sustainable benefits for the economy, the environment and society."

WALTER SCOTT STEWARDSHIP POLICY

OUR PURPOSE

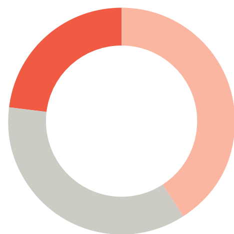
Since Walter Scott was established in 1983, our purpose has been to build prosperity through considered long-term investing. We believe the interests of our clients, stakeholders and broader society are best served by an active investment approach that prioritises responsibly managed companies capable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

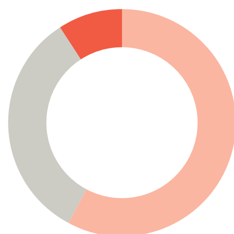
With that well-defined and consistently pursued investment approach, the firm's stated objective has also remained unchanged; that objective is to achieve a real rate of return of 7-10% annualised over the long term. Our 'buy and hold' investment approach rests upon a long-term holding period allowing companies to grow over industrial and market cycles allowing the compounding of returns over time. So too, therefore, the returns we seek to deliver for clients are long-term in nature.

From the firm's early days, the founders were acutely aware that investment performance can only ever rely on best efforts, whilst recognising that in terms of client service and administration, there could be no excuse for anything less than excellence. On that commitment the firm's business strategy was born with a focus first and foremost on existing clients. Much of the firm's success over time has come from that starting premise and those values continue to shape the firm's strategy today. Clients where tenure exceeds 10 years account for 64% of the firm's assets under management, a pattern that has been consistent over time with additional funding from existing clients having been an important part of the firm's growth.

ASSETS UNDER MANAGEMENT



AUM by Region
- Americas – 41%
- EMEA – 36%
- Asia Pacific – 23%



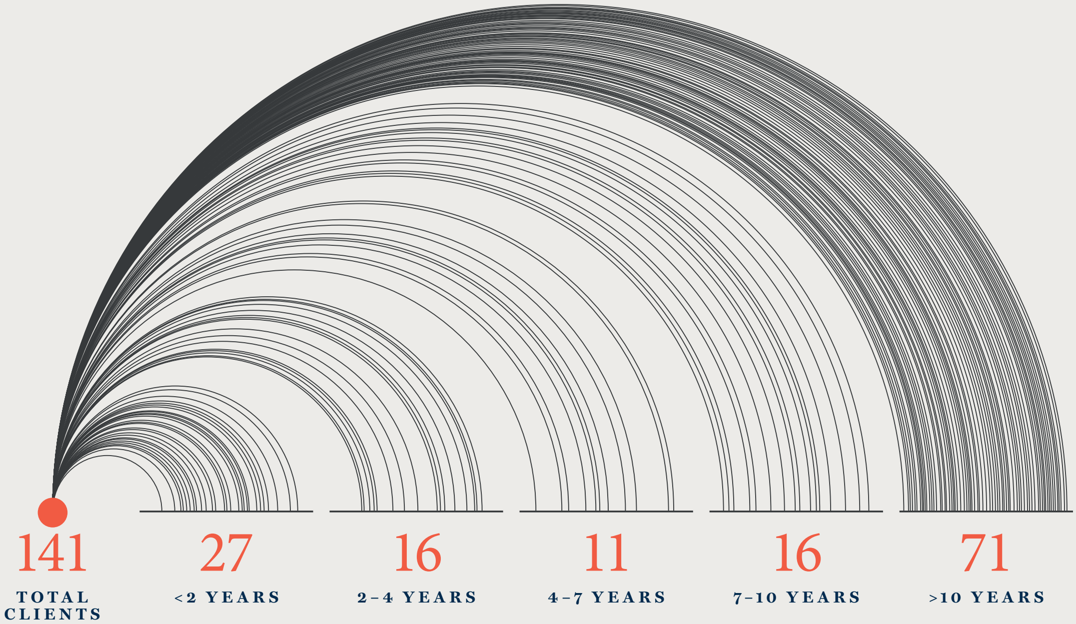
AUM by Product
- Global – 58%
- EAFE/International – 33%
- Other – 9%

As at 31 December 2021.

Client tenure

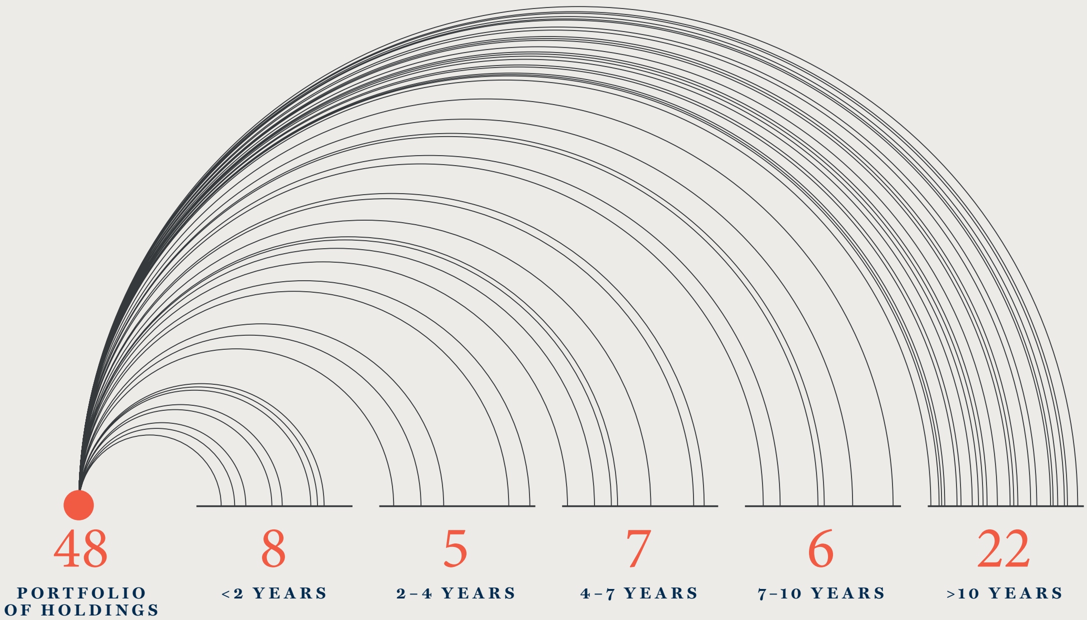
We are very proud of our record in retaining clients over time and believe it demonstrates the success of our efforts to offer excellence across all aspects of our business. Of course, we are not complacent, and we believe that success also reflects our continued efforts. It also reflects our commitment to listen. Another advantage of long client tenure is the opportunity to

CLIENT LONGEVITY



As at 31 December 2021.

BUY AND HOLD



As at 31 December 2021. Source: Walter Scott. A representative USD based global portfolio was used to illustrate this. Stocks sold and then re-purchased only include the duration held since most recent purchase.

meet with clients over many years which in turn, we believe, fosters meaningful conversation. That allows an exchange of views but also the chance to hear feedback on how we might improve our client service and communication in particular. Over the past year we have continued our efforts to increase our communication around our approach to responsible investment as well as sharing our research around sustainability.

Culture

Walter Scott's consistently applied investment philosophy and process, alongside its consistent client-first business strategy have been key pillars in the firm's success. The firm's culture has also played an important role in that success, a culture set out by the firm's founders, and which very much endures today. That strong and distinctive culture has, of course, not endured through mere chance, instead it has been protected and maintained by staff. Long-tenure of staff is another defining characteristic of the firm and one that has played an important part in the firm's cohesive, collegiate, and meritocratic culture. Of the nine-strong Executive Management Committee, 6 members have worked at Walter Scott for longer than 10 years, and four of those individuals for over 25 years. Similarly, of the 21 individuals that make up the core investment team, 11 have worked at Walter Scott for over a decade and three for more than 25 years. That said, here again, the Board and senior management recognise the need to work hard to maintain that record of tenure, appreciating the need to protect Walter Scott's culture whilst also ensuring it is appropriate today in fostering a diverse, equitable and inclusive environment for new recruits as well as longstanding team members.

Inaugural culture survey

In the first quarter of 2021 Walter Scott undertook its first Culture Survey with responses from 85% of employees. The results were reassuringly positive and those results alongside the immediate next steps were communicated to all through a series of briefings. In the feedback provided as part of the survey there were two consistent themes. The first centred on an interest in more clarity and structure around career development and the second a wish for some continuation in the home working practices that were established due to Covid-19 related restrictions on office work.

On the first of those themes, a more defined career development framework was designed, implemented, and supported by training sessions tailored for managers and for all other staff. On the second, a wish to maintain some aspects of working-from-home, a Hybrid Working Policy was developed and communicated to all. This Policy came into effect in early 2022 and was supplemented by management development and training focussed on leading hybrid teams.

Diversity, Equity and Inclusion

As a business with a team-structure at its core, Walter Scott's management have always appreciated the need to build a diverse team. Furthermore, training as an investment manager has always been viewed by the firm as akin to an apprenticeship with experience of market cycles and patterns a valuable input to discussions and decisions. Therefore, attracting and retaining a diverse group of individuals has always been critical. Reflecting that awareness and the need to continue to do more and improve on the firm's broader diversity credentials a Diversity, Equity and Inclusion (DEI) Working Group was formed in the second half of 2021.

1983
—CONSISTENT—
Long-term investment philosophy and research-led process consistently followed

100%
—INSTITUTIONAL—
Client base 100% institutional

—GLOBAL—
Sole focus global equities

167
—EMPLOYEES—
Investment team of 21 professionals and 167 employees in total

2006
—SUBSIDIARY—
Wholly owned subsidiary of BNY Mellon Investment Management since 2006

9
—YEARS—
Average length of client relationship

As at 31 December 2021.

64%
—OF AUM—
managed for clients with tenure > 10 years

30%
—OF AUM—
managed for clients with tenure > 15 years

As at 31 December 2021.

> *"Walter Scott's consistently applied investment philosophy and process, alongside its consistent client-first business strategy have been key pillars in the firm's success."*

The Group reports to the Executive Management Committee biannually, making recommendations and implementing agreed actions. One of the Group's initial tasks was the preparation of a Diversity, Equity and Inclusion Statement. This was adopted by the Executive Management Committee in December 2021 and is available on the firm's website.

DEI Statement

The Group is also responsible for our work with partner organisations which provide valuable assistance in widening our recruitment efforts. Walter Scott currently works with a select number of diversity partners to help attract a diverse range of applicants. It is expected that this network will increase further in 2022.

Future initiatives

As in 2020, over the course of 2021 time and resource was dedicated to supporting staff contend with the many facets of the Covid-19 pandemic and the impact on their working and home lives. Senior management continued to regularly check-in with staff and efforts were made to accommodate those working from home as well as allowing those who needed an office environment, for work or personal reasons, to work safely and within the restrictions at the time. The firm's mentor programme offered another avenue of support. Five staff members also qualified as Mental Health First Aiders during 2021 and ongoing training and support for those individuals will continue in 2022. Walter Scott will also continue to offer all staff more general support and wellness programmes around the ongoing challenges related to the Covid-19 pandemic alongside the adjustment for many in a return to office working.

Learning and development remains an important goal with training for all members of staff regardless of seniority. In 2021, training programmes were introduced specifically to help develop our culture and sense of inclusion with courses including Courage to Lead, Development Planning, Resilience, Career Development, Leading Hybrid Teams, Hybrid Team Development and Team Building. Those programmes will continue in 2022 with more advanced courses made available.

Our communities

Through the Walter Scott Giving Group, the Board of Walter Scott endeavours 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.

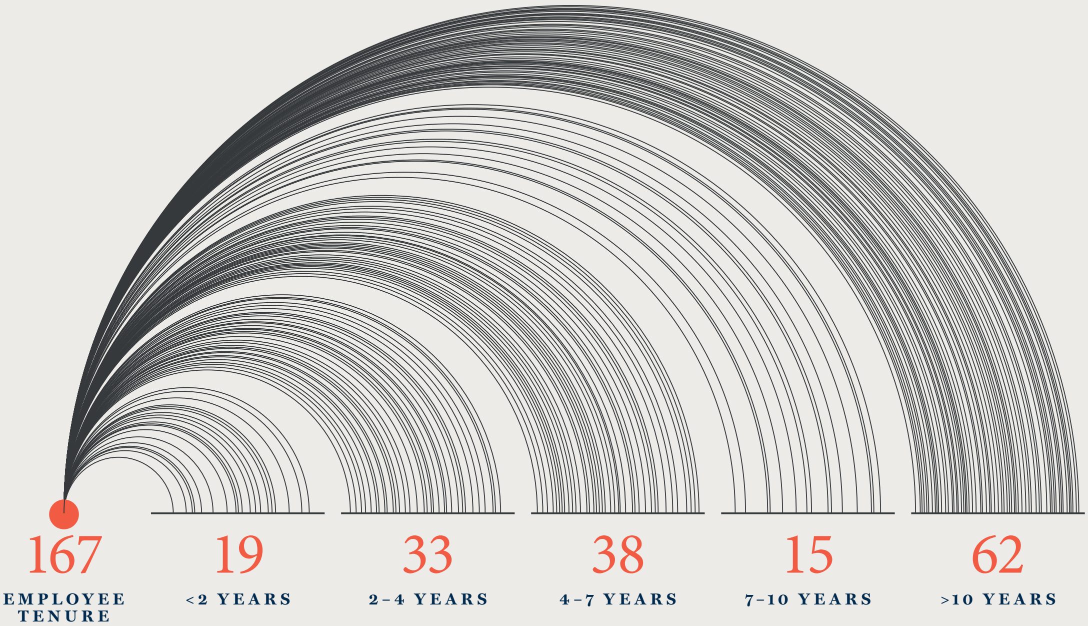
The Group's ambition is to support local charities that focus on community, education and health. Through multi-year commitments to a number of charities, it is hoped a meaningful difference can be made. The Group has eight members from across the firm's operations and of deliberately varied levels of seniority.

