WALTER SCOTT

BNY MELLON | INVESTMENT MANAGEMENT

RESPONSE TO THE UK STEWARDSHIP CODE

2020

CONTENTS

FROM OUR MANAGING DIRECTOR

Stewardship has always been central to Walter Scott's investment approach. We may not have used that actual word very often back in 1980s or 1990s, but in our actions, I believe that we have always displayed stewardship in our research and our conversations with company management. Our investment beliefs have always centred on concepts including integrity, governance, control of destiny and sustainable growth. We have also always engaged with companies. Our concentrated, high conviction approach, and our typically long holding periods, have allowed us to develop meaningful dialogue with many companies. Years ago, we might not have labelled those two-way conversations as engagement, but our interactions were exactly that, in today's definition.

That is not to say that we consider that box ticked or the job done. We must continue to improve and keep raising the standards to which we aspire. As a business, we often talk about complacency being one of the biggest risks to which we must all be alert. So, over time, whilst remaining wholly consistent in our investment philosophy and in our team culture, we have sought to engage more often, and more widely. In recent years we have incorporated significantly more qualitative and quantitative evidence into our company analysis as the importance of a company's social and environmental credentials are now recognised to be an important factor in long-term financial returns. We are determined to continue to evolve and improve. Indeed, we must do. We also now recognise the responsibility of all in the investment industry to promote fair and effective financial markets and to work together on occasion to promote change.

In that context, I respect, value and fully support the important work of the UK Financial Reporting Council in promoting effective stewardship. Its revised code demands that we all evidence our actions and outline steps towards further improvement. The revised code is demanding in its expectations, just as, I think, it should be. In this report, I hope that we meet the standards expected and I, and my fellow directors, are as committed as ever to ensuring that we continue to enhance our efforts and improve our reporting across all aspects of stewardship.

Jane Henderson, Managing Director

Edinburgh, December 2020

DEFINING STEWARDSHIP

OUR PURPOSE

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

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

> *"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

Walter Scott was founded in 1983 to manage portfolios of global equities for institutional investors around the world. That strategic focus and single line of business has remained unchanged. The founding directors believed in long-term investing and although stewardship was not articulated in the way it is today, they implicitly understood and believed in sound stewardship in meeting their responsibilities to clients and investing in companies capable of sustainable growth, in all forms, over time.

Their investment approach was to invest in companies for the long run. For them, short term investing was akin to speculation. Instead they favoured well researched and highly considered investment decisions taking into account all factors that might impact a company over time be that financial, strategic, ethical or reputational. They believed that it is companies, and sustainable success over time, that creates wealth and drives share price return over time not short term market moves. They believed that sustainable, long term returns would be generated through investment in companies with compelling long-term prospects based on competitive advantage, prudent management and responsible practices.

OUR TASK

Therefore, the task has always been to find what we believe are the best companies around the world. Through our own rigorous in-house research we seek to invest in those companies and then remain invested allowing returns to compound over time. We are very selective, only investing in around 220 companies. We make our decisions without reference to sector or geographic considerations. It is all about the strength, prospects and sustainable potential of the individual company. Through that process, the founders of Walter Scott were confident that the expectations of clients would be met. That process should also secure sustainable benefits for the economy, environment and society. Our process should build prosperity for all.

CONSISTENCY OF APPROACH

That investment philosophy has remained unchanged over time. So too the investment process has remained largely unchanged with a consistently applied framework to analyse and research companies ensuring that all material opportunities and risks are considered. A belief in a team approach has also remained unchanged.

The founders built a team of individuals with diverse backgrounds and interests. There are members of the team with advanced degrees in science and others with a passion for languages. A partnership with the British Council in the late 1990s was just one example of the search for individuals with diverse perspectives that would not have been reached by the graduate recruitment practices of the time. Similarly, whilst it might now be recognised best practice to tailor development, the firm has always considered individual, long-term career development. All four of the executive Directors today, began their investment careers at Walter Scott.

OUR CULTURE

Those Directors recognise that much of the firm's success rests on its culture. Walter Scott's team-based approach fosters, and has always relied upon a collegiate and respectful working environment. Robust, respectful discussion and debate is central to our investment approach. It is also very much part of how the business is run. The firm has always been ambitious, but it has always prioritised long-term success, through carefully controlled growth. Over three generations of leadership, the firm has focused on success over time, not simply the next year or the one after. We believe that the values that underpin the careful stewardship of our clients' capital are also reflected in the way we run our business. We remain a relatively small firm with a staff count of around 160 across two locations. Our focus on one line of business, institutional equity investment based on fundamental company research, has remained wholly unchanged over time.

Since those early days, with the three founding Directors laying out plans at a kitchen table, much has changed. The investment philosophy and corporate values agreed at that table have, however, remained unchanged. Our investment process has evolved but the same framework is followed with the same highly selective search for world-leading companies capable of sustainable growth over the long term.

"We believe that the values that underpin the careful stewardship of our clients' capital are also reflected in the way we run our business."

1983

—CONSISTENT—

Long-term investment philosophy and research-led process consistently followed

—GLOBAL—

Institutional investment manager with sole focus, global equities

160

—EMPLOYEES—

Investment Research team of 20 and around 160 employees in total

2007

—SUBSIDIARY—

100% owned by BNY Mellon since 2007

9

—YEARS—

Longstanding client base. Average length of client relationship: 9 years

Data as at 31 December 2020.

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

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

Investing for the long-term
Walter Scott is an equities-only investment manager, with a long-term, bottom-up investment approach. Our investment criteria lead us towards what we consider to be some of the very best companies around the world. Our research framework ensures consistency in our analysis across investment ideas and across time. Every investment that has been made by the firm has been researched and reviewed using the same framework.

Each company holding, or new investment candidate, is also championed by an individual within the team. However, all members of the team are collectively responsible for every holding and for all portfolios managed by the firm. All investment analysts and investment managers are generalists, and globalists. That reflects their role: to find companies capable of meaningful earnings growth thanks to financial strength, leading market positions, a track record of innovation, astute strategic direction, talented leadership and with operations that respect all stakeholders, as well as the environment. We search for companies that meet our requirements across all those categories, and we do so without reference to sector or geographical constraints. Growth is rarely linear but we believe that companies with all those attributes will grow over time, and thereby deliver meaningful returns to our clients. Our approach has been described as simple, but not easy. Our task is straightforward, what we look for in companies is clear, but finding those companies relies on hard work, diligent research and the experience of the team. Every investment is scrutinised by all in the Research team and the Investment Executive, and there must be consensus before any new investment is made. In that same ethos, the sale of any position requires just one member of the team to speak out and dissent. We don't have to own any particular company. We don't have to maintain weights in any sector or geography. Instead, it is about finding the best companies, investing in them and holding over the long-term.

We might be accused of being too conservative. We don't invest in Initial Public Offerings and have only invested in recently listed companies on a handful of occasions over the firm's history. We demand a public, audited financial history in order to test the financial health of the company. We demand strong cash flow generation. We don't tolerate excessive debt. We look carefully at the track record and professional history of company management and board directors. We also avoid company turnaround situations as those so often fail to meet management promises, and are almost always more difficult than at first portrayed. We don't look for cheap stocks. We spend a lot of time debating valuation, and recognise that the wrong entry price for any investment can severely dent any investment rationale. But we don't mind paying up for high quality companies with strong prospects for self-funded growth.

—CONSISTENCY—

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

1

—TEAM-

One Investment team manages all portfolios, collectively

23

—MEMBERS—

The core Investment team consists of 3 members of the Investment Executive and 20 members of the Research team

Of course, long-term equity investment isn't about making that initial investment and then, figuratively, putting it away and forgetting about it like a savings account. As stewards of our clients' capital, we must direct our collective efforts to getting those initial investment decisions right. Equally, we must direct our attention to close monitoring, reassessment and challenge. There must be ongoing engagement with the companies in which we invest. Only by continuing to invest in products, operations and people, and operating responsibly, will a company prosper over time. Through engagement, we need to ensure that happens. Where there are questions or doubts, we must challenge and promote better practices. That work has always been central to our investment process. As long-term investors, it must be.

Our strategy

Our highly selective investment approach is mirrored in our careful control of client numbers. Similarly our focus on frequent and meaningful communication with company investments is replicated in our commitment to regular and substantive communication with our clients. We invest in companies for the long term with a philosophical stance that we should always be investing without any intention of sale. Just as many of those investments date back decades, so many of our client relationships are of equivalent tenure. Throughout the firm's history, its approach to investment and to running its business has been consistent. As you would expect, the firm has evolved over time with controlled expansion and a new generation of leaders, but it has never strayed from its founding beliefs.

The firm's business strategy centres around considered growth. Rushed growth today, can destroy growth over time. The founders of the firm had a simple mantra, investment performance can only ever be best efforts but client service and client administration must be excellent.

Our investment approach is designed to generate returns over the long-term and over the course of a business cycle. Our track record suggests that it works over time, but it does require patience. We want any new client to understand our process and to understand the timescale. We don't want to 'sell' Walter Scott if you will, we want clients to 'buy' into our approach. With that starting point and our commitment to the highest standards of client service, administration and communications, we hope to retain clients over time and additional funds from existing clients has been a very important aspect of the firm's growth. So the business strategy today is clear, invest in people and systems and support excellence in serving our existing clients.

Since 2010 that strategy has been reviewed annually, and communicated to clients and to staff. It provides a clear starting point for investment in our own business. In recent years, there has been significant investment in reporting systems and in broadening our communications with clients.

Having the entire team in one place was very much part of the business strategy set out in 2010. The physical limit on how many people could fit in our Edinburgh office was an important check on an appropriate rate of growth. But recognising the need to continue to invest and deepen the support of our team, in 2016 we acquired another building in Edinburgh to house our Research team. It is just across the road, with shared meeting rooms and other facilities, so the collegiate spirit of the firm was maintained whilst affording the Research team more space and an appropriate environment to focus on their work. We often talk of the need to shut out short-term noise and switch off screens in order to reflect and focus on our diligent long-term research. We wanted a building that reflected the importance and value of that work.

More recently, there has been considerable investment in training and development.

“We invest in companies for the long term with a philosophical stance that we should always be investing without any intention of sale.”

With the recruitment of a senior human resources professional this year, the firm has rolled out a range of training programmes, covering specific skills as well as resilience, unconscious bias and communication. Programmes to formalise mentoring and coaching work have also been launched. Such work, and investment, will remain a priority next year, and beyond.

We have also continued to consider new ways to ensure that the firm's culture is shared, understood and thereby protected. Culture cannot only be imposed from the top down, we must be sure that it is being understood, and applied at all levels. At its core, our culture is about doing the right thing for our clients at all times, and in doing so doing the right thing for each other and the broader community. It is critical that our culture is understood by all. To that end, in addition to investment in training and internal communications, this year, Walter Scott's management conducted a survey of the firm's culture amongst every member of staff. That anonymous report will allow management to ensure culture is being conveyed whilst also providing a reference point to judge progress and improvement in the years to come.

Our strategy may be conservative, but it has proved to be a successful one and we continue to believe that by meeting the expectations of our existing clients, and therefore retaining those clients, and then adding a small number of clients over time, the firm will find success. The strategy must deliver long-term, sustainable growth. The current executive Directors were all trained by the founders of the firm, and have all worked at Walter Scott for over twenty years. They appreciate the value of the firm's investment approach, but they also recognise the importance and strength of the firm's culture.

“Our culture is about doing the right thing for our clients at all times, and in doing so doing the right thing for each other and the broader community. It is critical that our culture is understood by all.”

They see themselves as custodians, moving the firm forward with care and consideration. At some point, they will all hand over the firm to the next generation of custodians. It is of no surprise that their personal ambition and motivation is to pass on a firm that has remained true to its roots, maintained it success and invested for the future. The strategy today is about investing for success in 10, 20 and 30 years time.

Our culture

It is very difficult, if not impossible, to distil our culture into a few words. Culture cannot be designed. It is about behaviour, conduct and shared values. But if you were to speak to individuals across the firm, the words that they would use to describe culture would be the same; respect, collegiate, family, supportive.

Central to our culture is our team approach, and in turn ensuring a supportive environment. We meet industry best practice in our support of colleagues, through training, development, mentoring and a range of wellness and wellbeing programmes. We value direct communication so we have flat management structures and the door of senior management is open to all. We have an 'all-firm' meeting every Monday and then lunches for all twice a week giving the chance to chat to colleagues across different departments. Reflecting the importance of that communication, over the recent months with almost every colleague working from home,

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

27%
—OF AUM—
managed for clients with tenure > 15 years

91%
—OF AUM—
invested in global and international equity strategies

Data as at 31 December 2020.

> *“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.”*

Directors have made a point of calling everyone from time to time. We have instigated virtual coffee breaks a few times a week for anyone to join and all can join a weekly fitness session with a recognised expert in strength and mobility. We have also extended our research training to all, so that anyone who is interested can listen to the regular programme of external presenters from industry and academia across a range of subjects. Of course, informal communication and support is just as important. Many of the team have worked together for years and recent times have been a reminder of the value of those relationships and of the firm's supportive culture.

A message that is regularly conveyed by management and instilled in everyone who works at Walter Scott, is that of responsibility and privilege. It is a privilege to be entrusted to manage the capital of others, and with that comes tremendous responsibility. Recognition of that responsibility comes in the firm's long-term, client-focused strategy, in ensuring care and attention in client administration, to the Research team probing deeper in their analysis and questioning, to our communications team constantly seeking to raise the bar in the content that they share with our clients. Respect for our clients and for one another is integral to our culture.

GOVERNANCE, RESOURCES & INCENTIVES

Ownership

Walter Scott is a subsidiary of BNY Mellon as one of a number of investment boutiques within its Investment Management division. The firm operates autonomously within that structure and typically two representatives from BNY Mellon sit on the Walter Scott Board of Directors.

Our governance

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. Effective and appropriate governance is critical in the effective stewardship of our clients' capital.

Just as we expect companies to continually improve, so we must do too. In recent years, we have taken a number of steps to formalise governance structures across the firm. At a board level, we have appointed a non-executive Chair and an independent board member.

We have also reviewed our board committee structure and formalised an ESG working group.

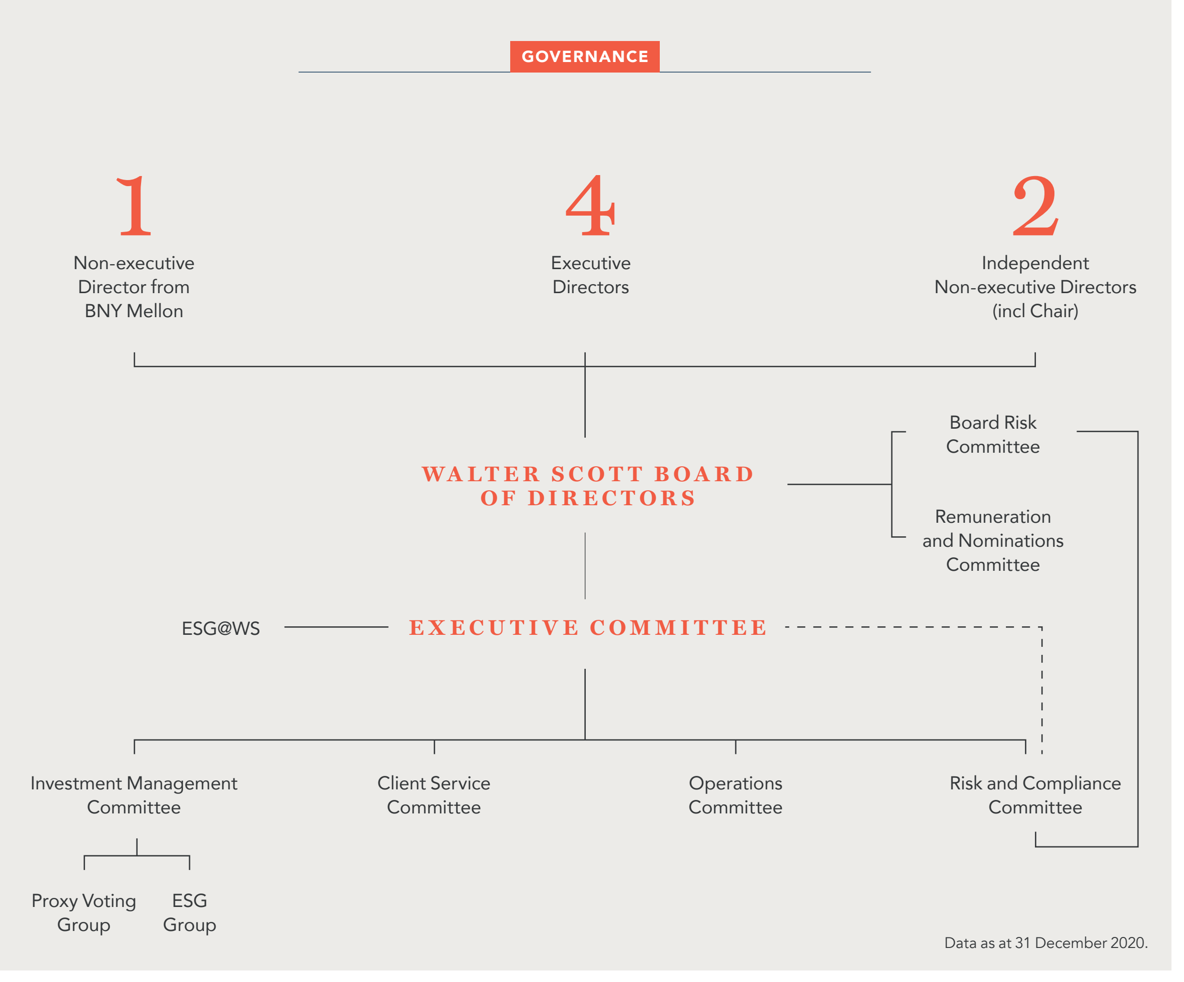
Six years ago members of our Research, Investment Operations, RFP and Consultant Reporting, Compliance and Communications teams began collaborating, sharing thoughts and working together to better report on ESG aspects of our research. Since then our work around ESG has increased materially, as have the needs of our clients in terms of reporting and evidence. So in 2019, recognising its importance, that group was given a more formal structure and remit to review and monitor ESG within our research and investment decision making. The group is now led by the firm's Head of Investment Operations with representatives from across departments. Helped by that breadth of membership, the group provides a very useful feedback loop, with representatives from client service and our RFP team able to report back on new or expanded areas of client or consultant questioning. Questions and requests for data around environmental metrics and an approach to climate change have risen markedly in recent years, by way of example.

In 2019 we also set up a group – ESG@WS – to look at the firm's own ESG credentials with a focus on our environmental footprint and social licence to operate. The group reports into the firm's Executive Committee and recent initiatives have looked at energy efficiency of our offices, food waste, recycling and offsetting the carbon cost of frequent air travel.

In 2020, a further group was established to specifically consider regulatory and industry change around stewardship and responsible investing. That group is charged with ensuring that the firm not only meets its obligations but also follows best practice across its operations. The group is headed by the Head of Investment Operations with representatives from Communications, Compliance and Research.

Our Investment team

With the Investment Executive and Research team at its core, we include Investment Operations, Investment Assistants, Dealing, Portfolio Implementation, Cash Management and Client Service in our wider investment



team. Within that wider team there are a number of individuals who were part of the Research team for many years and they continue to share experience and contribute to discussions.

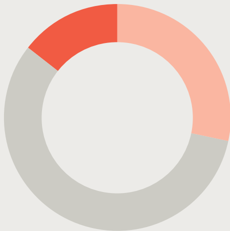
From the firm's earliest days, it was recognised that an effective, and successful, team approach requires diverse views and perspectives. Reflecting that aim to reach a diverse pool of talent we have established strong partnerships with the Robertson Trust in Scotland and US-based Girls who Invest over a number of years. This year, we also welcomed our first interns from Crankstart, a well-established and highly regarded charity that supports students at Oxford University. Through these partnerships and a number of other initiatives we have sought to improve diversity across a range of metrics. The firm's management recognise that further efforts must be a priority not only in recruitment but also through an inclusive workplace that offers opportunities for all to progress, and to be heard.

The firm's culture and management approach is focused on treating everyone as an individual. In an industry often characterised as one in which frequent job moves are the 'smart' thing to do, Walter Scott has an impressive record in retaining talented individuals. The management at Walter Scott spend a lot of time thinking about long-term career development, both in creating a culture that recognises success and offers opportunities, and one where individual career plans spanning many years, if not a decade or more, can be made.