Just as the firm put in place additional resource and support for staff contending with the impact of the Covid-19 pandemic, so supporting charities in our local communities cope with the challenges of the pandemic was a focus of the firm's charitable donations in 2021.

Sustainable practices

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

EMPLOYEE TENURE



As at 31 December 2021.

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.

OUR RECRUITMENT 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

SUPPORTING DEVELOPMENT (2021 COURSES)*

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

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

emissions, offsetting residual emissions and developing calculation methodologies for further emissions.

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 continue to achieve at least net zero going forward.

GOVERNANCE, RESOURCES & INCENTIVES

Ownership
Walter Scott is a 100%-owned subsidiary of BNY Mellon as one of a number of investment boutiques within its Investment Management division. The firm operates autonomously within that structure with BNY Mellon representation on the Walter Scott Board of Directors. The Board consists of a non-executive Chair, four executive directors, including Walter Scott's Managing Director and two non-executive directors, one an independent non-executive director and the other the CEO of BNY Mellon Investment Management.

Governance
We expect a lot of the companies in which we invest on our clients' behalf. We must apply that same high bar to our own business, its practices and governance. Effective and appropriate governance is critical in the effective stewardship of our clients' capital.

In our inaugural 2020 Stewardship Code Response, we outlined a number of enhancements that had been taken by Walter Scott's Board to further strengthen our governance framework. As part of that effort and aligned with greater articulation of responsibilities under the UK SMCR rules, the Board committee structure has been both streamlined and enhanced. That Board-level commitment to ongoing refinement in governance structures and processes remains unchanged and during 2021 responsibility for the firm's ESG Framework was added to the Statement of Responsibilities of the firm's Managing Director. Further to establishing the ESG Project Steering Group and Sustainability at Walter Scott Group in 2020, several additional working groups were set-up in 2021 to meet project deliverables. The Investment Stewardship Committee was also created in early 2021 replacing the previous Proxy Voting Group, with added responsibilities around stewardship and engagement. Aligned to that new structure, responsibilities were also allocated amongst the team.

Hilda West assumed additional responsibilities around sustainability becoming Head of Investment Operations and Sustainability to lead efforts across our business and bring teams together to improve our own practices and operations whilst also overseeing the investment and research related aspects of sustainability in its broadest sense. Hilda West also chairs the ESG Project Steering Group.

Whilst retaining Stock Champion responsibilities and being very much part of the Research team, in keeping with our integrated investment and research approach, Alan Edington passed his previous role as Co-head of Research to Alan Lander and assumed a newly created role as Investment Manager – Responsible Investing. Alan Edington is now responsible for championing our research efforts across sustainability and stewardship, supporting and directing the Research team. Alan Edington also Chairs the Investment Stewardship Committee.

Annual review
The more formal structures and new roles around responsible investing and stewardship were implemented at the beginning of 2021. With more resource and greater definition of responsibilities we were able to meet an increase in the number of requests from clients for information, analysis and commentary over the course of the year. The new structures also allowed us to more efficiently meet regulatory milestones. Looking over the year, working through new and emerging regulation was the most significant area of work across the various project and working groups.

Looking to 2022, we expect regulatory developments to continue to require notable resource. We are, however, confident that we are well-placed to address this work and adapt as interpretation of the myriad of important new rules moves from analysis to implementation.

Another area of work in 2021 that will certainly continue in 2022 is in relation to data. Accessing robust and consistent data has been a material challenge for Walter Scott as it has been for the investment management industry. In response to increasing client and regulatory demand for climate scenario analysis and climate metrics at portfolio and index level, we trialled several third-party climate data providers. The trials highlighted the challenges facing all providers in gathering complete data sets that meet regulatory requirements as a result of

"We expect a lot of the companies in which we decide to invest on our clients' behalf. We must apply that same high bar to our own business, its practices and governance."

GOVERNANCE

As at 31 December 2021.

poor disclosure by investee companies. As a result of the trial, a decision was made to engage with a third-party provider to access Principle Adverse Impact (PAI) data and other climate data metrics in line with Sustainable Finance Disclosure Regulation (SFDR) requirements. The project team are currently analysing how this data may be integrated and utilised.

With much to do in 2022 we should also continue to benefit from the team structures and resource introduced in 2020 and bedded in during 2021. Building an integrated structure, mirroring our integrated investment approach, perhaps demands more time at the outset than setting up a new, standalone team focused on sustainability and stewardship, but we continue to believe that it is the most appropriate and effective structure for Walter Scott. 2021 saw improved information flow across the many aspects of sustainability and stewardship and we also saw the early benefits of being able to move resource across working groups at different stages, allowing us to meet the set project milestones for the year across regulatory requirements, industry initiatives and client requests. Combining resource from Investment Operations, Finance, Compliance, IT and Communications with resource from our Research team has proved very effective. Similarly, with regards to oversight, bringing together senior members of staff, including senior Research team members, has, we believe, been a critical factor in our success in 2021. We are confident that our project structure is well positioned to support our collective efforts to meet ongoing regulatory changes and greater client needs across this important, broad and fast-evolving field.

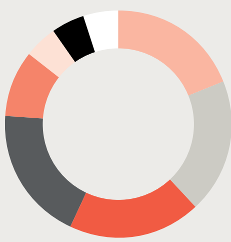
“We are confident that our project structure is well positioned to support our collective efforts to meet ongoing regulatory changes and greater client needs across this important, broad and fast-evolving field.”

INVESTMENT EXECUTIVE AND RESEARCH TEAM

Team
- Directors
- Co-heads of Research
- Investment Manager
- Investment Analyst

Tenure (years)
- 0-5
- 5-10
- 10-15
- 15-25
- 25+

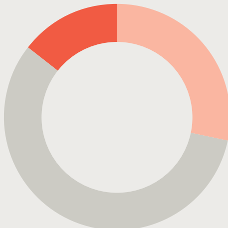
Gender
- Male
- Female



Faculty (undergraduate)
- Science
- Economics
- Mathematics
- Law
- Management
- Engineering
- Accounting
- History

As at 31 December 2021.

BOARD OF DIRECTORS

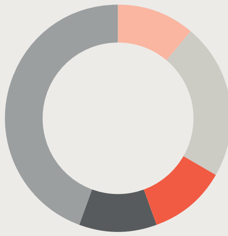


Position
- Non-executive Director
- Executive Director
- Non-executive Chair

Gender
- Male
- Female

EXECUTIVE MANAGEMENT COMMITTEE

Chair, Managing Director
Member, Executive Director, Investment
Member, Executive Director, Investment & Client Service
Member, Executive Director, Investment Operations
Member, Chief Compliance Officer & Head of Risk
Member, Head of Governance & Operations
Member, Head of Client Service
Member, Head of Finance
Member, Head of Marketing & Strategic Communications



Tenure (years)
- 0-5
- 5-10
- 10-15
- 15-25
- 25+

Gender
- Male
- Female

INVESTMENT MANAGEMENT COMMITTEE

Co-Chair, Executive Director – Investment & Client Service
Co-Chair, Executive Director – Investment
Member, Co-Head of Research
Member, Co-Head of Research
Member, Investment Manager
Member, Investment Manager
Member, Investment Manager
Member, Head of Investment Operations & Sustainability
Member, Executive Director – Investment Operations
Member, Head of Dealing
Member, Senior Portfolio Implementation Manager
Member, Managing Director
Member, Chief Compliance Officer & Head of Risk
Member, Head of Governance & Operations
Member, Head of Client Service

Tenure (years)
- 0-5
- 5-10
- 10-15
- 15-25
- 25+

Gender
- Male
- Female

As at 31 December 2021.

REGULATORY TIMETABLE

2019
Shareholder Rights Directive II
Effective June 2019

2020
UK Stewardship Code 2020
Effective January 2020

2021
Sustainable Finance Disclosure Regulation (SFDR) Level 1
Effective March 2021

2022
UK Green Taxonomy
Initial requirements in force by end of 2022

2022
MiFID II Delegated Act
Expected to apply from August 2022

2022
FCA Sustainability Disclosure Requirements (SDR) and investment labels
FCA consultation expected Q2 2022

2023
FCA Climate Disclosure Regime
First disclosures by June 2023

2023
EU Taxonomy Regulation
Initial requirements are effective January 2023

2023
Sustainable Finance Disclosure Regulation (SFDR) Level 2
Effective January 2023

ESG Project Steering Group
The ESG Project Steering Group ensures adequate governance, oversight and challenge of the firm's ESG project activities and compliance with the firm's related policies. The Group has responsibility for overseeing the implementation of key ESG regulations and initiatives.

> *"The publication of this report was a significant milestone for the firm but we also recognise the report is in effect an important first step and further work on data and evidence is a priority for 2022."*

This Group, its direct report, the ESG Project Group and the six associated working groups successfully addressed multiple regulatory initiatives over the year. The ESG Project Group has oversight of those working groups ensuring work is prioritised and resourced sufficiently.

Refer to summary of ESG Working Groups below

Sustainability at Walter Scott Group
We have made encouraging steps forward in addressing Walter Scott's own environmental profile. This group, that reports into the firm's Executive Management Committee, has led much of that work, setting targets and monitoring success. The work around Diversity, Equity and Inclusion and Giving also falls under the broad remit of this Group. Across all these activities, plans are in place to do more in 2022, to further improve our practices whilst also improving data gathering and measurement to ascertain success and set future targets. With regards to environmental improvements more specifically, having captured data on scope 1 and 2 emissions, that work will now be extended to suppliers as we also begin to gather fuller data on scope 3 emissions. The preparation and data gathering allowed us to issue the firm's first Response to Climate Change, in alignment with the TCFD framework. The publication of this report was a significant milestone for the firm but we also recognise the report is in effect an important first step and further work on data and evidence is a priority for 2022.

Our Response to Climate Change

Investment Stewardship Committee
The establishment of the Investment Stewardship Committee (ISC) was

PURPOSE, GOALS AND PLANS OF ESG WORKING GROUPS

Working Group	Purpose
Integration	To evaluate how we integrate and evolve our investment process to align ourselves with regulatory developments and client requests.
Policy	Identification and analysis of regulatory and market developments to determine relevance to the business and to coordinate implementation.
TCFD	To ensure appropriate governance structure is implemented for the consideration of climate-related risk and opportunities across the business and, the identification and development of metrics to enable the assessment and management of impacts. Entity level reporting to be aligned with TCFD framework.
System Changes	To identify and capture relevant requirements to allow us to build, test and implement solutions which will automate, where possible, additional and extended process developments.
External Messaging	Refresh our messaging around ESG and Responsible Investing to ensure clear, consistent, verifiable content is delivered externally.
Client Requests	To review client sustainability requests, prioritise and then deliver solutions.

INVESTMENT STEWARDSHIP COMMITTEE

The Investment Stewardship Committee oversees the implementation of the firm's stewardship activities and compliance with the firm's related policies. The Committee is responsible for:

(a) assessing and ensuring the quality and consistency of the firm's corporate and regulatory engagement
(b) monitoring voting decisions and records to ensure consistency with the firm's voting policy and guidelines
(c) reviewing decisions taken in relation to significant votes
(d) validation of responses to industry codes
(e) taking decisions in relation to any stewardship matters that have been escalated for its consideration
(f) reviewing and addressing any conflicts of interest relating to stewardship
(g) reviewing related policies and procedures as and when required.

The Committee has representation from Investment Research, Investment Operations, Client Service and Compliance.

amongst the most significant enhancements to our investment oversight during 2021. The Committee meets quarterly with ad hoc meetings when required. The Committee has assumed the responsibilities of its predecessor Proxy Voting Group whilst also being structured to both strengthen oversight of the proxy voting process and encourage greater discussion around particularly complex, or topical, items and issues. The ISC 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.

Investment team

The core Investment team comprises the Investment Executive and the Research team. The Investment Executive is comprised of the firm's Managing Director and two Investment Directors*. The Research team consists of Investment Managers and Investment Analysts who work collectively across all portfolios managed by the firm.

Stock Champion

Each stock held is championed by a member of the Research team. Typically, the champion will be the person that first proposed the idea and who is then responsible for monitoring thereafter.

The Research team is structured into three regional groups, with a combined group specifically tasked with looking at emerging market opportunities across regions, and as befits a global equity investment manager, individuals rotate amongst those teams. But stocks are not reallocated as individuals move between regions. Those with long careers at the firm will have spent time in all the teams and will thereby champion stocks across all regions, as well as across industries. Our investment approach is centred on finding global leading companies irrespective of geographical boundaries and industry classifications. It is important that our Research team have that same perspective. In the search for the best, they must be able to contrast and compare companies across the world.

The Stock Champion is responsible not only for analysis and research but also engagement and proxy voting. Furthermore, the Stock Champion is responsible for assessing, analysing and monitoring material risks and opportunities that make up an investment case. The firm, very deliberately, does not have a separate ESG team, believing that an integrated approach is much more powerful and effective.

Remuneration

Remuneration is an important part of the retention and motivation of staff and Walter Scott's approach to remuneration very much reflects its culture and its investment approach. Teamwork, contribution to team discussions and working with others to ensure the best client service, are all central to performance reviews. Beyond competitive base salaries, everyone in the firm shares an additional pool that is a percentage of the firm's annual profits. For the Research team, an individual's share of that pool is determined by a range of factors, and not solely, or indeed predominately, fund performance. Instead, that division will reflect an individual's own

> *"The Stock Champion is responsible not only for analysis and research but also engagement and proxy voting."*

*In the first quarter of 2022, two Investment Managers were added to the Investment Executive.