The role of Stock Champion

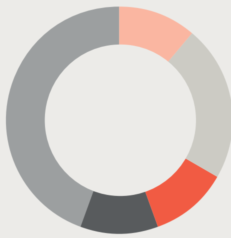
Each stock held is championed by a member of the Research team. Typically, the champion will be the person that first proposed the idea and who is then responsible for monitoring thereafter. As careers develop however, a member of the team might take on

BOARD OF DIRECTORS



EXECUTIVE COMMITTEE

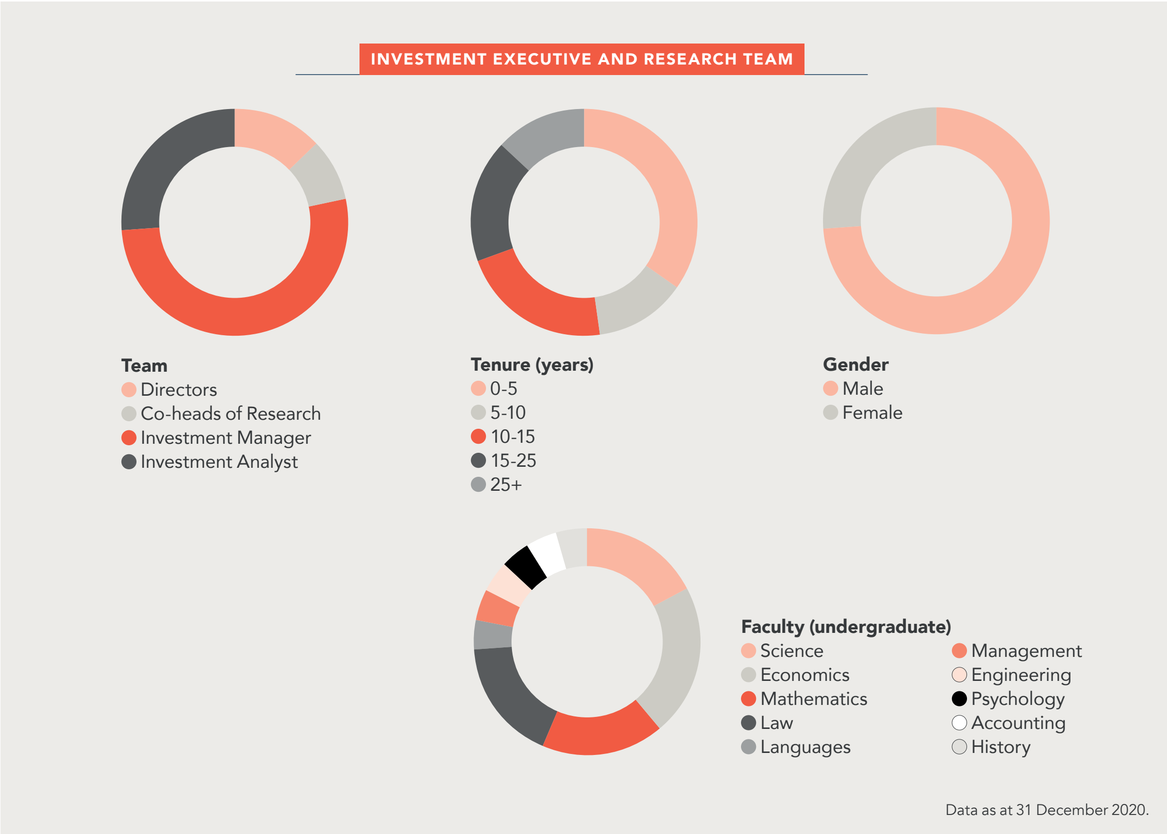
- Chair, Managing Director
- Member, Executive Director, Investment
- Member, Executive Director, Investment & Client Service
- Member, Executive Director, Investment Operations
- Member, Chief Compliance Officer & Head of Risk
- Member, Head of Governance & Operations
- Member, Head of Client Service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



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
- 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

Data as at 31 December 2020, other than in regards to the Executive Committee. Membership of that Committee changed in January 2021 and to be both transparent and avoid confusion, we have included that updated list of members.



other responsibilities, and in those instances stocks are reallocated.

The Research team is structured into three regional groups 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.

In every aspect, every Stock Champion is supported by colleagues in sharing experience or sense-checking conclusions but responsibility rests with the individual. Furthermore, the Stock Champion is responsible for assessing, analysing and monitoring all material opportunities and threats 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 & review

Remuneration is obviously also an important part of the retention and motivation of staff. The firm's approach to remuneration very much reflects its culture and its 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 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.

The remuneration, and associated performance review process, has always been tailored to the long-term, but in 2020 a new process of performance appraisal was introduced. Moving away from a single review at the end of the year, led by a line manager and with formal paperwork to be completed, we now ask every member of the team to take responsibility for their own development. As a regulated firm, we must have a culture and environment that encourages and supports everyone to speak out. This new approach that allows individuals to plan their own career and development is very much in that same vein of speaking up and taking responsibility, albeit with lots of support and direction.

Resources & training

In addition to in-house training and regular knowledge-sharing workshops, all members of staff have access to the resources of BNY Mellon's own online training university. The firm also has close links with a number of universities. Academics from the University of Edinburgh and Imperial College London were amongst the presenters in 2020.

For the Research team there is a regular programme of presentations from external experts as well as presentations from individuals within the team. These presentations cover a wide range of topics, with suggestions for new topics or research projects generated by the team. This year, there have been numerous presentations on environmental issues, including carbon measurement, renewable energy, batteries, electric vehicles and the circular economy. There have been sessions on accounting practices, Covid-19, cognitive diversity and historical economic highs and lows to list just a few. In addition to the presentation of in-house research projects, the team has heard from recently retired CEOs of major global corporations, journalists and other experts from industry and academia.

Through our bi-annual Research Journal and our client events, the Research team have further opportunities to engage with a range of industry and academic figures. Across our events and our Journal we seek to share our own thinking with that of recognised experts and commentators. Relationships with those experts are often maintained over time with a number of regular contributors and event speakers.

The 11th edition of the Research Journal issued in September included an interview with Dieter Helm, Professor of Economic Policy at the University of Oxford and author of a number of books including, Net Zero: How we stop causing climate change. Our 10th edition, issued in the Spring included an interview with Jochen Zeitz, a renowned environmentalist, acting CEO of Harley Davidson, past CEO of Puma and responsible for the first environmental profit and loss report at luxury good conglomerate, Kering.

CONFLICTS OF INTEREST

Limiting potential conflicts of interest

Our approach to conflicts of interest is straightforward. Wherever possible, we will try to remove the potential for conflict. We'd far rather eliminate a potential conflict than pursue a complicated policy to address that conflict. Personal investment is a good example. No-one at Walter Scott is permitted to buy an individual share. That may be considered excessive to some outside the firm, but it is a clear and simple approach that makes it very clear where the obligations of everyone at Walter Scott lies. Everyone understands that their work at the firm is on behalf of the clients of the firm. Of course, not all conflicts can be avoided entirely but given Walter Scott's size, with one line of business and a relatively small number of clients, conflicts are perhaps more

“Our approach to conflicts of interest is straightforward. Wherever possible, we will try to remove the potential for conflict.”

> *"We do not invest to agitate for change but we do recognise that we have a duty to engage with companies to ensure that proper processes and practices in respect to all stakeholders are met, and are continually improved upon."*

limited than they would be otherwise. We follow our own Conflicts of Interest Policy and as an additional layer of procedural scrutiny we also adhere to the conflicts policy of our parent company, BNY Mellon , albeit our own Policy is understandably more business specific and thereby more demanding.

Our Conflicts of Interest Policy is also regularly assessed and reviewed at least annually by the Risk & Compliance team which maintains a conflicts matrix. This matrix is then reviewed on a six-monthly basis with any changes submitted to the Risk & Compliance Committee for review and approval. Conflicts, although rare, have most often occurred over time where we are invested in a company that is also a client. There were three instances of this in 2020. More recently, with the rise of shareholder resolutions, there have also been instances where we are voting on a resolution put forward by a client. In this instance, we will document our process and our view, to show that our conclusion has been reached independently, making the most of our in-house expertise and in line with our Proxy Voting Policy, just as we would do with any other proposal. This situation arose three times in 2020.

Our Proxy Voting Policy makes clear that where there is any potential, possible or perceived conflict then the matter must be discussed and agreed with a sub-group of the Investment Management Committee (IMC). The Proxy Voting Group consists of senior members of the Investment team as well as representation from our Compliance team. Any contentious issues and meetings of the Proxy Voting Group are discussed weekly by senior members of the Investment team and also formally reviewed on a quarterly basis by the Investment Management Committee (IMC).

We also have a clear policy and well-defined processes in regard to the receipt of material non-public information. That process and the appropriate points of contact are regularly provided to companies held across portfolios, and their advisors where relevant. Our Conflicts of Interest Policy is available on our website.

➔ *Conflicts of Interest Policy*

PROMOTING WELL-FUNCTIONING MARKETS

Our approach

We believe that our long-term investment approach is very much aligned with the purpose of equity markets in providing capital to companies around the world. Further, through our engagement with companies, we believe that as a long-term investor companies value our place on their investor roster.

We believe that engagement with companies makes a valuable contribution to well-functioning markets in encouraging transparency and best corporate practices.
We do not invest to agitate for change but we do recognise that we have a duty to engage with companies to ensure that proper processes and practices in respect to all stakeholders are met, and are continually improved upon. We believe that companies that demonstrate such standards and leadership will be rewarded in share price return over time. Equally, demanding high standards in governance as well as social and environmental factors, benefits us all as well as financial markets.

Systemic risk

At any point in time, there will be a myriad of risks within global financial systems. We mitigate exposure to those risks through the conservative management of our business and through our focus on long-term, long-only global equity investment. Our investment is selective and directed towards high quality, and financially sound companies. It is also diversified across geographies and industries. We believe that our own, in-depth research is the best risk management tool in addressing individual stock risk.

At a firm level, a Risk & Compliance Committee reports into the Executive Committee and to the Walter Scott Board. A further Board Risk Committee reports directly to Walter Scott's Board of Directors. Throughout the firm, risks are identified, planned and prepared for and monitored through a formal risk matrix that is reviewed and updated at least annually. That risk matrix also fits into BNY Mellon's risk framework adding a further layer of supervision and identification of risks over time. Its purpose is to identify all material

<20%

—TURNOVER—

Annual average turnover below 20%

46%

—>10 YEARS—

46% stocks in global representative portfolio held for >10 years

74%

—5 YEARS—

74% stocks in global representative portfolio held for > 5 years

Data as at 31 December 2020.

risks at the level of each team or group within the firm, and then assess and monitor the processes in place to manage all identified risk. The head of every team or group within the firm is responsible for ensuring that all risks are noted and all corresponding processes are then fit for purpose and followed. Walter Scott's Chief Compliance Officer & Head of Risk, supports that process and is then responsible for collating that information and considering cross-team risks, working with BNY Mellon's risk team to both monitor and manage risks across the firm.

At a portfolio level, risks across a range of metrics are monitored and discussed weekly by the Investment Management Committee. Portfolio risks are also extensively reviewed at a formal quarterly meeting of that Committee. We invest in around 220 large, publicly listed equities and so liquidity and market risk is relatively low. We do however, carefully monitor portfolio risk and characteristics and regularly report to our clients on those metrics.

At a portfolio level we consider our in-house company research to be our primary mechanism for risk management. Within our research, we must consider all risks that might impact our long-term investment case. Those considerations might be financial risks or competitive threats, stemming from new entrants and market disruption, or loss of leadership, due to patent expirations or obsolete technologies. Equally, they might stem from social issues and the financial cost and customer disapproval that stems from mistreatment of workers or badly monitored supply chains rife with abuse or simply too much cost cutting. Environmental analysis to properly understand a company's footprint and the risks associated with that, must also be central to thinking around the long-term outlook for any company. Engagement with companies on this subject has increased markedly as the amount of information and data has also increased. Our job is to analyse that data, and attempt to standardise and compare, in order to make informed judgements. The absolute levels don't necessarily matter, but we do need to understand the direction of travel, and must be able to monitor and judge that progress.

What are considered the most serious systemic risks to global financial markets will clearly change over time but in 2020, the Covid-19 pandemic has of course been the stand out risk and one that has stretched far beyond the global financial system. From an operational standpoint, as a firm, we were able to quickly, efficiently and effectively move to working from home, with only a very small number of staff from Dealing, Portfolio Implementation, Cash Management and Facilities remaining in the office. Those staff remained in the office as a precaution, but one that we felt was important. Our communication with clients continued as usual and indeed we increased our efforts to communicate with filmed interviews with senior management and our Research team. From a portfolio oversight perspective, as ever, a close watch was kept on market liquidity and from a research standpoint, additional work was undertaken to stress test individual companies. Whilst our investment criteria demands that companies be well capitalised with limited and manageable debt, if any, the Research team did collectively reassess all holdings. Taking worst case scenarios of halted operations or closed shops for an extended period, they assessed the ability of companies to meet any debt obligations and to continue to operate. As a result of that work, two holdings were sold. We were assured of the immediate financial resilience of both companies but both were heavily exposed to consumers, and particularly office workers. We felt that the recovery would be extended and the resultant uncertainty was agreed to be beyond our tolerance levels.

Climate change is another risk that has risen in status over 2020. Regulators and central banks now increasingly categorise climate change as a global systemic risk. The risks associated with climate change, as well as the opportunities that have come to use emerging technologies to limit climate impact, have long been part of our conversations with companies.

The marked increase in company reporting in this area, alongside our work with CDP and Climate Action 100+ have also been important factors in increased engagement with companies on climate change. Recognising the importance of this issue and the critical role of companies in limiting or eliminating climate impact alongside the challenges that come in interpreting and critically judging ever-greater reporting by companies on this subject, we have worked over the course of 2020 to re-assess our position and improve our reporting.

The Research team has worked collectively to examine, and in many instances re-examine key components of climate damage alongside a review of key technologies that companies might employ to address climate impact. The conclusions of that work will be incorporated in our research framework in 2021. Environmental issues will also be more formally included within company engagement and we will plan to improve our environmental reporting across client communications and through our website.

REVIEW & ASSURANCE

Holding ourselves to the highest standards

With a relatively small client base we are in the fortunate position of being able to speak directly to many of our clients and partners. We encourage clients to visit our offices where possible and we augment quarterly or annual calls with invitations to events. All of this work gives us the opportunity to listen to our clients, to hear their concerns and appreciate their priorities.

This feedback is in turn incorporated into our client communications. As an example, discussing, and then remembering, instances where our investment case has not worked out has always been an important, and valued, part of our Research team discussions and similarly, we know from client feedback that they appreciate the sharing of those lessons through our communications.

We also judge ourselves. To ensure that our business continues to be successful, we must do so. We are rightly judged by our non-executive board members and by our parent, BNY Mellon but just as important, in our view, is our own critical eye. We judge and critique companies every day, we must turn that eye to ourselves.

Ongoing review & scrutiny

At a Board level, the firm's strategy is formally reviewed annually, and communicated to staff. Policies around which the firm operates, are matched to the relevant board committee, which are responsible for quarterly confirmation that the policies remain effective. A full review of every policy is required annually to ensure the policy is not only effective but supports continued improvement. Recognising the need for continued improvement, steps to add more formal consideration, review and oversight of our investment stewardship are planned for 2021.

Wholesale review is also periodically undertaken. This year, we undertook a formal review of our processes and policies on ESG, Engagement and Proxy Voting. That review highlighted areas for improvement as well as specific actions in line with best practice. In 2021, we will review highlighted areas and implement changes in oversight and process. As part of that work we will also issue updated policies in early 2021.

We also established an ESG Regulatory Working Group in the second half of the year with representatives from across the business. This group plans to streamline our existing suite of policies and will also be responsible for ensuring that our reporting meets new regulatory requirements. Reporting to clients also continues to evolve, and under the direction of this new group we plan to enhance reporting on both engagement and proxy voting during 2021.

All committees, with the exception of the Remuneration Committee meet formally quarterly, with many meeting more frequently informally, either weekly or monthly. Standing

“We encourage clients to visit our offices where possible and we augment quarterly or annual calls with invitations to events. All of this work gives us the opportunity to listen to our clients, to hear their concerns and appreciate their priorities.”

> *“Mindful of responsibility upon all in the industry to ensure well-functioning financial markets, we do plan to more actively consider possible actions or efforts around pertinent issues.”*

agendas ensure that key metrics are reviewed, discussed and challenged. The ongoing review and assessment of applicable policies is one of the standing items.

The firm is also regularly reviewed by the internal audit team of our parent, BNY Mellon.

In regard to external assurance of our stewardship specifically, our response to the UK Stewardship Code was initially reviewed and tested by a leading accountancy firm. However, we decided to pause on that process until more industry-wide approaches were agreed regarding such reviews and assurances. The options in terms of external reviews have of course increased and improved since then and so it is a matter that remains under active review. This report has, however, been formally approved by Walter Scott’s Managing Director.

SUPPORTING HEALTHY FINANCIAL MARKETS

Partly as a reflection of our focus on institutional clients and our equity-only remit, we have historically not been actively involved in, or commented upon, efforts to improve the functioning of financial markets. However, acknowledging that responsibility rests upon all, in recent years we have submitted comments to Investment Association initiatives, for example, and last year worked collaboratively with our parent, BNY Mellon and its other investment boutiques to respond to the US Department of Labor’s, “Financial Factors in Selecting Plan Investments” proposals. Whilst our approach is likely to continue to be highly selective, we will continue to consider issues where we feel we can make a worthwhile contribution to the debate or regulatory process.

Similarly, whilst our own procedures around the identification of market-wide and systematic risks within financial markets are extremely robust insofar as they might impact our clients’ assets we have not pursued any public communication or advocacy on those issues. However, again, mindful of responsibility upon all in the industry to ensure well-functioning financial markets, we do plan to more actively consider possible actions or efforts around pertinent issues.

COLLABORATION AROUND DEPARTMENT OF LABOR PROPOSALS

In Summer 2020, working in collaboration with our parent company BNY Mellon and the other BNY Mellon boutique investment management firms, we engaged with the US Department of Labor (DOL) to put forward comments on the notice of proposed rulemaking entitled “Financial Factors in Selecting Plan Investments”. Broadly, we very much supported the DoL’s efforts to clarify the regulatory treatment of ESG factors under Title I of the Employee Retirement Income Security Act of 1974, however there was some concern that the proposal as it stood might create confusion and may increase risk for plan fiduciaries. In that context, the following recommendations were made:

As a collective group, we recommended that the Department distinguish between: (i) economically targeted investments (“ETI”) that are selected in part for collateral, non-pecuniary benefits; and (ii) “ESG integration” strategies in which each potential investment’s ESG factors are considered as part of a disciplined investment process that considers all material economic factors.

More specifically, we recommended that the Department maintain the materiality standard in the definition of “pecuniary factors,” which better reflects the usage of ESG factors in ESG integration strategies and removes the obligation to compare investments selected using pecuniary factors with “alternative investments.”

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

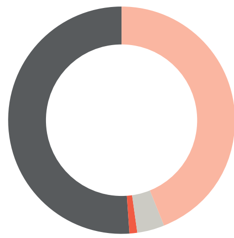
Our clients

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 ask of clients; that they afford us some patience. It may seem a rather uncommercial approach, but by definition, mirrors our belief in long-term, buy and hold investing. We will of course be alert to short-term ups and downs, but we cannot be swayed by every bump on that long-term journey. We define long-term, as over the course of a business cycle, at a minimum. Our job is to analyse and understand companies, and select those that 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.

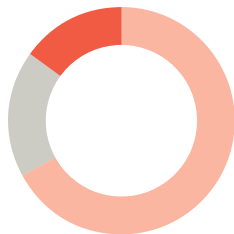
The same approach to stewardship is applied to all assets managed by the firm.

Reporting back

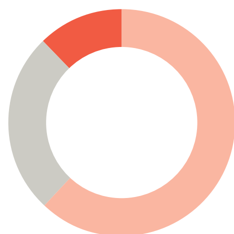
Reflecting our integrated approach, the monthly and quarterly investment commentaries that we share with our clients will typically share insight into the team's stewardship work. As a research-led investment approach that is entirely focused on the merits of individual companies without any macro-economic view or top-down allocation strategy, so it follows that our regular commentaries reflect



Client breakdown (by number of clients)
- Segregated clients – 44%
- Distribution partner clients – 4%
- BNYM collective institutional investment vehicles – 1%
- Clients invested in commingled investment vehicles managed by Walter Scott – 51%



Client breakdown (AUM by region)
- Americas – 67%
- Asia Pacific – 18%
- EMEA – 15%



Client breakdown (by AUM)
- Segregated portfolios & commingled investment vehicle clients – 62%
- Distribution partner clients – 26%
- BNYM collective institutional investment vehicles – 12%

Data as at 31 December 2020.

> *With environmental, social and governance considerations central to our analysis so that work and our ongoing dialogue is reflected in the commentaries and updates we share with our clients.*

the developments and success, or otherwise, of the companies in which we invest. With environmental, social and governance considerations central to our analysis so that work and our ongoing dialogue is reflected in the commentaries and updates we share with our clients. Similarly, it is part of our regular conversations with clients, and not kept for a separate occasion.

But reflecting the importance of this subject to us, and to our clients, we do also prepare specific reports focused on our stewardship activities that highlight pertinent or topical aspects of our integrated ESG research. All clients receive an Annual ESG Report that seeks to summarise the work of the Research team and provide examples of the range of engagement undertaken. That report also includes an update and review on the firm's own ESG actions and initiatives. A version of that report is posted on our website. Clients also receive a quarterly ESG Commentary. That report considers events within the ESG world, topical events or issues as well as highlighting standout company meetings. Similar themes often come out across meetings and we will summarise those views and our response. The challenges that some companies have faced building resource and prioritising the increasing demands of ESG rating agencies, as well as working with the range of methodologies applied by these agencies, have been one such recent example. We will also summarise any specific engagement, and the success, or otherwise, of that work. That commentary is shared on our website.

➔ *Q4 2020 ESG Commentary*

The Responsible Investing section of our website has been expanded significantly in 2020 to bring together relevant materials and as a means for us to share more insights on our work.

We have always periodically shared the results of particular research topics, both as written reports and interviews with the Research team. Our efforts in this regard have increased over the past 18 months and we intend to publish more regular research in 2021. Recent examples include a note from a leading shale oil and gas producer's inaugural ESG investor day and a report, in print and video, of a retail supply chain research trip to Bangladesh and Vietnam. We also include interviews with our Research team and academic and industry experts in our biannual Research Journal. Recent articles have focused on sustainability standards, net zero targets and the role of the auditor.