—CONSISTENCY—

Investment philosophy and research process applied consistently over time and across all portfolios

1

—TEAM—

One Investment team manages all portfolios, collectively

24

—MEMBERS—

Investment team consists 3 members of the Investment Executive and 21 members of the Research team

As at 31 December 2021

research and analysis, contribution to team discussions, responsibility for ESG research and stewardship with integration of sustainability risks, pursuit of innovative research, sharing of expertise and experience with other team members, as well as an evident commitment to ensuring that all aspects of the investment process meet the highest standards. In short, the proportion allocated to an individual will reflect the efforts that will underpin long-term success for the firm, not individual pursuits or any short-term target.

The relative weights of base salary and profit share move according to performance. The components of compensation will also vary from year-to-year depending on the level of operating profit. There is, however, no cap on profit share as a percentage of base salary. For directors and some senior staff, the majority of annual compensation comprises a share of the firm's profits. An element of this is deferred via a long-term incentive plan. This is primarily invested in a global equity fund of which Walter Scott is the investment adviser with the balance in BNY Mellon stock. Both have a deferral period which vests on a pro rata basis over four years. Walter Scott's compensation structure is designed to promote fair and equal treatment of all staff. The Board's Remuneration and Nominations Committee reviews and approves the annual salary and profit-share allocations based on the overall performance of the firm.

Knowledge sharing & training

Training and development continued over the course of the year. As part of the Research team's collaborative 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 and external experts participated in the Research team's ongoing training programme, with corporate fraud and retailer supply chains in emerging markets amongst the subjects covered.

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 in-person at COP26 in Glasgow and virtual conferences and seminars were very much part of the Research team's diary. Members of the Research team also attended virtual events hosted by the PRI and Global Ethical Finance and a virtual Sustainable Investment Festival.

In addition, across the firm a wide range of training programmes were offered during 2021 to build on and support the firm's culture and ethos which in turn supports a respectful workplace and thorough governance. A programme of regular Knowledge-Transfer-Workshops to which all staff are invited included sessions on risk and culture over the course of the year.

ADDRESSING CONFLICTS OF INTEREST

Putting clients first

Putting clients first is central to Walter Scott's culture and to its business strategy. That commitment and clarity of purpose dates back to the firm's founding in 1983 and remains a staunchly held belief. The results of our 2021 Culture Survey provide confidence that a commitment to putting clients first remains an important and understood aspect of the firm's ethos and day-to-day practices. 99% of those who responded to the survey agreed with the statement that the interests of our clients are paramount.

Our approach to conflicts of interest remains similarly unchanged and well understood. Conflicts of interest are inherent throughout the investment

> *"Putting clients first is central to Walter Scott's culture and to its business strategy."*

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.”

management business, therefore from the outset we have organised activities to ensure the interests of our clients are always placed first and avoids material conflicts of interest that cannot be managed in the best interests of clients. Our Conflicts of Interest Policy, available on our website, sets out our approach where conflicts are unavoidable.

➔ *Conflicts of Interest Policy*

As an equities-only manager with all members of the Investment team working collectively to manage all portfolios, the potential conflicts that might face more diversified investment firms or where strategies are managed separately by different individuals do not apply to Walter Scott. With regards to potential conflicts emanating from ownership or outside interests, the firm is 100% owned by BNY Mellon and there are strict compliance and review processes around any individual within Walter Scott taking on any external role, whether it is remunerated or not. With regard to personal trading, again Walter Scott's rules are robust, with investment discretion in single stocks prohibited. Where individual company shares have been bought prior to employment at Walter Scott any trading must be undertaken via a prescribed list of authorised brokers who in turn are required to report any trading activity to Walter Scott's compliance department. By assuming this strict position on personal trading, potential conflicts in this regard are significantly minimised.

Proxy voting

For us, potential conflicts mainly occur with regard to proxy voting. For every proxy, we check whether the

"Putting clients first is central to Walter Scott's culture and to its business strategy."

company is also a client. Where there are shareholder proposals, we also check whether the proponents are clients of the firm. During 2021, there were three potential conflict situations where voting was undertaken with regard to a company that is also a client. During the ISC meeting held in advance of the company's 2021 AGM, it was established that none of the proposals on the agenda were controversial and that management's recommendation on voting was being followed with the exception of two items that had the potential to lead to dilution of the firm's holding of greater than 10%. After consideration the Committee agreed that the proposed voting was in line with the Proxy Voting Policy.

2021 CASE STUDY

An investment in a US medical technology company where that company is also a client of Walter Scott.
Ahead of the AGM for that company and before any voting decision is finalised the Investment Stewardship Committee (ISC) meets to ensure that the proposal voting instructions are in-line with the firm's Proxy Voting Policy. Importantly, the ISC includes a senior representative from the firm's Risk & Compliance team.

Material Non-Public Information (MNPI)
In the course of shareholder engagement, Walter Scott may receive Material Non-Public Information (MNPI), although our approach and process is such that receipt of such information should be infrequent. Our process, which is communicated to all investee companies and their representatives, requires companies to send any material which is not in the public domain, and may therefore be MNPI, to Walter Scott's Risk & Compliance's electronic mailbox. This mailbox is only accessible by Risk & Compliance. On receipt of any such material, the Chief Compliance Officer, or alternate within Risk & Compliance will review the information. If it is considered possible that the material contains MNPI, it will be passed to a "Ring Fenced Team (RFT)" for further analysis. The RFT will be considered insiders while the information is being analysed. The RFT's analysis will determine whether the information is considered MNPI.

In the case of materials which are not considered to be MNPI, the material is passed to the relevant stock champion within the Research team and the RFT ceases to be considered as insiders.

If the information is considered MNPI, the RFT will continue to be an insider until Risk & Compliance determine that the information has become public or immaterial. Until such time the material will remain confidential and ring-fenced within the RFT. At that stage, Walter Scott as a firm will not be considered an insider, and will continue to trade as normal in all stocks. While considered insiders, members of the RFT will not attend any research-related meetings and will not discuss the investment of the relevant stock with any other Walter Scott employee, whether formal or informal. That will include the Stock Champions if they were in receipt of the information. In addition, members of the RFT who attend the weekly Investment Management Group meeting or the more formal quarterly meeting of the Investment Management Committee should excuse themselves from the meeting if a stock is to be discussed for which they are in possession of MNPI.

SUPPORT OF WELL-FUNCTIONING MARKETS

Recognising our role
We recognise that all investment firms must play a part in encouraging well-functioning markets and financial systems. Despite our size we do believe it is incumbent upon all to proactively collaborate to address challenges and improve standards where possible.

Through our membership of the Investment Association we continue to participate in a number of industry initiatives and working groups in relation to responsible investing, sustainability and TCFD. We have also collaborated with our parent, BNY Mellon Investment Management to respond to a number of consultations over the course of the year:

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 provided feedback as part of the groupwide response from BNY Mellon Investment Management. We noted that data gaps would be an issue as we would not look to create a proxy and highlighted the increased reliance on third-party providers as more quantitative data is required. We highlighted the difficulties in setting climate-related targets driven by lack of data and, in one case, a lack of client mandate. We also noted that we think a comply or explain approach ignores the complexity of the issues.

IOSCO Consultation Paper: Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management

We submitted feedback to the Investment Association as part of its response to this consultation paper. The feedback from the IA was supportive of a co-ordinated approach to ensure consistency globally and highlighted that a lack of definition on sustainability is an issue in terms of "greenwashing". The IA also raised the point that adding an ESG label to a product in order to be sustainable would have unintended consequences.

Department of Labor, ESG rule

Following on from our collaboration with BNY Mellon in Summer 2020 to provide feedback on the Department of Labor (DoL) proposed rulemaking entitled "Financial Factors in Selecting Plan Investments", a further letter was sent in 2021 with comments on the notice of proposed rulemaking entitled "Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights". We welcomed the clarifications on the current rules regarding the use of ESG factors and the DoL's acknowledgement that climate risks and other ESG factors can be, and often are, material to investment risk and returns. Our feedback noted that the Department could add clarity to the rule by clarifying that the proposed rule does not per se prohibit a fiduciary from using a screen on investments that may be based on ESG Factors.

FCA Discussion Paper 21/4: Sustainability Disclosure Requirements and Investment Labels

We worked with BNYM Investment Management who in turn submitted a co-ordinated response from all the BNYM investment boutiques. Some of the key points we made were to ensure consistency with other regulations and to allow mapping and alignment with SFDR and TCFD. We welcomed the FCA's efforts to map to the EU SFDR product categories, however, we fed back that more thought should be given to how the 'Responsible' category maps to SFDR. Whilst the discussion paper noted that 'Responsible' is mapped to SFDR Article 8, many UK funds that currently integrate ESG considerations have been classified as Article 6 funds rather than Article 8 funds. It was also noted that the proposed product label classifications could cause confusion for consumers as the labels may have different meanings for different participants. For example, the 'Responsible' label category could be misinterpreted to be more sustainable than a 'Transitioning' or 'Aligned' fund.

Systemic risk

The simplicity of our business and its focus on listed equities alongside our investment approach that rests on the merits of individual companies and their long-term outlook, without any top-down or macro-economic overlay, limits what we can do regarding systemic risk. We do not have a house view on interest rates, currency rates, geopolitical risks or any other potential systemic risk. We do, however, consider all those risks in the context of individual companies. As long-term investors, it is critical that we fully understand those risks and not only the direct impact of potential change but also understanding and analysing second and third order impacts. Over 2021, work to test all companies held for clients against a range of risks associated with the enduring Covid-19 pandemic continued from 2020. The Research team also undertook extensive work to understand the inflationary risks facing all companies held across portfolios and that work will continue in 2022 as inflationary pressures endure.

Climate risk

Where we believe we are better placed to act and play a role in addressing systemic risk is in regard to climate risk. We continued to support the ongoing initiatives of both CDP and CA100+ during 2021, leading collaborative engagement efforts in a number of instances. Within our investment framework, we have enhanced our processes to ensure consistent and effective consideration of climate risk. Our framework now incorporates climate data to allow us to track and compare emissions routinely and consistently where the data is available. In 2021 we also undertook a team-wide effort to assess investee companies' alignment, or otherwise, with TCFD reporting recommendations. At the beginning of the year, the conclusion of a research project around carbon added further evidence and knowledge to our assessment of climate risk.

Carbon Project

In early 2021 Walter Scott's Research team shared the conclusions of a major collaborative project around carbon. One of the initial objectives of the carbon project was to build the collective knowledge of the research team about what is undoubtedly an exceptionally important topic. Climate action will intensify over our investment horizon, so understanding what that means for our companies must be a crucial component of our analysis. Having taken the time to challenge previous assumptions, consider the latest thinking across a range of perspectives and collectively discuss the

> *"We recognise that all investment firms must play a part in encouraging well-functioning markets and financial systems."*

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

many facets of the carbon debate and its infinite ramifications, we are certainly now in a better position when it comes to analysis. On a practical note, we have enhanced our research process to improve the documentation of risks and opportunities associated with climate change, and we now have a stronger foundation to look for companies that will meet our investment criteria. We recognise that a company's direct emissions are not nearly as important as its contribution to the overall system. Our flexible, considered assessment accommodates this more nuanced approach. We believe 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. Companies that are not relevant, face growing risks in our view.

Whilst momentum for change may have intensified, the issues of climate change are not new. We have long considered its impact on the companies in which we invest. Emissions-intensive businesses are scrutinised by our Research team in order to understand their sustainability in a world seeking to limit global temperature rises. However, with climate action set only to intensify over our investment horizon, climate change must be an increasingly important point of consideration for each and every investment. It was in this context that the Research team embarked on an in-depth research initiative with the goal of building on our collective knowledge, in particular the strategies and technologies that will shape the transition to a lower carbon economy in the coming decades. Over the course of 18 months, a dozen members of the Research team were directly involved in the project, researching different topics and sharing their findings through detailed presentations and discussion with the rest of the team.

Uncoupling carbon emissions from economic growth is no easy task. Energy is the fuel that powers economic development. Moreover, cheap and reliable energy (like that provided by carbon-intensive fossil fuels) remains critical in lifting the world's poorest people out of poverty. Decarbonisation cannot become a barrier to such progress. Accepting that the world's population will continue to grow, and that all of its inhabitants should have the opportunity to improve their economic fate over time, the world must become less carbon intensive.

We also considered innovation. All too often, in our view, investment-related discussions in this area focus on the risks, identifying those companies with most to lose and then determining whether those risks warrant divestment. Of course, this is a necessary debate but, for a long-term investor, the significance of the coming energy transition lies in investment, not divestment. The scale of investment required to decarbonise the global economy over the next 40 years is colossal. From technologies that already have traction from a commercial standpoint, such as renewable power generation, electric vehicles and green building materials, to others that remain in development today, but will ultimately form part of the solution, such as hydrogen and carbon capture and storage. Investment in all of these areas needs to be at scale and at pace. This will undoubtedly create a plethora of investment opportunities in the years ahead. What is clear today is that in order for a company to deliver long-term growth and sustainably high levels of profitability, it must be relevant in the context of the journey to a carbon neutral global economy on which the world has now embarked.

➔ *Carbon project*

Approaching investment risk
Our principal mindset is to protect our clients' hard-earned savings and capital. Secondly, we are investing in companies, so we need to understand their ability to deliver on our objective in terms of providing 7–10% real rates of annualised return over time. So, the risk from a portfolio perspective is that we are not able to maintain the purchasing power of those assets over time. And from an investment standpoint, we manage risk through our research. It is literally company decision by company decision.

What, we believe, differentiates Walter Scott is the depth of our research using a number of tools to make companies comparable across sectors and geographies. For us, the other differentiator is the long-term nature of

"Whilst momentum for change may have intensified, the issues of climate change are not new."

what we do. We combine the 'big picture' with granular consideration of risks and opportunities. This helps us to understand what the business is likely to do and how it is likely to perform over the long term.