➔ *RI Research – Talking ESG in Texas*
➔ *RI Research – Standards at the End of the Supply Chain*
➔ *Walter Scott Research Journal*

Clients receive summaries of applicable proxy votes within monthly and quarterly reports. Many clients also receive more in-depth, bespoke proxy voting and engagement reports based on their respective portfolios. An increasing number of clients and consultants also ask us to complete ESG questionnaires on a quarterly basis. Further, a significant number of clients receive annual compliance certifications alongside contractually detailed monthly and quarterly reports on trading and administrative actions, including any breaches of agreed procedures or terms.

More generally, the quality and relevance of our reporting is something we keep under ongoing review. Direct, and regular, communication with our clients is something we have always prioritised, and our client service team has always been structured and resourced to meet that need. Almost everyone in our client service team has previously worked in an investment role, many of them within Walter Scott's own Research team. We believe strongly that experience leads to better conversations with our clients. Through those conversations it is very much part of the client service role to elicit feedback on what we might do better. In our view, nothing can replace our direct conversations with clients. For segregated clients that will typically include a formal or face-to-face meeting once or twice a year, with shorter quarterly catch-ups also part of our overall service. The frequency of that dialogue does, we believe, allow us to capture where improvements or changes in reporting might be made. The long tenure of many of our clients is of course a very important factor in the success and value of those conversations, often over many years.

By way of an example of change in reporting, through ongoing discussion with one of our distribution partners, we expanded its monthly reporting in mid-2020 to include examples of engagement over the past month, therefore providing more-timely examples and stronger sense of what we mean by engagement, the range of topics discussed and approaches we might take. Beyond client specific requests, we will also make changes based on a collective need. In 2019, we expanded our annual ESG report significantly. It had previously been prepared to meet the specific request of a small number of clients, in 2019 we expanded its scope to include ESG-focused research and engagement across all holdings and to incorporate our own work as a firm in this area. As a further example, having provided explanation of decisions to vote against management within proxy voting to a number of clients for many years, in 2020 we decided to incorporate that detail into the standard quarterly financial reports that go to all clients.

We do also undertake more formal analysis. Whilst, as noted, we place greatest importance on open, meaningful and constructive dialogue with our clients we do commission client research annually. One of the most well-known financial services consultancies is contracted annually to survey clients and consultants in the US on our efforts across all aspects of client service including reporting and investment writing. The results of the survey rank our efforts over time with comparison against a relevant peer group. Viewed over time, the results that survey also allow us to evaluate the effectiveness of our reporting and communications as well as the success, or otherwise, of any changes in form or content.

Client restrictions
A number of 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 giving an explanation of why there has been a status change. This process allows the team to review all accounts on a daily basis and take any required remedial action at the earliest opportunity.

Technical or passive breaches of investment guidelines can occur as a result 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.

STEWARDSHIP, INVESTMENT & ESG INTEGRATION

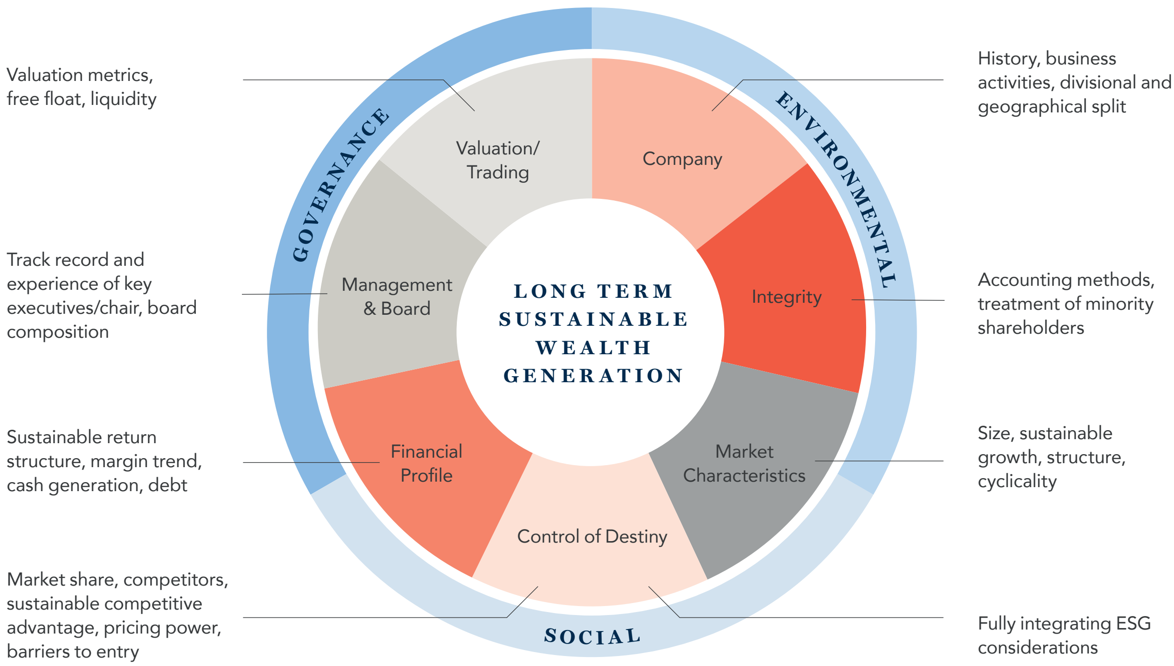
We seek to invest in companies with the potential to generate meaningful wealth over the long term. Equity market history shows that over time, that corporate success will be reflected in share price return, which in turn allows us to meet the return expectations of our clients. Our job is not to invest in markets, hoping for a change in sentiment nor to invest on a macroeconomic view. Instead, we invest in global equities based on our view of the merits and outlook for the underlying company, over the long term.

Our premise is straightforward. To succeed over time, a company must have certain qualitative and quantitative characteristics. It must also operate responsibly. Integrated ESG research is therefore central to our approach. We don't, therefore, have a separate ESG or engagement team, as we believe this would inhibit the integration of ESG into investment research, analysis and decision-making.

Our integrated research framework
Our research framework has been applied to every investment idea, considered and pursued, since the firm was founded. It was designed to ensure that all material opportunities and risks are considered when building a possible investment case. Deliberately, and consistently, our focus is on companies. Our approach to ESG research and engagement depends on the issues and opportunities materially pertinent to each company. We don't follow a predefined path depending on industry sectors or geographical classifications. Instead, within our overarching framework, the particular approach led by the respective Stock Champion will depend on the individual company.

Over time, the amount of available data has increased dramatically and our sources of research continue to grow, but the same key factors help us analyse and judge an investment idea. There are seven areas of focus, or pillars, covering tangible financial metrics as well as intangible, but material factors, such a company's integrity and its management

"Our research framework has been applied to every investment idea since the firm was founded."



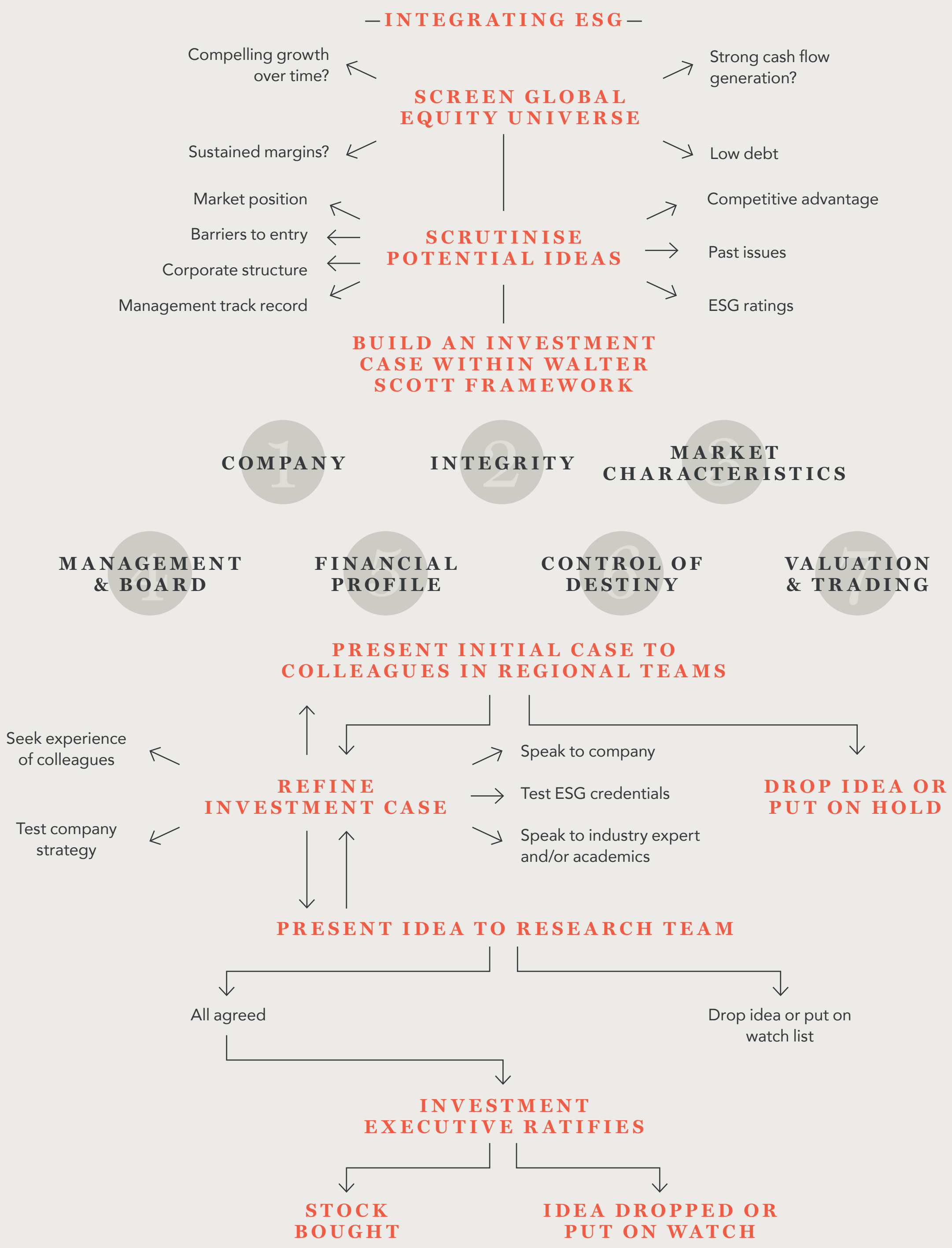
strength. In assessing integrity we must consider any past mistakes, look for evidence of a supportive and healthy corporate culture as well as sound governance structures. We must look at the track record of any management team, comparing personal missions to corporate direction. We are in effect entrusting a company management team with our clients' assets. We must be assured that there is proper governance in place in terms of clear management structures and properly qualified and effective non-executive directors. Reporting must be transparent, accounts unqualified with auditors that are recognised. We must ensure a company is sustainable, both financially and operationally. Its financial structure must be resilient. We look for strong margins and sufficient cash generation to allow high levels of investment through economic or industrial ups and downs. Similarly, a company's approach to environmental and social aspects of its operations must be centred on sustainable outcomes. Again, we want to see continued investment and evidence of success in those areas.

Events of 2020 have served as an important reminder of the need to consider all aspects of a company's business and its operations, including treatment of staff. The restrictions that have resulted from the Covid-19 pandemic have shone a light on those companies financially-able and culturally-willing to support employees through these difficult times. Whilst a company's approach to employee relations and recruitment and retention of staff has always been something that we considered in our analysis, those questions have certainly risen up the agenda this year. Similarly, whilst gender and ethnic diversity across a company's employees, and more specifically within senior management and at a board level, has always been something we would look at, our questions in this area are certainly now more robust. Headline numbers, or even targets, are no longer sufficient. Mission statements must be evidenced in practice. We must understand how a company's culture supports a workplace for all with opportunity for all, recognising, accepting and promoting difference in backgrounds, perspectives and experiences.

Evolution in approach

Our starting point in assessing or reviewing any new or existing holding has always centred on a consistently applied research framework. However, as the breadth of considerations has widened and the amount of data and information that is available has expanded, we have begun to consider how our research framework might evolve to incorporate new areas of information, as well as reflect the growing importance of certain factors. Integrity has always been one of the seven pillars. As long-term investors we have always recognised that we must align our clients' assets with companies that do the right thing over time. Simply, because those

FROM IDEA TO INVESTMENT



> *"As long-term investors we have always recognised that we must align our clients' assets with companies that do the right thing over time."*

IN CONVERSATION WITH COMPANIES – MANAGEMENT CHANGE

AIA

Whilst companies are managed by teams of individuals, a single change at the top of an organisation is not without impact. With all changes in top management we seek to engage early, to be clear in our hopes and expectations and to hear directly from the new recruit on their vision, priorities and motivation.

In July 2020 we had an introductory call with Lee Yuan Siong, the new CEO of AIA. The call began with a brief overview of Walter Scott, allowing us to stress our long-term investment horizon and expectations around engagement. In response to our stated hope that the effective investor relationship we've fostered over time will be maintained, Mr Lee reassuringly insisted this would be the case. He started his career at MAS (the Monetary Authority of Singapore), then spent 11 years at Prudential before moving to Ping An for 16 years where he held a top three role. We met him in that guise on a few occasions, both in our offices in Edinburgh and in Asia.

In recapping on his experience and expressing his enthusiasm for his new role, we were left with the positive impression that he is very much cut from the same cloth as his two predecessors, Mark Tucker and Ng Keng Hooi, both of whom he knows well. When talking about future strategy, as with his predecessors, Lee concluded his answers to most of our questions with reference to the long-term tailwinds that AIA enjoys and that are central to our thinking.

In discussing his work to-date at AIA, he reflected that one of the accidental positives to come from the Covid lockdown, and the restrictions on travel, has been that he and his senior colleagues have had time to work closely together going through the business with a fine toothcomb, and formulating and agreeing upon new strategies. They have been able to quickly forge relationships and learn to work effectively together. All of this made for an encouraging call and we look forward to engaging regularly with Mr Lee and his team going forward.

are the companies that will prosper over time. However, digging deeper to understand integrity in regard to employee or supplier relations, in terms of recruitment of staff or management, in management of environmental and social risks amongst other factors, has heightened the importance of this aspect of our research.

Over the past year we have reviewed our research framework to make sure that on a consistent and demonstrable basis we make the most of all the information and data that is now available to, ultimately, make more informed investment decisions. Likewise, governance has always been central to our analysis. Here again, we must consider and incorporate more information in our research and be more demanding in quizzing company management. We are actively considering how we might expand this part of our research to ensure that we consistently and methodologically incorporate all aspects of governance in our company analysis.

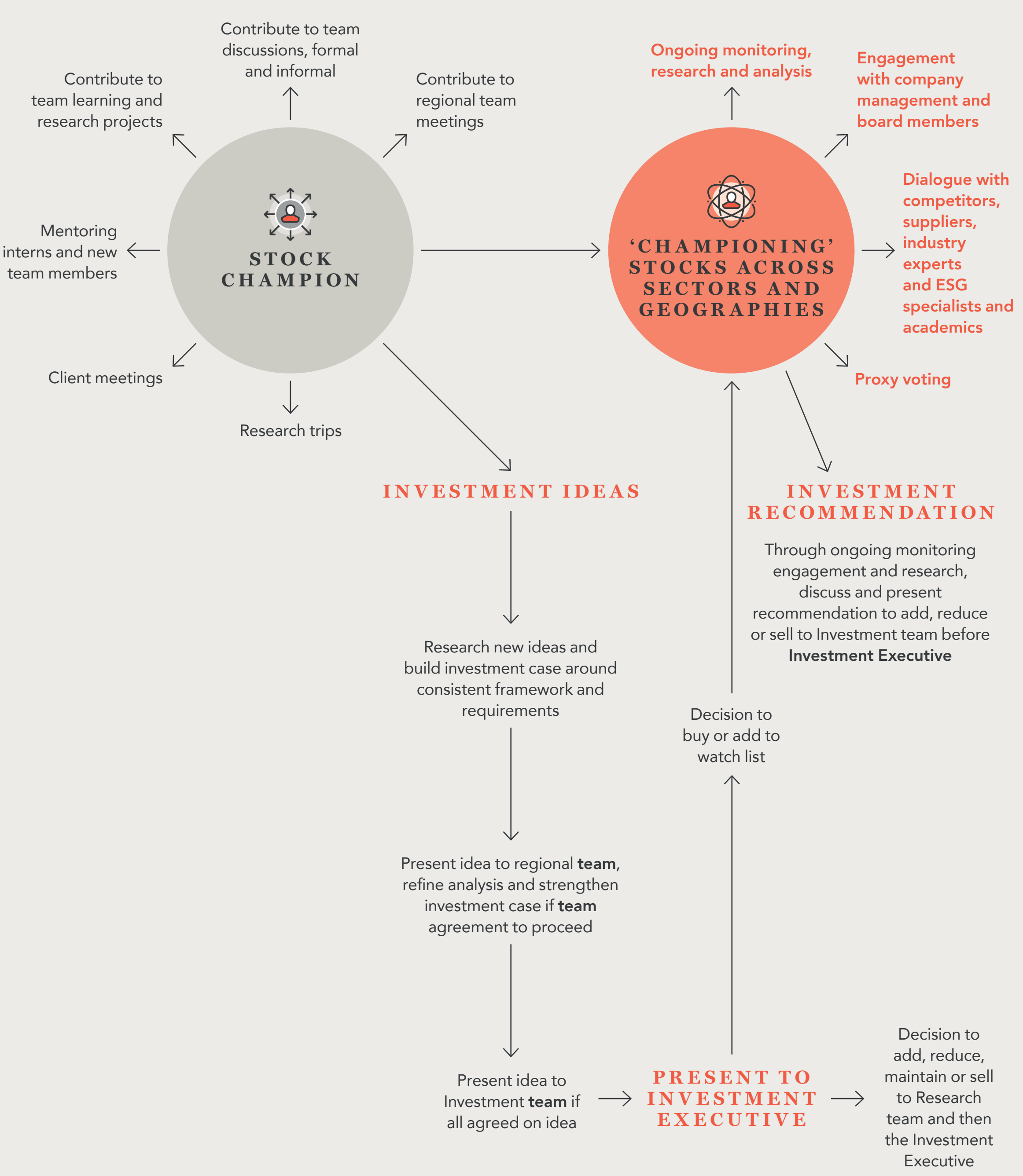
We are also looking at how we consider sustainability. Sustainability of margins or of growth, or of market position, has always been part of our process, but we must also consider environmental sustainability and the preservation and protections of company's social licence to operate over time. With the material increase in environmental data that we have seen, and the need to report on environmental outputs and impacts at a company and portfolio level, additional work is also underway to find a way to better consolidate, compare and analyse that information. This should ensure informed decision-making as well as support better reporting in this area as we seek to both evidence our research and justify investment decisions.

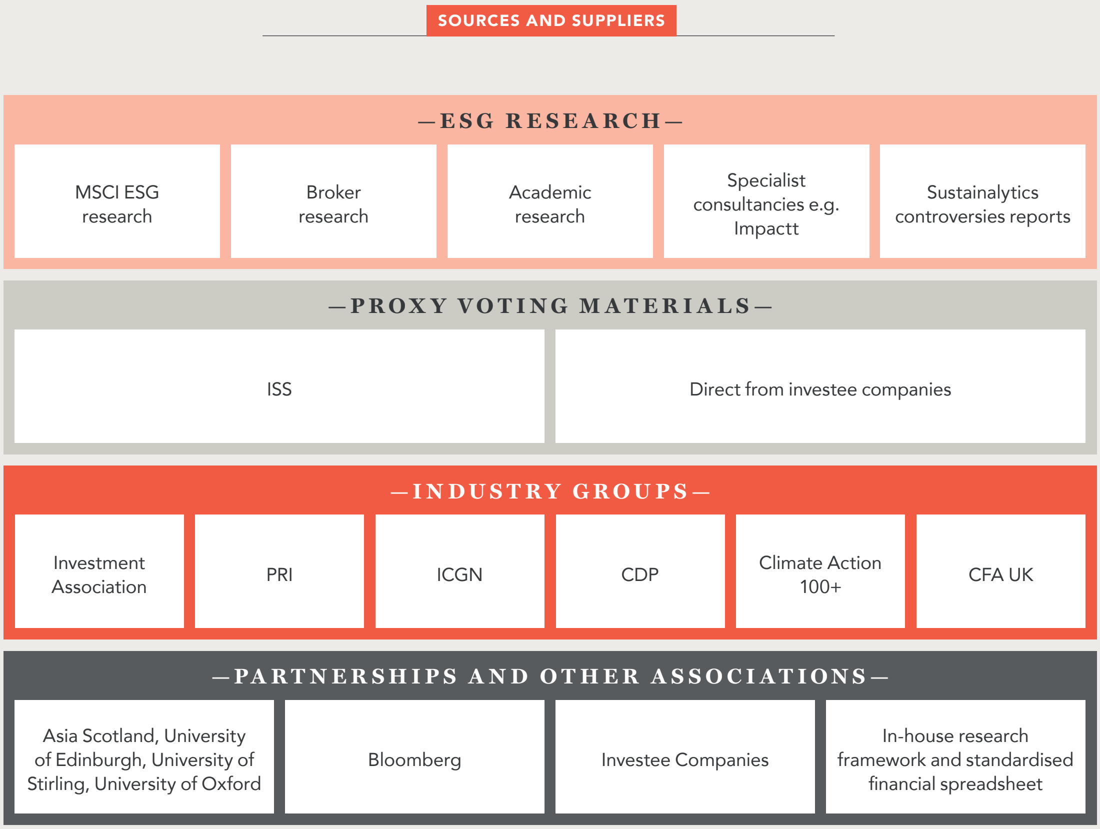
Monitoring over the long term

Monitoring existing holdings must be central to our stewardship of our clients' capital. Whilst decisions do not rest on short-term news or quarterly results, and indeed we try to look through short-term events, we must constantly be assured that the long-term investment case remains intact. Quarterly financial statements are often of very limited use but the commentary attached can provide useful insight. Commentary may give us insight to future investment plans or lines of questioning for future conversations with management. Ad hoc investment announcements, or M&A news, should be in line with the company's stated strategy. If not, management will be quizzed on why

OUR STOCK CHAMPIONS

—20 INVESTMENT MANAGERS & ANALYSTS—





Data as at 31 December 2020.

that is the case. There shouldn't be surprises. Announcements about changes in management are also carefully scrutinised. We will want to properly research any new appointee but just as importantly, we will want to understand the reason for any departure. This is often a case of reading between the lines of a press release, and where possible we do try to speak to any departing executive. Unsurprisingly, this tends to be possible when a member of the senior management is retiring or departing on their own terms, but regardless, we very often have found these conversations to be incredibly useful. A retiring executive can provide meaningful insight to a company's culture and approach, as they look back on successes and frustrations. Likewise, we put a lot of effort into our first engagement with any new CEO to try to ensure that from the outset, they understand our long-term interests and focus, and our wish for genuine engagement over time.