The role of the investment manager or analyst is to identify and understand the potential risks in any investment and explain them clearly to the rest of the team, so in turn they can come to a measured conclusion about those risks. No company is risk-free, so it is about understanding the risks and thinking about them in the context of the wider investment case. There may be risks, and they will have a probability of occurring, but how comfortable do we feel about that probability? How exciting are the other attributes of the company?

There are risks in every facet of a business; the financial risk profile, the markets the company addresses, its customers and the way the company is run.

Data does help in our analysis, but in our view it is wrong to assume that ever-more data will provide the answer. Our focus is on understanding the financial profile and the qualitative aspects of the business, applying our judgement in assessing the available data. The same mindset is applied when meeting companies. The financial analysis is used as a toolkit for asking questions and understanding the risks implicit in the business.

To invest in any company, everyone in the team must be convinced of the investment case. The team is composed of a deliberately diverse group of people with different perspectives. To convince everyone is difficult and our process is intentionally conservative in that respect. It is designed to ensure we really understand a business and avoid unnecessary risk. It is also designed so that when we see an opportunity, it is one that a broad range of people fully understand and have conviction in.

"What, we believe, differentiates Walter Scott is the depth of our research using a number of tools to make companies comparable across sectors and geographies."

For more on this subject, an article titled, "The Risk Calculators" is available on our website.

The Risk Calculators

ONGOING REVIEW & ASSURANCE

Overview

The terms of reference for all Board committees include the need to regularly review applicable policies to ensure not only effectiveness but that they remain in line with best practice.

Following an in-depth review of activities, structures and policies related to responsible investment during 2020, 2021 saw the amalgamation of our previous Proxy Voting, Engagement and ESG Policies into a Responsible Investing Approach document. As part of that work, we also expanded on various aspects of those previous policies with the aim to give a more detailed perspective on why we take a particular approach, for example in regard to voting against particular situations that frequently arise in proxy voting.

Responsible Investment Approach

Sustainability Risks Policy

The EU Sustainable Finance Disclosure Regulation (SFDR) came into effect in March 2021 imposing transparency and disclosure requirements on EU financial market participants in respect of the integration of sustainability risks. As a UK regulated firm, Walter Scott is not directly subject to SFDR as a matter of UK law. However, in anticipation of the introduction of similar rules in the UK at some point in the future, we are supportive of many of the principles of SFDR and, accordingly, we have opted to implement high-level SFDR requirements on a voluntary basis.

In March 2021, we implemented a Sustainability Risks Policy setting out our process in respect of the integration of sustainability risks in our investment decision-making process, as required by the SFDR. Under SFDR, "sustainability risk" means an environmental, social or governance ("ESG") event or condition that, if it occurs, could cause an actual, or a potential, material negative impact on the value of an investment. The Policy therefore approaches sustainability risk from the perspective of the risk that ESG events might cause a material negative impact on the value of our clients' investments.

Sustainability Risks Policy

Proxy Voting Policy

In establishing the Investment Stewardship Committee (ISC), its remit was made deliberately wide to allow for broad oversight and direction regarding themes that might be applicable across companies that either emerge from our own research or become evident within AGM shareholder proposals or through industry advocacy and pressure-groups. In regard to

"With a wish to ensure that the Proxy Voting Policy remains clear and effective, and therefore concise, work has begun around a proxy voting guidance document that would accompany the policy."

decisions around proxy voting, Walter Scott's Proxy Voting Policy provides specific guidelines and overarching principles that the stock champion can then apply in determining voting action and that the ISC can use as reference point to assess more contentious items. With a wish to ensure that the Proxy Voting Policy remains clear and effective, and therefore concise, work has begun around a proxy voting guidance document that would accompany the policy. This guidance would aim to effectively capture individual decisions, building precedence that we can refer to when the same or similar items arise with another company. The guidance would therefore be an efficient starting point for discussions around contentious items whilst also ensuring consistency, or documentation around a change in approach.

To read more, page 48 (Principle 12)

Reporting
Walter Scott's four-strong investment writing team have over 100 years of investment management industry experience between them, with thirty years of investment research and fund management experience, as well as time in client service roles with a focus on UK financial intermediaries and advisors. Outside investment management the team have also worked in journalism, financial PR, and investor relations.

That depth of experience and knowledge underscores Walter Scott's commitment to communication that is clear, informed and, hopefully, engaging. It also ensures straightforward language, alongside insightful examples of the firm's approach and current thinking. Reflecting Walter Scott's investment approach, the focus of our communication in all forms, be it timetabled reports, articles or videos, is to share the Investment team's work, in terms of its research and stewardship alongside updates on the companies held across portfolios. Equally, Walter Scott's investment process has always placed great store in learning from mistakes, as a team, acknowledging that growth for any company is rarely linear. Our communications also endeavour to reflect that learning, by providing examples and thoughts on the challenges and uncertainties facing company investments as well as sharing updates on innovation and growth.

In recent years, Walter Scott has added materially to its website, including written and video content intended to be accessible and informative. That drive to add more content explaining our approach as well as sharing the Investment team's views on important subjects, including carbon transition and stewardship, remains with further additions around careers and diversity planned for 2022.

Review and audit
We continue to believe that our own process for review and challenge are sufficient at this point. This report has been reviewed and signed off by Walter Scott's Managing Director and the Investment Stewardship Committee. With regard to our broader assurance and audit, in the second quarter of 2022, BNY Mellon Internal Audit will also review our processes in relation to stewardship activities, including this response to the Code, as part of its periodic Investment Management Audit.

INVESTMENT APPROACH

PRINCIPLE 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

PRINCIPLE 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

PRINCIPLE 8

Signatories monitor and hold to account managers and/or service providers.

CLIENT & BENEFICIARY NEEDS

Our clients
One of the things that we stress to any new client is that a key ingredient in our investment approach is time. With that need for time, comes our request of clients, that they afford us some patience. We define long term, as over the course of a business cycle, at a minimum. Our job is to analyse and understand companies and then select those that we believe are capable of long-term success. Long-term success requires many inputs, from competitive advantage to astute and visionary management. It also demands that a company does things the right way. Cutting corners, opting always for the cheapest option or mistreating employees or suppliers, are not the ingredients of long-term success, and wealth creation. Over the short term, these decisions might not be evident or might be forgiven by a company's customers or clients. Over the long term, failure to operate ethically, and responsibly, will not be tolerated and customers will simply move elsewhere. The same approach to both investment decision-making and stewardship is applied to all assets managed by the firm.

To read more, page 7 (Principle 1)

We have always understood that client service is critical. Significant resource is directed towards client service and client management, with efforts directed towards both reporting back on portfolio performance and long-term direction, and responding to, and where

209
—HOLDINGS—
209 listed equities held across regions and sectors

As at 31 December 2021.

possible anticipating, client needs. Our work over the course of this year regarding EU SFDR and EU Taxonomy has been not only to ensure that we are well-positioned to meet any future regulatory obligations, but also to enable us to assist our EU clients in their efforts to meet enhanced disclosure and reporting regulatory requirements. Our ongoing efforts around the enhancement of investment processes and reporting to meet SFDR Article 8 requirements have been prompted by EU client requests and our wish to meet those needs.

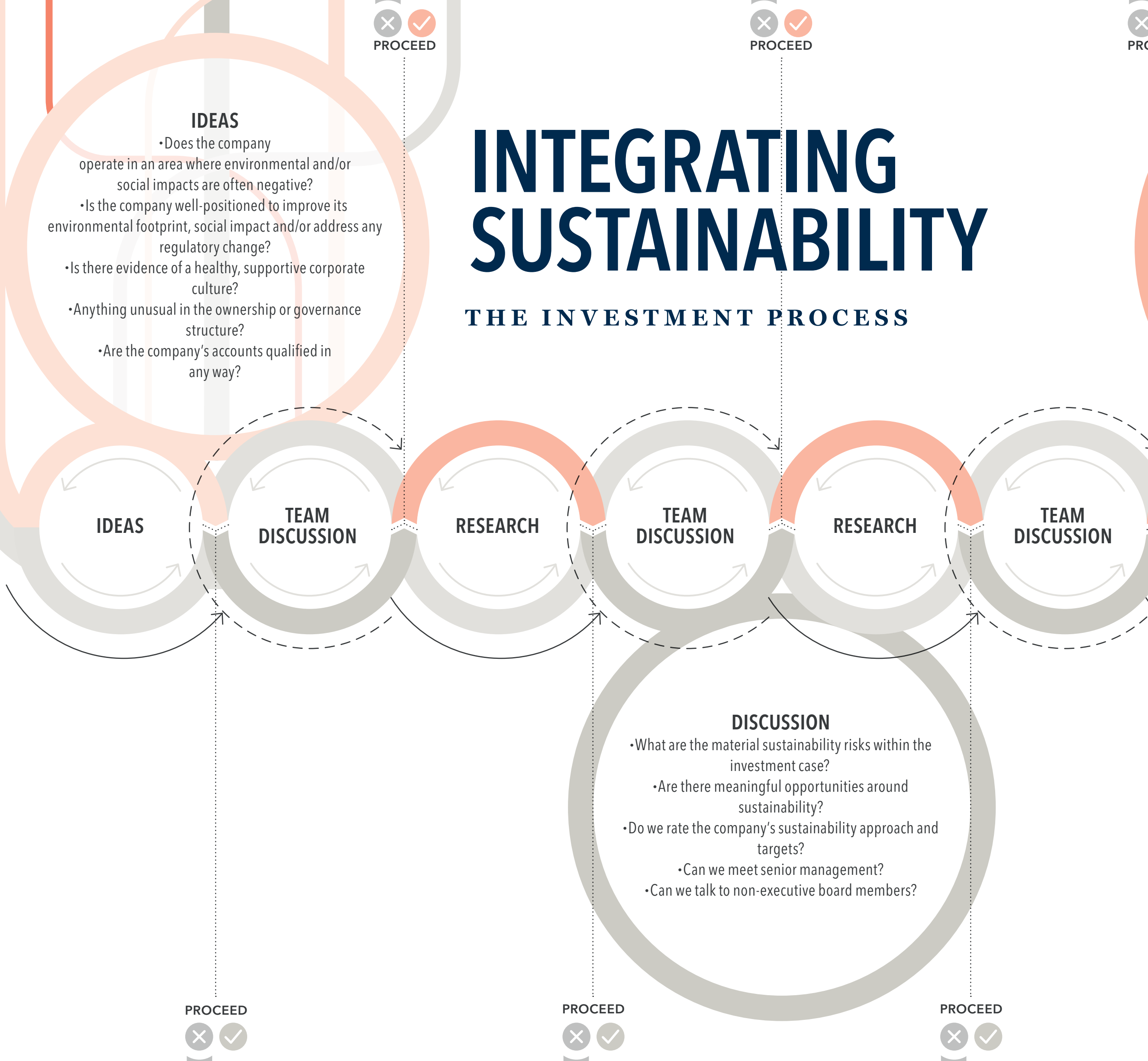
Feedback from clients
Client feedback is primarily gathered through conversations with clients in regular meetings over time. Whilst we believe that is the most effective way of anticipating and reacting to client needs particularly given the tenure of many clients, we do also on occasion ask for formal feedback. Over several years, we have used a major US research house to survey clients and consultants to gather impressions across all aspects of client communications. After client events

INTEGRATING SUSTAINABILITY

THE INVESTMENT PROCESS

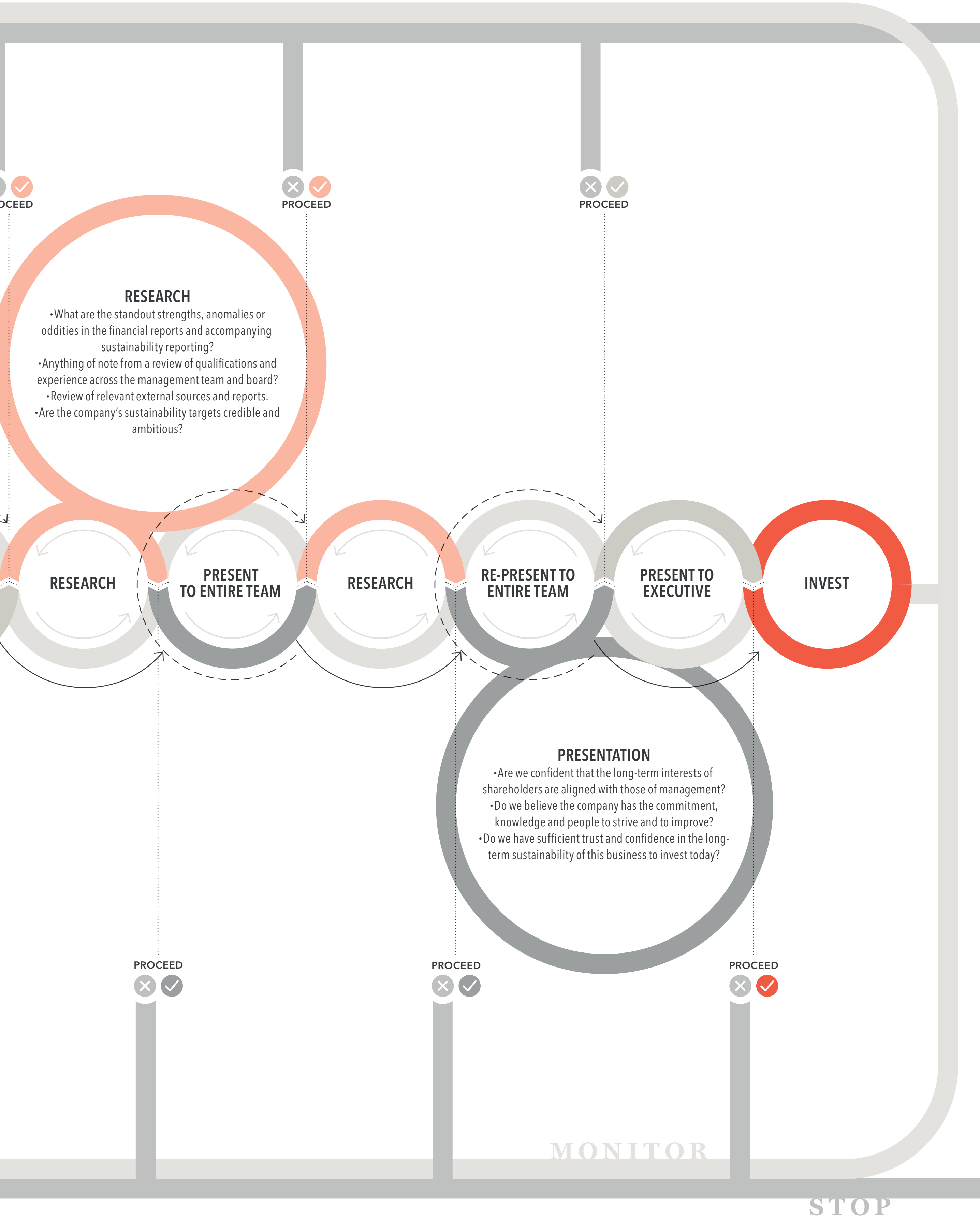
IDEAS

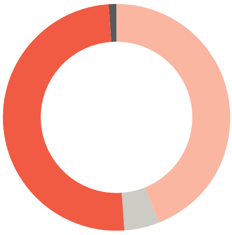
- Does the company operate in an area where environmental and/or social impacts are often negative?
- Is the company well-positioned to improve its environmental footprint, social impact and/or address any regulatory change?
- Is there evidence of a healthy, supportive corporate culture?
- Anything unusual in the ownership or governance structure?
- Are the company's accounts qualified in any way?