External research

The investment case for any company rests upon our own in-house research, which incorporates both our consistently applied analytical framework and the benefit of our team approach and discussion. A Stock Champion must defend their own work, and thereby cannot simply rely on external research. That said, of course, the Research team will refer to external research. The Research team has access to a range of external research sources, from academic institutions, industry bodies and the brokerage divisions of investment banks amongst other sources, but, to reiterate, does not rely on external research to build an investment case or make an investment decision. In regard to ESG-specific reporting, we use ISS for proxy voting materials and summaries and we also have access to MSCI ESG research. We also have access to relevant Sustainalytics

> *“With no reliance on external research, we remove the risk that data within a single external piece of research might be inaccurate at any point in time.”*

controversies reports. But we do not rely on any of those recommendations or ratings. We do not outsource any aspect of our investment or stewardship to third parties. Instead, we refer to relevant external research and sources of data and information as a cross-reference against a company’s statements or comments as well as our own research.

With no reliance on external research, we remove the risk that data within a single external piece of research might be inaccurate at any point in time. Within our dealing and portfolio oversight teams, there is reliance on Bloomberg data feeds but there are clearly defined processes in place to cross reference data with alternative sources and systems are programmed to alert those teams to any apparent anomalies.

MONITORING MANAGERS & SERVICE PROVIDERS

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 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.

Where we use broker research, academic or industry expert input, MSCI ESG research or research from other specialist bodies or organisations that input will only ever be part of a process of gathering information to come to our own conclusions and investment views. There are thereby checks and balances where we place any reliance on the accuracy of a specific input or view within our own research processes.

Investment decisions will not rest upon a single data point or input from an external research or service provider. Therefore, there is no need to use any particular source or provider of external research and if the team felt the quality of the information or service was not sufficient or questionable in any way, the arrangement would be terminated.

In regard proxy voting, we do receive materials from ISS and use their platform to submit all votes. But in terms of materials, we will also gather materials directly from the company. Engagement with the company, as well as just a common-sense check by the Stock Champion would also highlight any errors in the materials being provided. In processing of votes, we ask ISS to confirm to us that 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 be the case.

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.

Engagement is central to our process. We aim to engage annually with every company in which we invest for positive impact.

Dialogue with companies

Dialogue with companies through ongoing engagement has always been central to our investment approach. We might start with in-depth company research but direct communication with a company is central to building an investment case ahead of any decision to invest in that stock. From initial investment, ongoing communication is also a very important part of our monitoring of any position.

We invest in around 220 global companies. This relatively small group means that we have the time to speak to all companies, recognising the importance of those conversations. Our long holding periods, also afford the ability to forge relationships with companies over time, which often permits better conversations, in our view. Perhaps more importantly, that long-term investment horizon means that our conversations are deliberately steered to a company's strategic direction, which in turn, we believe leads to more constructive and valuable dialogue.

Whilst we have always tried to encourage constructive conversations and an exchange of views, the number of meetings where the conversation is very much a two-way dialogue has certainly increased in recent years. We typically invest in medium to larger capitalisation companies, which will in turn have well established, and well-staffed, investor relations departments but we have seen notable expansion in sustainability and environmental teams within companies. Those teams increasingly come to us for our perspective on priorities or views on reporting. We always welcome such requests and are keen to develop that role as a sounding board for companies.

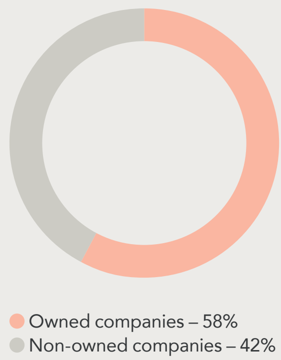
Over the past year, we have provided written and verbal input to the sustainability and ESG reporting plans of a US medical device company and a US industrial manufacturer. In both cases, we hope to be able to provide further input as those reporting strategies, metrics and plans are refined over time. A member of the Research team was also invited to present to the Board of a European energy company, as part of that company's efforts to ensure that its Board were aware of investor expectations around ESG in particular, and the ever-rising bar in regards to transparency and accountable metrics.

Defining engagement

Every day, members of our Research team will be speaking to companies, either existing investments or new ideas. Those conversations might be with a Chair, CEO or CFO, a head of IR or sustainability, a non-executive director or the head of a particular division within the company.

> *"Our long holding periods, also afford the ability to forge relationships with companies over time, which often permits better conversations, in our view."*

COMPANY MEETINGS 2020



TYPES OF ESG DISCUSSION – ALL ENGAGEMENTS

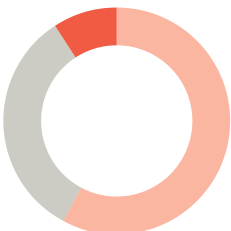
OWNED COMPANY MEETINGS / % MEETINGS WITH ESG DISCUSSION

Data as at 31 December 2020.

ENGAGING ACROSS MARKETS

Based on our engagement with companies across emerging markets, we would describe engagement in those markets as more often shareholder-led than company-led. Companies are keen to talk about the business, but in our experience it is rare for a company to want to arrange a call specifically to discuss environmental, social or governance issues. It is now very much standard practice for large-cap US companies, for example, to contact us annually to arrange a specific call around these issues but that isn't in our experience, normal practice for emerging market companies. It is of course wrong to generalise across emerging markets and the concept of stewardship is understood by some and the levels of disclosure can be on a par with international best practice. That awareness, whilst still not widespread, is also certainly growing. In our experience, disclosure within Latin American & South African companies is generally good, with North Asian companies often the worst and companies in other parts of Asia and India somewhere in between. In that context, we are always extremely cognisant of ESG risk factors in emerging market holdings, particularly given the greater divergence in standards across the opportunity set. But like any other company and any other market, we do seek to engage on material issues and ask for change where we feel a company is not meeting our expectations. Looking across our recent interactions with emerging markets companies, almost all the companies we have spoken to over the past year have expressed a commitment towards steady improvement on various issues that would fall under ESG. In turn, we are actively encouraging and supporting that process. Given our highly selective investment approach and the demanding criteria that we set, we would expect companies held to be leading the way, relative to their peers. We believe that is the case but efforts to encourage continued improvement are always ongoing.

GLOBAL DIVERSIFICATION



Strategy breakdown (by AUM)
- Global – 58%
- International – 33%
- Other – 9%

Regional breakdown of holdings
- EMEA – 29%
- Americas – 37%
- Asia Pacific – 34%

Data as at 31 December 2020.

We do not count every conversation as an engagement. Instead, a meeting or call is only counted as such where an ESG related issue has been part of that conversation. Reflecting our view that we must consider all material aspects in reaching a view on a company, so conversations with management will very often cover a range of issues. For us, there is strength and value in this approach and we rely on the Stock Champion to determine where ESG topics have been a substantive part of the conversation.

Our approach to engagement also varies. For US and European companies, we will typically raise issues directly with senior management. In the past, where there have been specific issues around remuneration or strategic direction, we have sought to speak to one or more of the company's non-executive directors with responsibility for oversight of remuneration policy and plans. Over recent years, there has been greater opportunity to speak to Board Chairs, which we welcome. For companies in Japan, we will still seek to speak to senior management, but the approach might be more formal in that letters outlining our concerns and wishes are a regular part of our engagement in Japan. Engagement with emerging market companies is as varied as their country of domicile.

Formal letters to the company are most frequent around proxy voting with recent examples including a formal communication with Oracle on its disclosure on gender pay and Japanese industrial company, Keyence on its dividend policy. In Keyence's case this communication was just the latest in a series of letters on this issue over many years.

Decisions on when and how to engage are made by the Stock Champion, but our team approach is also important in this regard. Just as meetings with companies are almost never held alone, so the decision on when to request, or accept a meeting, and the questions to be posed in that meeting are discussed collectively. Through discussion with colleagues, the proposed agenda and questions can be challenged and tested to ensure that we make the most of any meeting, with a focus on what is material to us, rather than just what a company might have rehearsed. Similarly, within those discussions with colleagues, there might be discussions on correspondence ahead of the meeting or on who should attend the meeting, whether, for example, representation from the firm's Investment Executive might support our efforts. Those members of the Research team with particular experience with a relevant issue or in this sector will also be asked to attend as will the Stock Champions of any similar or competitor companies.

"Our aim may be to encourage a company to evolve over time or to improve specific standards. Success cannot always be judged by a ticked box, nor can it often be quickly achieved."

Judging engagement

There are perhaps as many ways to judge the success of any engagement as there are ways to engage. Our aim may be to encourage a company to evolve over time or to improve specific standards. Success cannot always be judged by a ticked box, nor can it often be quickly achieved. Engagement is also often over a long period of time. Some of our conversations with Japanese companies, for example, on appropriate capital structures date back more than a decade.

However, limitations should not preclude attempts to judge. Within the formal review of our approach to engagement undertaken in 2020 we have tried to find ways to help us better define engagement and to structure and set engagement objectives. In turn this will allow us to consider methods to judge and report on that success, or otherwise. Over the next twelve months, we would certainly hope that our reporting around engagement will be more in-depth, with quantitative data to add to our existing commentary.