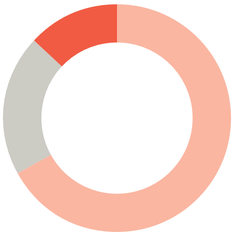
DISCUSSION

- What are the material sustainability risks within the investment case?
- Are there meaningful opportunities around sustainability?
- Do we rate the company's sustainability approach and targets?
- Can we meet senior management?
- Can we talk to non-executive board members?

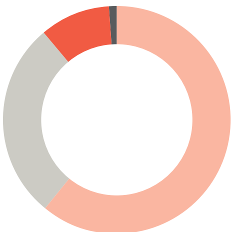

PROCEED
PROCEED
RESEARCH
•What are the standout strengths, anomalies or oddities in the financial reports and accompanying sustainability reporting?
•Anything of note from a review of qualifications and experience across the management team and board?
•Review of relevant external sources and reports.
•Are the company's sustainability targets credible and ambitious?
RESEARCH
PRESENT TO ENTIRE TEAM
RESEARCH
RE-PRESENT TO ENTIRE TEAM
PRESENT TO EXECUTIVE
INVEST
PRESENTATION
•Are we confident that the long-term interests of shareholders are aligned with those of management?
•Do we believe the company has the commitment, knowledge and people to strive and to improve?
•Do we have sufficient trust and confidence in the long-term sustainability of this business to invest today?
PROCEED
PROCEED
PROCEED
MONITOR
STOP



Client breakdown (by number of clients)
- Segregated clients – 44%
- Distribution clients – 5%
- Commingled clients – 50%
- BNYM Collective vehicles – 1%



Client breakdown (AUM by region)
- Americas – 67%
- Asia Pacific – 20%
- EMEA – 13%



Client breakdown (by AUM)
- Segregated clients – 61%
- Distribution clients – 28%
- Commingled clients – 10%
- BNYM Collective vehicles – 1%

As at 31 December 2021.

we typically ask clients for feedback so that we can incorporate those views as we plan for future events.

Extracts from client feedback from 2021 virtual conference:

"Very insightful and refreshing compared to other conferences we attend."

"In a year where we have been bombarded with the effects of the pandemic on industry and the markets, it was very refreshing to look forward to the future."

"Keep doing this. A truly wonderful learning experience which showcased the energy and depth of Walter Scott research."

"Loved the AI guest speaker, doctor and space session (and) analysts were great."

Client restrictions

A number of our segregated clients have specific investment restrictions laid out in their formal investment management agreement with us. Those restrictions often relate to religious or ethical views on alcohol or tobacco with environmentally linked restrictions also increasingly demanded. Any restriction of that nature is coded into our trade management and processing system, Charles River (CRIMS), and manual oversight checks are also undertaken. Breaches of investment guidelines are infrequent with robust policies and procedure in place.

All portfolios are subject to a daily automated compliance check within CRIMS against measurable client guidelines to detect potential alerts or warnings. This report is reviewed daily by the Portfolio Implementation team and the status electronically recorded. Thereafter, exceptions are annotated with any action required or explaining why there has been a status change. This process allows the team to review all accounts daily and take any required remedial action at the earliest opportunity. Technical or passive breaches of investment guidelines can occur because of market movements or unexpected cash flows. In such instances, remedial action is taken to ensure portfolios are brought back within guidelines as soon as practicable.

More broadly, prompted by work around the management of SFDR Article 8 mandates, we began an exercise to formally review all existing client ESG/responsible restrictions to consider these as a collection of restrictions and from there to challenge ourselves to ensure process and oversight is as robust and appropriate given the expectation that these requirements and restrictions will continue to increase in scope and number. We plan to complete that work during 2022.

Client communication

We consider effective client communication critical to what we do. Whilst, like everyone else, we have had to move to video conferencing in recent years, we do still very much value face-to-face conversations and hope to be able to combine the two in the future. With a relatively small number of clients and an institutional-only client base, our client service and client management teams are structured and resourced to allow regular conversations with our clients, sharing information and views whilst also soliciting feedback.

Within those conversations, interest in our stewardship activities continues to increase and we certainly now often devote more time to these subjects. Alan Edington, Investment Manager – Responsible Investment, regularly joins those meetings to illustrate what we do. Reporting on our stewardship activities has also been enhanced through the publication of our inaugural response to the UK Stewardship Code and SRD II disclosures, providing more detail around proxy voting records and significant votes.

A quarterly Responsible Investment commentary continues to be shared with clients and is also posted on our website. In 2022, we also hope to extend our reporting on engagement within quarterly management reports that are prepared for each client.

- *Responsible Investment Commentary Q1*
- *Responsible Investment Commentary Q2*
- *Responsible Investment Commentary Q3*
- *Responsible Investment Commentary Q4*

In addition to timetabled communications, we continue to share our research and thoughts across the spectrum of sustainable issues in several additional ways. A collaborative research project around carbon was a particular focus of the Research team over the course of 2020 and 2021 and in early 2021 we shared a series of articles on the various areas that the team considered as well as videos on a number of those topics. That content was sent directly to clients and posted on Walter Scott's website.

> *"We plan to add more content during 2022 with specific plans to add articles and interviews on how we approach diversity, equity and inclusion."*

Another forum for us to share our thinking is our Research Journal where we combine contributions and interviews with our Research team with those of external experts.

- *Research Journal 12*

Client events mirror our Research Journal, combining contributions from our Research team and external academics or industry experts, alongside contributions from companies around the world. Reflecting our integrated approach to Responsible Investing, and the importance of issues of sustainability and stewardship in the context of our long-term approach, sessions on environmental and social issues are very often part of the agenda. As part of our virtual Investment Conference held in November 2021, a member of our Research team led a discussion with co-founder of Imagine and former CEO of Unilever, Paul Polman, who is a recognised global leader and advocate for positive change. The conference also included a presentation of our approach, video interviews and a library of reports. We plan to add more website content during 2022 with specific plans to add articles and interviews on how we approach diversity, equity and inclusion.

SHAREHOLDER RIGHTS DIRECTIVE II

The Shareholder Rights Directive II (SRD II) aims to promote shareholder engagement and improve transparency and stewardship practices across the European Union (EU). SRD II requires asset owners and asset managers to make disclosures about their long-term investment strategies, their arrangements with each other and their engagement with the companies in which they invest. Walter Scott fully supports the goals of SRD II.

Under SRD II, asset managers must publicly disclose their Engagement Policy and, on an annual basis, outline how that policy has been implemented over the period. Walter Scott's Engagement Policy can be found on our website and the engagement case studies and company meeting information provided throughout this report show how Walter Scott implemented its Engagement Policy over the course of 2021.

Proxy voting is an integral part of our approach to Responsible Investment, and it is also an important part of SRD II. Our approach to proxy voting is summarised in our inaugural report on SRD II which is available on our website. That report also outlines our approach in determining significant votes as required by SRD II. Information is available on our website with updated information added quarterly.

- *SRD II – Our Approach*
- *SRD II – Annual Report*

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 with 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.

"Each Stock Champion is responsible for all aspects of research into a company as well as ongoing engagement and proxy voting."

STEWARDSHIP & ESG INTEGRATION

Our integrated research framework
Walter Scott applies the same investment philosophy and process across all strategies and funds. The same Investment team works across all those portfolios, and the same integrated approach to ESG research, engagement and stewardship is also applied. The long-term investment horizon that is fundamental to Walter Scott's approach applies to all clients.

Walter Scott's belief in the merits of an integrated approach remains unchanged. Each Stock Champion is responsible for all aspects of research into a company as well as ongoing engagement and proxy voting. Before investing in any stock, the team must be assured that certain criteria are met. Those requirements, are demanding and broad, encompassing all the factors, financial and non-financial, that will drive the long-term growth that we look for. Conversely, the sale of a position might reflect a change in any single factor. Given the depth of research before a stock is bought and the level of ongoing monitoring and engagement it is rare that a single issue will emerge of sufficient seriousness to prompt a sale in a position, but that does on occasion happen and the approach to a material change in governance, or in social or environmental standards is the same as it would be in the face of a material financial change.

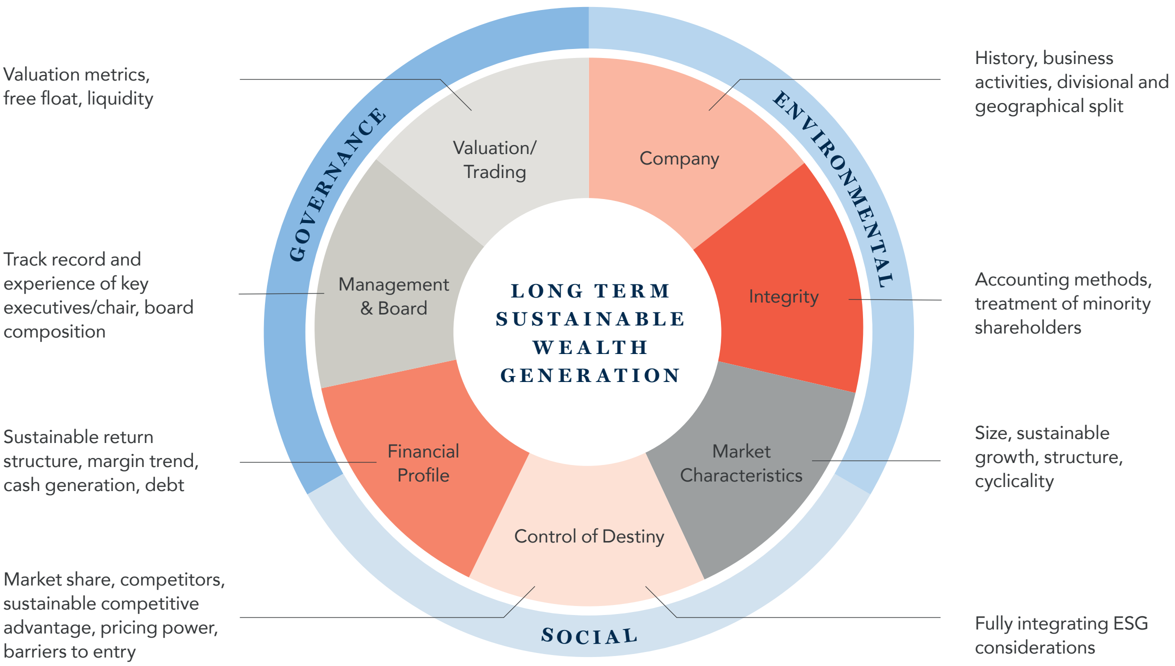
Walter Scott's investment approach is laid out in a consistently applied research framework. Whilst the pillars of that framework have remained unchanged since the firm was founded, it has evolved over time. In that context, the framework was expanded in early in 2021 to provide greater support and direction, particularly in regard to environmental risks and the impact of climate change.

Integrity
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. In 2020 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.

The document is structured around four areas: Human and Social Capital, Governance, Environmental Considerations and Carbon Risk and Climate Change. It also includes a link to the SASB (Sustainability Accounting Standards Board) materiality map to prompt consideration and investigation. The document is scrutinised by the Research team alongside a number of other key documents prior to any new investment and in the formal annual review of all existing holdings.

From the outset it was intended that this document would evolve to best fit the needs of the Research team and to incorporate any further requirements in terms of client or regulatory reporting. During 2021, additional reporting and data capture fields were added as part of broader planning to allow the firm to meet the SFDR Article 8 requirements.

Wider environmental metrics were also incorporated to allow the Research team to better document the risks and opportunities associated with climate change and our framework now includes two climate scenarios, rapid transition and hot house world.
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 now formally record scope 1 and 2 emissions as well as carbon intensity, where that data is available. That data capture, and subsequent analysis and comparison between companies, is expected to further expand in 2022 with greater use of the MSCI EU Sustainable Package that was purchased and made available to the Investment Research team in 2021. The purchase of consistent and robust data across environmental metrics remains a priority, with ongoing work to assess providers and the data.

REPORTING BACK ON ENVIRONMENTAL RESEARCH

Gathering & sharing information
Through this extended framework and through the new process and structure implemented around engagement for change, we are also better able to report on and evidence our work around sustainability and stewardship externally and internally.

> *“during 2021 we were able to gather and share more in-depth, and therefore useful, management information around proxy voting, engagement as well as emerging and topical issues.”*

In regards to sharing information within Walter Scott, during 2021 we were able to gather and share more in-depth, and therefore useful, management information around proxy voting, engagement as well as emerging and topical issues. That information is now regularly shared with the Investment Stewardship Committee and in turn the Investment Management Committee. In 2022, we will turn to the management information that is currently reported to the Executive Management Committee and to Walter Scott's Board to determine the most effective reporting structures and data points to enhance what we currently provide to senior management and Directors to enable them to fulfil their responsibilities in these evolving areas.

Our steps to improve the collation of data was an important step in the preparation of Walter Scott's inaugural Response to Climate Change report which is posted on Walter Scott's website.

Our Response to Climate Change

TCFD-related engagement
Working towards Walter Scott's Response to Climate Change report,

TCFD REPORTING STANDARDS*

49%

Aligned with TCFD

4%

Publicly stated a commitment to align with TCFD

*% of the companies contacted

the firm's first TCFD-aligned climate document, was a significant project in 2021. As part of that project, the Research team received training from the Climate Standards Disclosure Board on TCFD reporting and standards and the team also contacted companies held across portfolios to encourage alignment with TCFD (Taskforce on Climate-Related Financial Disclosures) reporting.

Considering carbon

The Research team's recent Carbon Project was structured 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, has 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 have 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.

Just as this was not 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.

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.

MONITORING SERVICE PROVIDERS

Vendor review & monitoring

Whilst we believe we have robust procedures in place to monitor the data and service providers used within our investment process, it is important to stress that we do not rely on external inputs and they will only ever be part of a process of gathering information. Therefore, while we have robust and extensive processes around vendor take-on as well as ongoing service monitoring, actionable criteria are not required as formal and full reliance is not placed on any single source of information. It is central to Walter Scott's consistently applied investment approach that the Research team and Investment Executive comes to its own conclusions and investment views.

Because investment decisions do not rest upon a single data point or input from an external research or service provider, there is no need to use any particular source or provider of external research. However, there is of course value in gathering data to help build a long-term investment case for a particular company, and the Research team are given the resources that they need to undertake that work, be that through very general and broad services, such as Bloomberg, or very specific inputs on environmental data, for example. Utilising the systems and processes of our parent company, BNY Mellon, we have extensive and robust vendor management procedures. Those procedures and checks do not only cover the take on or cessation of a vendor, or service provider, agreement but they also require ongoing monitoring. Those ongoing processes include a formal, documented annual review. Whilst dialogue must be ongoing, that annual review is structured to include consideration of any previous issues, from both perspectives, as well as possible improvements. Where the relationship

SOURCES AND SUPPLIERS

—ESG RESEARCH—

- MSCI ESG research
- Broker research
- Academic research
- Specialist consultancies e.g. Impactt
- MSCI controversies reports

—PROXY VOTING MATERIALS—

- ISS
- Direct from investee companies

—INDUSTRY GROUPS—

- Investment Association
- PRI
- ICGN
- CDP
- Climate Action 100+
- CFA UK

As at 31 December 2021.

or service being provided is material to the business, a meeting, rather than just an exchange of correspondence, with documented notes, is required within the review. In 2021, as part of preliminary work around a possible extension of our contracted services, we undertook a formal review with regard MSCI Principle Adverse Impacts data, taking a sample of seven companies and comparing data reported by the company concerned and MSCI data on that company. We informed MSCI of the areas of inconsistency identified and then spent time with MSCI discussing, and understanding, the reasons for those differences.

Proxy voting materials

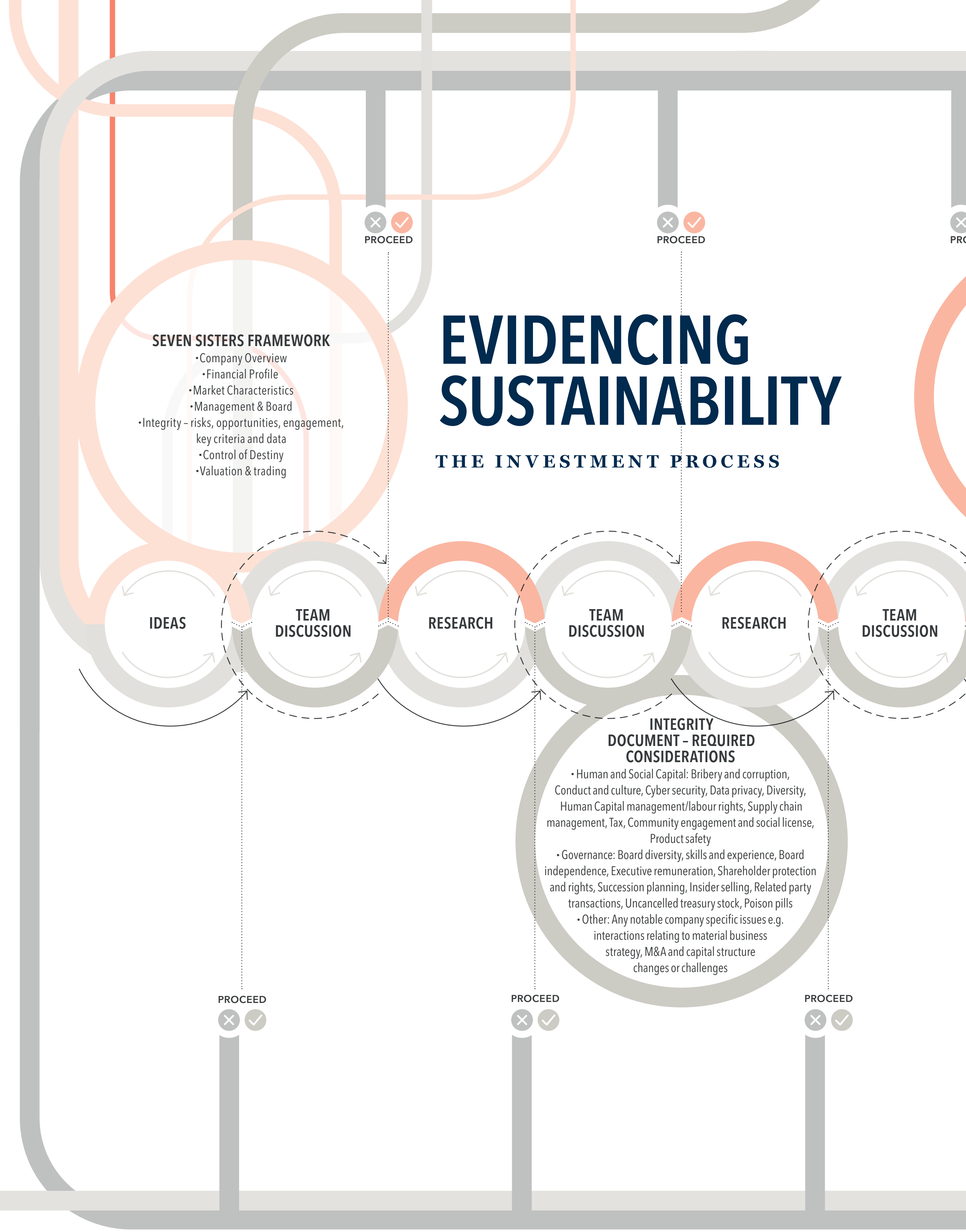
As an example of a supplier relationship, we receive proxy voting materials from ISS and use its platform to submit all votes. We also gather materials directly from the company. Engagement with the investee company, as well as just a common-sense check by the Stock Champion should also highlight any errors in the materials being provided. We do not provide ISS with our Proxy Voting Policy and ask them to follow it. We reach our own decision on how to vote so we do not rely on ISS to determine that decision and instead we instruct them on our decision. ISS process votes for us and in doing so we ask them to confirm to us that those votes have been processed and submitted. We rely on ISS' own checks to ensure that processes and submitted votes are then counted but we have confidence in the robustness of that work. That confidence is underlined by the equal and material importance to both ISS and the individual company concerned that this is the case.

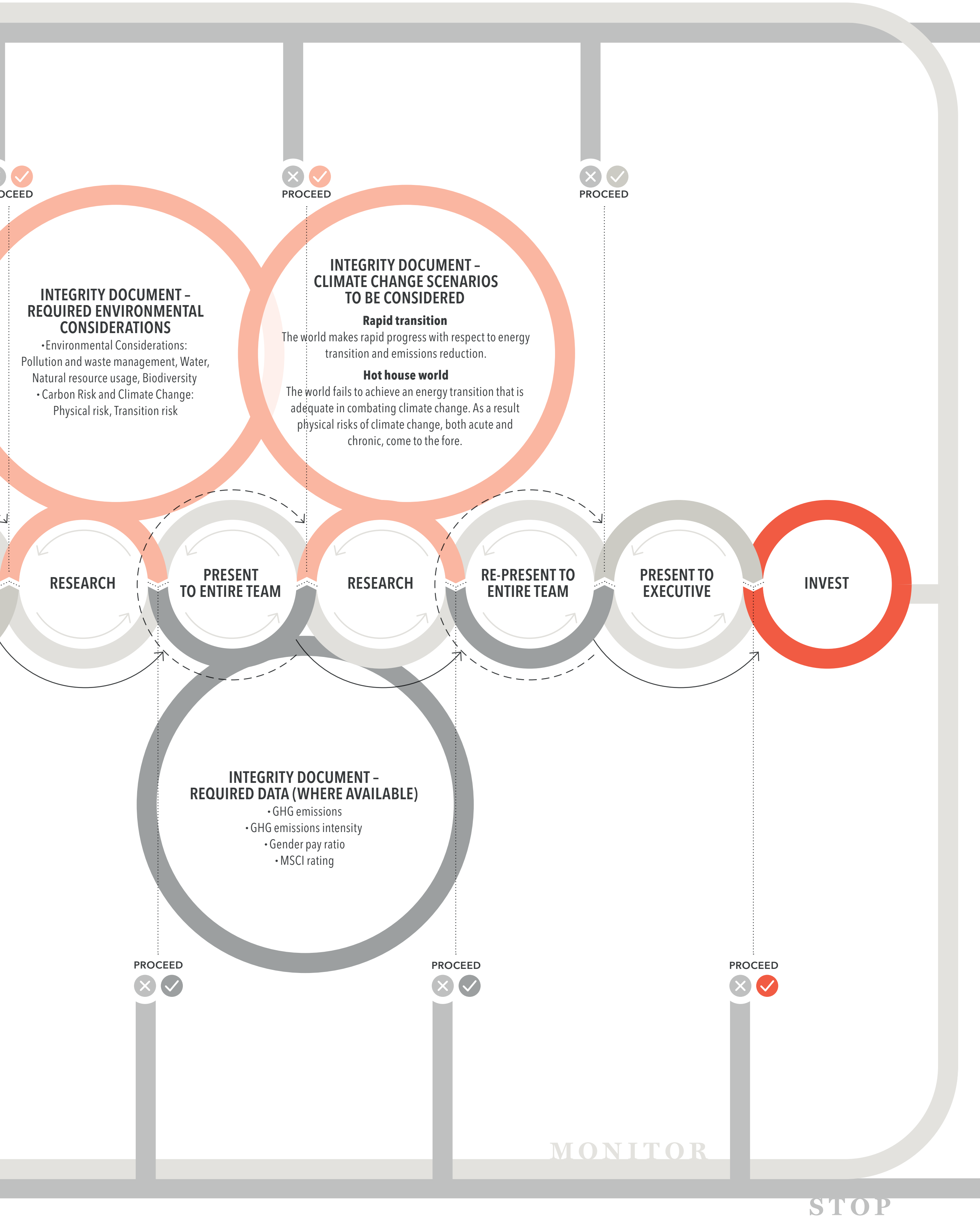
Ongoing review

We continue to consider additional data providers but whilst the number of approaches we have from providers, particularly across environmental and social metrics, continues to increase, none of those that we have investigated would add materially or specifically to our existing sources. With so many new providers, as well as new technologies, we will, however, continue to review all that might augment what we have.

EVIDENCING SUSTAINABILITY

THE INVESTMENT PROCESS





CEED
PROCEED
PROCEED
INTEGRITY DOCUMENT – REQUIRED ENVIRONMENTAL CONSIDERATIONS
• Environmental Considerations: Pollution and waste management, Water, Natural resource usage, Biodiversity
• Carbon Risk and Climate Change: Physical risk, Transition risk
INTEGRITY DOCUMENT – CLIMATE CHANGE SCENARIOS TO BE CONSIDERED
Rapid transition
The world makes rapid progress with respect to energy transition and emissions reduction.
Hot house world
The world fails to achieve an energy transition that is adequate in combating climate change. As a result physical risks of climate change, both acute and chronic, come to the fore.
RESEARCH
PRESENT TO ENTIRE TEAM
RESEARCH
RE-PRESENT TO ENTIRE TEAM
PRESENT TO EXECUTIVE
INVEST
INTEGRITY DOCUMENT – REQUIRED DATA (WHERE AVAILABLE)
• GHG emissions
• GHG emissions intensity
• Gender pay ratio
• MSCI rating
PROCEED
PROCEED
PROCEED
MONITOR
STOP

ENGAGEMENT

PRINCIPLE 9

Signatories engage with issuers to maintain or enhance the value of assets.

PRINCIPLE 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

PRINCIPLE 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

ONGOING CONVERSATIONS

Dialogue with companies has always been an important and valued part of our investment process. Reflecting our 'buy and hold' approach, engagement with management teams over years fosters constructive two-way conversations around long-term strategy, risks and opportunities.

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.

Approaching Engagement for Change
Over the past year we have also embedded a more formal process around engagement for change which we hope will support a more defined approach with clear objectives and an agreed strategy which will in turn, we believe, lead to more effective engagement for change over time.

Be it the stock champion putting forward a proposed engagement for change initiative or the Investment Stewardship Committee reviewing that proposal and agreeing whether to proceed or not, those decisions rest on the objective and the appropriateness of the exercise and likelihood of success. Decisions do not depend on the size of holding or any sector or geographical limitations or focus.

ENGAGEMENTS FOR CHANGE 2021

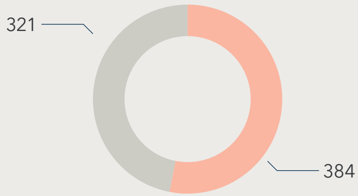
11
Engagements for change

9
Open engagements for change

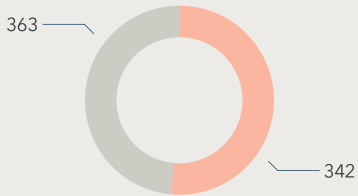
2
Closed engagements for change

Alongside that new process, we have also put in place systems to record and track all our engagements which should allow us to monitor effectiveness and the determinants of success more carefully. It will also allow us to enhance our reporting on that activity.

COMPANY MEETINGS[1]



ESG discussed – 384
No ESG content – 321



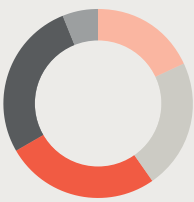
Owned companies – 363
Non-owned companies – 342

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 – 6%

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

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.

ENGAGEMENT FOR INFORMATION 2021 CASE STUDIES

ALPHABET

Alphabet is the holding company formed in 2015 out of Google and is the world's leading online search and advertising company. YouTube was acquired in 2006.

A video call with Alphabet in the third quarter of 2021 gave us the opportunity to challenge 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. In the prior quarter, nine million videos were removed but more significant, in our view, was the improvement in the user experience. In 2017, 70% of users were exposed to what the company defines as "harmful content". That figure now stands at 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.

EXPERIAN

Experian is a world leader in the provision of credit data.

A deepening commitment to responsible business was evident in a call in May 2021 with Experian's CEO. Despite the closure of many offices, the company transitioned well to remote working in 2020 albeit with plans very much in place to re-open offices as and when regulations allowed. At the time of the call, the CEO noted that many staff had expressed a strong wish to get back to the office. As well as gathering feedback on employee views on a return to the office, the CEO also touched on feedback from more general employee engagement surveys that suggest that management's approach of putting people first, protecting jobs, supporting people with working-from-home technology and strong communication has paid off. A recent employee share scheme was cited as an example of Experian's visible commitment to its employees. In 2021 all staff below the top 800 managers (some 17,000 employees) were awarded a one-off share award totalling approximately US $700 with a 2:1 matching payment if the individual is still employed in three years' time. As a company that relies on people to ensure its technology remains world-leading and its service remains market-leading, the CEO was evidently pleased to report how well this had been received, not just from a monetary perspective but from a cultural one too.

Companies often talk about strong corporate cultures that in turn support and protect responsible business practices and standards in regard to employees, suppliers and wider stakeholders. Through our conversations with company management over the course of the Covid-19 pandemic we have been able to quiz management on how that culture has been put into practice, and whether previous words around culture have actually borne out in reality, when it has mattered.

NESTLÉ

Nestlé is the world's largest food and beverage company with a portfolio of well-known brands across nutrition, health and wellness categories.

During a call with Nestlé's CFO in August 2021, we were able to question management on both the financial and social challenges posed by the raw material inflation 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 and it was explained that the priority was to protect those products, particularly in emerging markets, where customers do not 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 were also able to ask for an update on the company's plant-based portfolio of products. At 800m CHF of revenues, it is still small in the context of Nestlé's overall portfolio, but growth has been rapid. In addition to the widely accepted health benefits, these new products also have a far smaller carbon footprint than their meat-based alternatives.

TJX COMPANIES

TJX is the world's largest off-price operator selling branded clothing and home furnishing products at prices between 20% and 60% lower than those at department or specialty stores.

During a call with TJX in October 2021 we had the chance to quiz management on progress around its environmental targets, and to assess the company's ongoing commitment to those targets. Company management provided reassuring detail on the steps that have been taken to reduce the company's 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 helped cut emissions from its store network and distribution centres, which comprise the bulk of the overall total. Where TJX cannot 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.

Our investment process leads to long-term holdings in some of the world's most successful companies. Our consistently applied investment criteria will prohibit investment in any company that is not transparent in its reporting or open in its communication. The issues that we decide to pursue in terms of engaging for change may be challenging. These are highly unlikely to be issues that can be quickly fixed. As such, we do not expect engagements for change to move quickly from initiation to successful close. That said, our new approach with greater consideration around the objective and method will, we hope, improve the likelihood of success. Over the course of 2021, in reviewing proposals from stock champions and monitoring ongoing engagements for change, lessons have already been learnt on the need to spend more time redefining the objective of any initiative. That work will continue in 2022.

The examples of engagement for change shared within this report are intended to give a strong sense of the range of topics we discuss with management teams and the varied approaches.

ENGAGING WITH OTHERS

The consistent application of highly selective investment criteria, a long-term investment horizon and an approach which is agnostic to benchmarks be that sector or geography, means that the scope to engage collaboratively is more limited than it might be for others. That said, we do recognise that there are instances where a collaborative effort is the most powerful way to try to effect change. In recent years we have been part of several initiatives to encourage companies to adopt and demonstrate meaningful commitment to environmental improvement.

"We do recognise that there are instances where a collaborative effort is the most powerful way to try to effect change."

Collaboration around environmental standards

Collaboration around environmental standards and reporting was again the focus 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. With regards to the other companies, dialogue continues and we await 2022 reporting to assess success, or next steps.

By way of example to illustrate our approach as well as ongoing efforts, in our 2020 Response to the UK Stewardship Code, we noted our involvement in collaborative efforts around Raytheon's environmental reporting and that work continued in 2021. Having led CDP's engagement with Raytheon under its 2020 Non-Disclosure Project, collaborative engagement efforts continued with a

ENGAGEMENT FOR CHANGE 2021 CASE STUDIES

BREMBO

Brembo is the leading designer and manufacturer of vehicle braking systems, discs and calipers, products that are supplied exclusively to a number of global luxury automobile marques.

Objective: Encourage better disclosure around incentives metrics and retention bonuses.
Stage: Acknowledged.
Update: During a meeting with Brembo in September 2021, we discussed our misgivings around the company's recent remuneration practices. Our concerns related to a lack of transparency around entry and retention bonuses paid to the CEO since he joined the business in 2019, as well as a lack of disclosure of performance metrics and targets used in Brembo's incentive plans. In response, we were invited to write to the company, detailing our concerns and outlining where we felt Brembo could improve. We duly did so in October 2021 and the matter has been passed to Brembo's remuneration team.
Next steps/Conclusion: We will wait to hear from Brembo's remuneration team before deciding on the most appropriate next steps.

CLP HOLDINGS

CLP Holdings primarily operates as an electricity utility business in Hong Kong serving over 2.6 million customer accounts but with additional utility assets in Australia, China, India, Taiwan and South East Asia.

Objective: Decommission Coal-Fired Assets.
Stage: Resolved.
Update: Since 2019, we have engaged with CLP Holdings, the Hong Kong-based utilities business, on its carbon emissions, proposing that the company undertake a faster disposal or decommissioning of its coal-fired assets.

As a business, CLP has always been open to constructive engagement. It has also been something of a leader in its commitment to decarbonisation, having issued its inaugural environmental plan in 2007. Refined and strengthened several times since then, this strategy is an excellent example of its kind, making use of science-based targets, with a detailed roadmap of investments and closure timetables for specific assets based on currently available, rather than unproven, technologies and costs. However, it was our belief that CLP could do more to tackle the significant contribution of coal to its overall emissions.

We therefore welcomed the announcement of the latest iteration of CLP's decarbonisation strategy. As well as committing to achieving net-zero emissions across its value chain by 2050, the company will now phase out coal-based assets by 2040 – a decade earlier than previously pledged. Not long after the company unveiled its updated targets, we spoke with management, congratulating them on their ambition, and discussing some of the future opportunities that will flow from being a key facilitator of the energy transition in Asia Pacific.
Next steps/Conclusion: Speaking with CLP's CEO it was clear that the company's mission to decarbonise is not a resigned response to regulatory pressures but reflects rather a purpose-driven internal culture centred on the creation of a genuinely sustainable business model. The company is very much aligned with regulatory thinking in Hong Kong and China, which will be vital as it develops this strategy over the coming years.

KUEHNE & NAGEL

Kuehne & Nagel is one of the world's leading transportation logistics operators, with an integrated offering in freight sent by sea, air, and rail/road.

Objective: To encourage the company to consider a maximum pay-out cap and performance conditions for matching share awards.
Stage: Closed, without success but will continue to monitor.
Update: 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 has not been openly received and so, as a next step, we voted against management on the remuneration report at its AGM.

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. Firstly, greater disclosure on the targets used for STI awards, alongside the introduction of caps on maximum pay-outs in line with the broader industry, and secondly, 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 with management 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 the company's 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.

Next steps/Conclusion: Our conversations with management teams about improved reporting across a range of issues often come down to management priority and pragmatism. With the bar of expectations high 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 request. That said, we do feel detail on targets around executive pay should be viewed as one of the areas to be prioritised and we were not in agreement with the company that this information was potentially competitively sensitive.

However, we also recognise that our views on levels of disclosure won't always align with that of a management team, and in this instance, it does not amount to a material issue or risk in terms of our overall investment case.

We appreciate that not all engagement for change can or will be successful, but this 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.

THE WALT DISNEY COMPANY

Disney is a global media and entertainment company with operations split between Media and Entertainment, and Parks, Experiences and Products.

Objective: Encourage appointment of an independent chair upon retirement of incumbent.
Stage: Resolved.
Update: We believe that effective board oversight is critical in ensuring companies are run with a long-term approach and we regularly engage on this subject, pressing for appropriate levels of independence.

Concerns around the lack of independence of The Walt Disney Company's chairman have been raised repeatedly during our engagement with management in recent years. At the beginning of 2021, we began to consider this issue more formally as an engagement for change.

In February 2021, we held a meeting with the company and expressed the view that the next chair should ideally be an 'outsider' given the current executive chair, Bob Iger, was also the ex-CEO. While we think there can be times when a shared role is in the best interest of shareholders, considering some of the governance issues and criticisms Disney has received in recent years, we decided to strongly encourage management to consider an independent chair. Further correspondence on the matter included a letter to the company in June 2021 and an additional meeting with Disney's lead independent director in October 2021.

Disney engaged constructively on the issue throughout and subsequently announced that it would appoint the lead independent director to the role of independent chair on Bob Iger's retirement in December 2021.

Next steps/Conclusion: By appointing an independent chair, Disney is acting consistently with its own corporate governance guidelines, pursuing what most would deem best practise, and addressing stakeholder concerns. In choosing the lead independent director Susan Arnold, the business has appointed someone with deep institutional knowledge.

COLLABORATIVE ENGAGEMENT FOR CHANGE 2021 CASE STUDY

COGNEX

Cognex is a leading global provider of machine vision products that are used to automate manufacturing and logistic processes by guiding robots or identifying, inspecting, and gauging the size of objects.

Objective: Improved carbon disclosure.
Stage: Acknowledged.
Update: Having acted as the lead investor in CDP's annual engagement with Cognex, a call with the CEO as part of our own engagement provided an additional route to expressing our wish to see greater disclosure across key metrics with KPIs to allow progress to be tracked.

Through that engagement we were reassured by the acknowledgment and awareness that the company's disclosure on sustainability issues is somewhat behind the times and that management is 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 will soon have a good story to tell.

> *"The CEO mentioned that there has been much more board engagement on this issue in recent years and they feel they will soon have a good story to tell."*

However, management explained that the company did not feel in a position to respond to CDP this year. 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 sustainability-related disclosures.
Next steps/Conclusion: Cognex did not respond to the 2021 CDP campaign therefore we will continue to engage and encourage improved disclosure.

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.

Regulatory & trade body consultations
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 our involvement in industry

> *"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."*

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 (IA)
Longstanding member of UK Investment Association
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.

groups and campaigns. That said, our efforts have increased in recent years, and we would expect that trend to continue. In 2021 we joined with others to make submissions in regard to a number of consultations and discussions on regulatory changes and frameworks. We gave input to Investment Association responses to FCA consultations and worked with our parent, BNYM Investment Management to shape responses to FCA and US Department of Labor proposals. All are ongoing as we await the publication of the next round of consultations with regards to the proposed regulatory developments.

To read more, page 22 (Principle 4)

Industry initiatives
Whilst less frequent, we do also review opportunities to participate in industry initiatives and in 2021 responded to an investor initiative on conflict minerals by Stewart Investors. We were one of the investor signatories to a letter about conflict minerals in the semiconductor supply chain that was sent to 29 companies involved in the manufacture of semiconductors.

> *“Whilst less frequent, we do also review opportunities to participate in industry initiatives and in 2021 responded to an investor initiative on conflict minerals by Stewart Investors.”*

Escalation
During 2021 we reviewed and enhanced our approach to engagement for change. We now have a formal process to guide the agreement of objectives, agree the route most likely to achieve those aims and then provide approval to proceed. An important aspect of that process is periodic review and the related decision to change approach or further escalate the engagement. Whilst engagement for change is likely to remain rare relative to many of our peers, given our selective investment

"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."

approach and focus on high quality, market-leading companies, over time this more formal and documented process should allow us to report on success and common themes.

To read more, page 40 (Defining Engagement)

There were no formal escalations in engagement over the year. Following an unsuccessful engagement for change regarding aspects of Kuehne & Nagel's performance related remuneration, the Investment Stewardship Committee did discuss the merits of an escalated engagement plan but following discussion around the likelihood of change and the materiality of the issue, the Committee agreed against such a step.

Judging progress

With a more formal process now in place to discuss possible initiatives around engagement for change, there was certainly greater debate on 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 before proposed plans are approved by the ISC and reported to the Investment Management Committee. 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 engaging for change.

Across the proposals put forward, Japanese board diversity was one of the 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 a 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 corporates, it was agreed that blanket letter writing would be less successful and that individual companies deserved time to implement change. So, whilst these proposals were marked as closed 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.

Reflecting the changes in process and clarification of objectives, Walter Scott's Engagement Policy was updated in 2021 and now forms part of our Responsible Investment Approach document that is available on our website.

Responsible Investment Approach

EXERCISING RIGHTS & RESPONSIBILITIES

PRINCIPLE 12

Signatories actively exercise their rights & responsibilities.

"It has always been considered important that the person with day-to-day responsibility for monitoring a particular company and leading engagement with management, should also take the lead on determining voting decisions."

We have always considered proxy voting to be 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 regarding that holding just as they are responsible for research and engagement. It has always been considered important that the person with day-to-day responsibility for monitoring a particular company and leading engagement with management, should also take the lead on determining voting decisions.

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 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 provide 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.

Proxy Voting 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 to 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.

➔ *Proxy Voting Policy*

The Proxy Voting Policy was updated in March 2021 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 and a wish to limit the number of scenarios where we would abstain. For example, we will now vote against rather than abstain in regard to any vague or poorly defined proposals.

The Policy applies across equity holdings, regardless of geographies or strategy. It also applies across all clients for whom we are mandated to vote. A small number of segregated clients do ask that we follow their own additional proxy voting rules, which we do. In cases where a client has given Walter Scott specific proxy guidelines, these take precedence over Walter Scott's policy. Clients in pooled funds or investors in funds managed by our distribution partners are not able to set their own policies. Other clients make their own decisions on whether to vote, and how to vote. For those clients, where we determine that our voting decision, be that for or against, is material to the long-term investment case, we will share that voting intention and rationale as a matter of course should it impact the clients' decision to vote or to recall stock to vote.

Remuneration

Executive compensation is often the highest profile and contentious subject in any AGM. The need to attract, retain and motivate management is as important as it is complex. Aligning reward to long-term targets that are measurable, comparable, sufficiently demanding and that support a company's culture and ethos is often far from straightforward.

This year, we have seen the added complexity of Covid-19 related adjustments. Previously set targets might have been put beyond reach, but many management teams have performed well in challenging circumstances and so altered plans have been put to a shareholder vote at a number of AGMs.

One of the aspirations behind the formation of the Investment Stewardship Committee was that more time and focus would be directed towards looking at issues such as remuneration, to ensure both consistency in approach as well as ongoing debate and reflection on what is a dynamic as well as high profile topic. During 2021, we began those discussions with debate around what we might collectively view as best practice, as well as what we would prefer not to see. Those discussions have centred on primary requirements such as transparency, robust yet straightforward explanation, pre-set performance targets and targets that are aligned with the long-term strategic objectives of the business. We would prefer not to see discretion without sufficient rationale or good reason and lack of disclosure is increasingly unacceptable.

Shareholder proposals

Shareholder proposals continue to be a growing part of our discussion around proxy decisions, and in our engagement with companies. This increased involvement and scrutiny is certainly a positive step. That said, whilst many shareholder proposals have merit, others that might appear to be sensible proposals must be considered more deeply. Further reading and discussion with the company regularly leads us to vote against a shareholder proposal that might otherwise appear uncontentious and positive. Where would we like to see a company focus its efforts? Is the company doing other things in the same area? Are there other, more important, priorities?

PRE-AGM ENGAGEMENT CASE STUDIES 2021

BOOKING HOLDINGS

Booking Holdings (formerly known as Priceline) is the leading global online travel agency.

Two items focused on climate change that were put forward at the AGM for Booking Holdings prompted discussion at the Investment Stewardship Committee (ISC). The first related to a vote on a report on annual climate transition and the second an annual investor advisory vote on a climate plan.

After lengthy debate in the ISC, it was decided to vote against both proposals and in doing so vote in agreement with management.

The ISC came to the view that the company is already moving in the right direction in terms of its reporting, targets and progress. An annual sustainability report, first issued two years ago, details Scope 1 and 2 emissions and although there are still gaps and more needs to be done in the areas of Scope 3 reporting as well as TCFD-aligned disclosure and specific target setting, it was considered that the company had made a reasonable start. So whilst in agreement that environmental reporting needs to show continued improvement, the ISC discussed the timing of this proposal, management capacity during the pandemic as well as questions around the most appropriate science-based climate targets. During a pre-AGM call, the Booking Head of Sustainability was very clear that the company's ambitions are very much in line with the proposals that were put forward and they have been investing in this, but that the timing for benchmarking and publishing targets would prohibit a considered and thorough approach.

The ISC's conclusion was that it would be more helpful at this juncture to engage with the company further about our expectations and so the decision was made to vote against both shareholder proposals but engage further to promote positive change.

Following this decision, we contacted the company as a co-signatory to collaborative engagement under the umbrella of the Carbon Disclosure Project (CDP) and during a call in December 2021 we learned that Booking are currently working on their Climate Transition Plan, which is expected to be published alongside their next Sustainability Report in early 2022. The company is also planning to submit a full response to the climate section of the CDP questionnaire in 2022 which should in turn lead to a CDP rating. Beyond that, the company intends to further align their reporting to TCFD through 2022, for which disclosures will be included in the 2022 Sustainability Report which should be published in early 2023.

COLGATE-PALMOLIVE

Colgate-Palmolive is one of the largest manufacturers of consumer non-durable products in the world.

In June 2021, we spoke to members of Colgate's investor relations and legal teams about a shareholder proposal at the company's AGM to reduce the threshold to call an EGM from 25% of shareholders to 10%. Management recommended a vote against, and we supported that recommendation, but the proposal garnered 50.6% support and so Colgate were keen to get shareholder feedback on how to take the matter forward.

Our view was that the issue raised the important, and growing, need to consider the question of materiality. This was in line with the opinion of other shareholders that management had spoken to. We explained that while it is always good to see the company follow-up and try to address any issues where possible, what matters more to us is that we always get adequate notice, are provided with sufficient information and therefore the opportunity to vote in a considered manner.

Our view is that it is difficult to gauge the 'right' percentage for access and it is therefore more important to focus on ensuring that shareholders have a say and that there is a sound process and transparency around any AGM or EGM. We added that much higher up our governance agenda were issues such as the appointment of an Independent Chair, more transparency in terms of option grants within remuneration and the introduction of a returns-based metric, as well as issues around preferred and uncancelled treasury stock. We also raised questions around packaging and supply chain oversight which we consider to be material integrity considerations alongside governance matters.

We will continue to provide our views to the company on the above matters and look forward to further engagement with management.

EDWARDS LIFESCIENCES

Edwards Lifesciences is a healthcare company which is the market leader in the treatment of aortic stenosis.

We engaged with the company regarding several shareholder proposals being put forward at the company's AGM in early May 2021, in particular the inclusion of non-management employees on the board. During a call with the company ahead of the AGM, management expressed their recognition that employee representation on boards is common across Europe but explained that they are against this governance structure because they believe the company already has numerous channels of effective communication between employees, management, and the board. They also think that open communication is very much part of the company's existing culture and to add employee representation to the board would reduce board independence to the detriment of the best interest of shareholders.

While we are not opposed to employee representation on boards and recognise that it can be appropriate in some instances, we believe that each company should act in a way that reflects its existing culture if that culture is a positive one. In discussion following this call, we agreed to accept the stance of Edward's management and vote against this shareholder proposal.

MASTERCARD

Mastercard is the world's second largest card payment company.

In June 2021, we spoke to Mastercard to discuss a Say on Pay proposal where Institutional Shareholder Services (ISS) recommended a vote against the board. With the lead independent director, Chair of the HR and Compensation Committee and Head of HR of Mastercard on the call, we heard their perspectives on how executive pay should be structured so that it is equitable, promotes alignment with other stakeholders and contributes to corporate culture. There was an explanation around the decision to amend short- and long-term incentives for management because of the Covid-19 pandemic. It was explained that the change was driven by a wish to preserve the relationship between shareholder returns and management pay in the context of the need to retain and motivate talent.

In response, we explained that while we are generally not in favour of amending compensation plans, we do sympathise with the exceptional circumstances and the importance of alignment with shareholders, as well as MasterCard's sensitive consideration of the broader stakeholder environment with no lay-offs and the provision of additional and adapted benefits during such a challenging time. We decided to vote for this proposal in line with management.

NIKE

NIKE is one of the most recognisable brands in the world.

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

Voting process

We subscribe to ISS' services as an effective means to receive proxy voting documentation and then to action the vote informing applicable custodians. But the voting decision rests solely with Walter Scott without any reliance on ISS recommendations. Our Stock Champions all appreciate the need to undertake their own research, plan their own engagement and reach their own recommendations within the framework of the firm's Proxy Voting Policy, but do sometimes find it useful to test their thesis against the ISS view, occasionally to challenge or confirm thinking that is contrary to that of ISS.

Voting follows a two-step process. One person within the Client Operations team places the instruction on the ISS platform and another checks that instruction matches, as well as checking the voting information is entered correctly into our investment accounting system. If there is an instruction on a proxy vote that is client-specific then a manager in our Client Operations team also checks the instruction to make sure it has been submitted correctly. After submitting the proxy voting instruction, we do a 'ballot check' to ensure the accounts, and positions, that we have voted on through ISS match our investment account system information. This allows us to identify any issues straight away and to contact ISS or the custodian to promptly resolve any matter. We also receive a daily email from ISS that details any rejections, which also allows prompt resolution where need be.

The Client Operations team also carries out another layer of checks between our systems and the clients' custodians, to double check how many shares we expect to be voting on, incorporating whether the client has given us proxy voting authority. Votes are submitted through ISS and we check that our instructions have been successfully received by ISS. We also often inform the company of our voting decisions where there has been engagement on the issue or where there has been a vote against wmanagement and we want to re-iterate our case and concern.

100% of votes were submitted where we have the authority to do so in 2021. Instances where we do not have the authority to do so may be when the client has directed stock lending, POA is not in place, we do not receive the ballot from the custodian, or it is a restricted market.

In 2021 we were unable to vote on behalf of some accounts at the AGM of a European pharmaceutical company due to an omission and error by the client custodian. So beyond putting in place our own support and processes around proxy voting we do continue to work as closely as possible with other providers, notably the custodians, to ensure that all proxies can be voted in a timely manner.

Voting outcomes
Where any individual proposal receives less than 85% votes in favour, the stock champion is notified. Where votes fail, in addition to notifying the stock champion, the Investment Operations team also notify the Investment Stewardship Committee so that those votes can be formally reviewed in the context of both our voting decision and possible engagement.

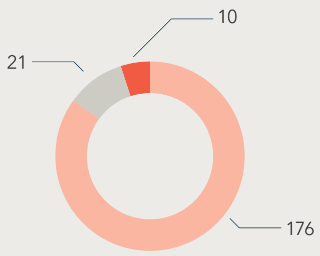
Stock lending
We do not undertake stock lending. The arrangements for any client that undertakes stock lending will be agreed directly, and separately, by the client and their appointed custodian.

We generally do not ask clients to recall stock on loan to vote unless we deem a particular vote to be material.

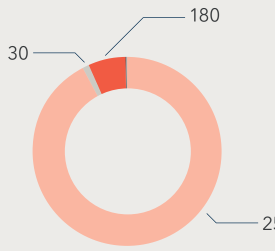
Voting records
Full voting records are disclosed on a quarterly basis including a rationale for any votes against management recommendations. We remain of the view that the voting rationale can be as important as the vote cast and so we continue to review the best way to increase our public disclosure in an open, informative, and useful way. Our Shareholder Rights Directive II (SRD II) disclosures also provide detail regarding significant votes.

- *To read more, page 31 (SRD II)*
- *Proxy Voting Activity Q1 2021*
- *Proxy Voting Activity Q2 2021*
- *Proxy Voting Activity Q3 2021*
- *Proxy Voting Activity Q4 2021*
- *SRD II – Our Approach*
- *SRD II – Annual Report*

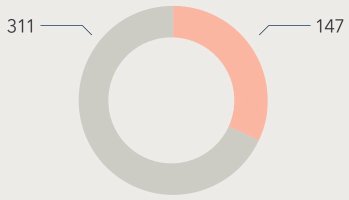
PROXY VOTING OVERVIEW



- 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

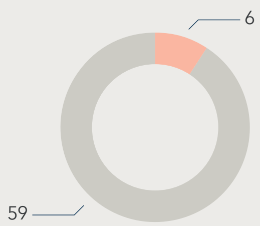
8 Corporate governance issue

0 Persistent failure to attend Board meetings

0 Excessive non-audit fees

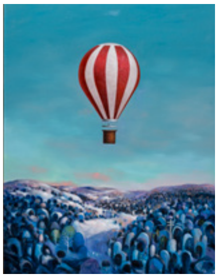
1 Preference for a one vote per share structure

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.



David Schofield
West Coast Winter

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 – and sponsorship of prizes at – 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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