2020 CASE STUDIES

CLP HOLDINGS

CLP holdings, previously China Light & Power, was founded back in 1901. But in its more recent history it has transformed itself into an environmental leader in its sector. Part of this transition has been prompted by the ambitious government targets on carbon emissions in its key markets of Hong Kong and China but the company has also been proactively pursuing decarbonisation. Its first environmental plan, and set of targets, was announced back in 2007.

Whilst these efforts are commendable and success had been demonstrated, we decided to formally engage with the company to understand its path to further progress. From our perspective, the company's carbon rating appeared too high. With the company's coal assets responsible for the bulk of the emissions but an immaterial contribution to profits, we decided to formally engage with the company to suggest a review of those coal assets. We wrote to the company, outlining our views, proposals and questions whilst also requesting a meeting with senior management. That meeting was unfortunately cancelled due to Covid-19 related travel restrictions but we were able to meet by video call in March and since then have spoken to the management on this subject several times.

As is often the case in such situations, management had already begun to look at the options available for these assets whilst also considering the long-term management of them or the winding down of related mines and processing facilities. The company has made a public commitment to make no further investments in coal and has also begun efforts to exit some coal assets. To that extent, the company has started to implement the changes that we had identified. But in looking at further steps, through our engagement we have gained a greater understanding of the hurdles to further progress. Decisions of this nature are never straightforward and we recognise that the complete disposal of assets is not only unlikely but may not be the best course of action.

What we have learnt through this engagement, and through conversations with other energy companies, is that there is a genuine debate to be had on the disposal of assets. For CLP, there is a political dimension, with the need to consult with governments even on the curtailment of investment, far less the exit of assets. A sale might seem like the best option, but what if the buyer, often a private buyer operating away from the eyes of public listing, has no regard for environmental impact. Would it be better for CLP to retain those assets but manage them as well as possible environmentally and socially, accepting the environmental cost in terms of the company's emissions tally. Many of these assets are in emerging markets, where fossil fuels are for now the main energy source, with energy needed to drive economic growth. Generation assets and related infrastructure such as mines are very often located in rural areas with all local employment related to the industry, directly or indirectly. With no other options for employment and no chance of alternative inward investment that might create jobs, the social cost of that unemployment cannot be ignored.

That said, whilst we now have greater understanding and appreciation of the conflicting social and environmental demands, we will continue to engage with the company on its overall carbon impact, and urge continued steps to address that negative output.

INDITEX

As we, along with others across Europe and the US, went into lockdown in Spring of this year, there were alarming reports from apparel manufacturers in Bangladesh regarding cancelled orders and the refusal by some international retailers to take delivery of already manufactured clothing, and thereby a refusal to pay for those items. We know from past work on retail supply chains, including two research trips to Bangladesh, that these factories operate on very slim margins, and that the low pay of employees supports only subsistence living. We recognised that cutting off any means of income placed those factories, and those workers, in a perilous situation.

We have frequently engaged with Inditex on supply chain standards over a number of years. We have come to understand and appreciate the company's own efforts to ensure acceptable practices, and foster long-term relationships that protect those practices as well as the company's work within several industry initiatives. In testing times, commitment to mission statements and best practices is truly tested and so we quickly contacted Inditex so that we could understand the steps that the company had taken, or would take, to minimise the impact of Covid-19 lockdowns on vulnerable factory workers in markets such as Bangladesh. In doing so, we were assured that the company had met all its financial commitments and had continued to support its partner factories, whilst also taking a lead in industry-wide initiatives. Having researched this subject extensively in the past and engaged with the company, we were confident that Inditex would do the right thing. This recent engagement, however, assured us that our assumptions were well-founded.

NOVO NORDISK

Our engagement with Novo Nordisk dates back at least ten years and over that time we have established an open and constructive relationship with number of individuals at the company. Our dialogue with the company is both regular and very useful. During 2020, in addition to listening to quarterly results calls for investors, we have engaged with the company six times. There have been two calls with the CFO where social factors were discussed alongside financial data points and direction. The first call, on the cusp of Covid-19 related lockdowns, focused on employee engagement and support, as well as maintaining supplies of its products and treatments. A second call with the CFO in the summer, allowed further discussion around those supplies as well as the expansion of its free access programmes. At the beginning of year we had a governance-focused call with the Chairman and CEO, as we do every year, and we also engaged with the Chief Science Officer and the investor relations team over the course of the year.

In addition to this work, all members of the Investment team have participated in stewardship training to ensure they all understand where industry expectations now lie, and thereby what is expected of them. This training was part of the investment team's ongoing training and development programme. Experts and academics have led sessions on questionable accounting practices, environmental reporting and management communication. Within that communication training we were given directions on how to tell when a CEO is being evasive or uncomfortable with the line of questioning. There have also been sessions on economic topics, technological shifts and corporate behaviours, such as fostering cognitive diversity.

COLLABORATION

Historically, collaborative engagement was a very rare undertaking for Walter Scott. With a relatively small number of company investments and demanding long-term investment criteria that focus on quality and market leadership, as well as robust ESG criteria, the kinds of issues that often demand collective action were rare. Where a company did behave badly, we would more commonly simply sell the stock. However, engagement has evolved, rightly so. It is no longer only extreme violations of working practices or excessive disregard for stakeholders; it is about working with companies to continue to raise the bar in ESG practices, measurement and reporting. Targets with teeth and commitments that are more than a publicity exercise. In that backdrop, in recent years we have begun to engage collaboratively. Most notably, as a member of Climate Action 100+, a five-year initiative led by investors to engage systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement.

Over the course of the 2020 we participated in four collective company engagements with Climate Action 100+, most recently as the lead in collective environmental engagement with a UK industrial and defence company. We also benefitted from collective, knowledge sharing calls under the auspices of Climate Action 100+ and have supported its net zero company benchmark.

We increasingly reference the work of collaborative organisations such as Climate Action 100+ or CDP in our own engagement with companies. For example, according to CDP data, 57% of companies held across Walter Scott managed portfolios received a score on climate change from CDP in 2019. That figure increases to 71% and 75% for our representative global and international portfolios respectively, but we would still like to see that number increase. In 2019, we actively encouraged a US medical device company and a US industrials company to adhere to CDP reporting. We were not successful in either case but those conversations have continued this year. As another example, during 2020, we had lengthy discussions with a global logistics company that had decided to cease its CDP reporting on account of time and resource needed. We listened to the company and whilst we were unable to reverse its decision, we can convey those concerns back to CDP.

Whilst our starting point is always direct communication, we do recognise the benefit of a collaborative approach in making clear to a company where expectations lie, and so we would hope to be more active over time in working with others through industry groups in specific areas of concern or opportunity. As we work to better record and report on both the objectives and the outcomes of our own engagement with companies, so too we plan to incorporate collaborative engagements in that work to assess outcomes and thereby value.

Our PRI score rating in 2020 was A+, A, A. This rating represents an improvement on our 2019 and 2018

“Whilst our starting point is always direct communication, we do recognise the benefit of a collaborative approach”

2017
—
Became a PRI signatory (2020 rating A+, A, A)

2018
—
Joined CDP

2018
—
Joined Climate Action 100+

2019
—
Joined the International Corporate Governance Network

> *"Discussion amongst the team, bringing experience and different perspectives to bear, is central to the decision on whether, and how to escalate concerns."*

rating of A+, A, B. Whilst we are proud of the work that underpins our PRI rating, the current rating is a topic of regular discussion within the ESG Group with active efforts to work towards an improved rating in the future.

ESCALATION

Engagement strategy
Our approach to determining the best course of action in regard the escalation of engagement is consistent across all equity holdings with decisions made on a case-by-case basis. As in all other aspects of our investment process, there are no predefined paths for escalation depending on industry or geography. We obviously learn from past escalation, particularly in terms of geographical norms, but the decision on whether and how to escalate will depend upon the company in question. Discussion amongst the team, bringing experience and different perspectives to bear, is central to the decision on whether, and how to escalate concerns. Our engagement is typically with investor relations' teams on a day-to-day basis and then the CFO or CEO on a quarterly or half-yearly basis. We would hope to meet a CEO in person at least annually and increasingly, we will also speak to a company's Chair on the same basis. If a conversation with a CEO is for some reason unsatisfactory, or where the matter involves senior management pay or contracts, we may well decide to instead raise the matter with the Chair of the company or a non-executive director. A past example, involved the remuneration of the CEO of a UK energy company. In that instance, we believed that a one off bonus payment was particularly excessive and engaged with the non-executive director responsible for remuneration at a board level. In the absence, in our view, of an acceptable case for such a large award, together with a diminishing outlook for the company with other risks on the rise, the team agreed to exit the position. On another occasion, having engaged unsatisfactorily with the investor relations and finance team on the reasons for inventory build at an international luxury goods company, we escalated our concerns requesting a meeting with the CEO, and majority shareholder. Not only were our questions unanswered but the company's attitude to minority investors was made clear. In this instance, it was agreed that there would be little point in further discussion with a member of the board, and so the position was sold at that point.

However, whilst our engagement strategy will vary company-by-company, situation-by-situation, we do recognise that more can be done in documenting and reporting on those discussions and any engagement that follows. Alongside our work on improved engagement objectives we are also working to better articulate and document the possible engagement options and the decisions made as well as any subsequent success, or progress. Engagement with companies around proxy voting has increased notably in recent years, but arguably, our reporting on that engagement has failed to keep pace. So discussions on how best to address that situation have also been part of our work in 2020 with more detailed reporting planned for 2021.

Our engagement policy is available on our website – www.walterscott.com – where you will also find a selection of examples of our engagement.

➔ *Engagement Policy*

EXERCISING RIGHTS & RESPONSIBILITIES

PRINCIPLE 12

Signatories actively exercise their rights & responsibilities.

Our approach
We have always believed that proxy voting is critical to effective stewardship and as such, voting has always been treated with respect and diligence. Reflecting that importance, responsibility for proxy voting rests with the individual Stock Champions for each company held across portfolios. That individual will have an in-depth understanding of a company's strengths and weaknesses, as well as its long-term investment case. Material issues across all aspects of a business, including ESG, will have been analysed and discussed by the Stock Champion in building and monitoring the investment case. The Stock Champion will also typically have led any engagement with the company. That knowledge and understanding means, in our view, that they are best placed to assess any vote. If voting is central to stewardship, then it shouldn't be delegated nor should it be relegated as an automated administrative function.

The voting policy and processes followed are the same across all votes cast across all equities held regardless of geography. The Stock Champion is supported both formally and informally by the Investment Operations team and colleagues in the Research team. Decisions are also reached within a consistently applied framework and a clear policy and process. Where there is uncertainty or a contentious issue a formal process of group review is followed. A Proxy Voting Group, which reports into the Investment Management Committee (IMC), is made up of senior investment professionals and a representative from the firm's Compliance team. That Group, will consider any contentious issue together with the Stock Champion. Once the Stock Champion has determined the voting recommendations, those are reviewed and signed off by one of the following: Executive Director – Investment Operations, the Head of Investment Operations, an Investment Director or a nominated senior Investment Manager.

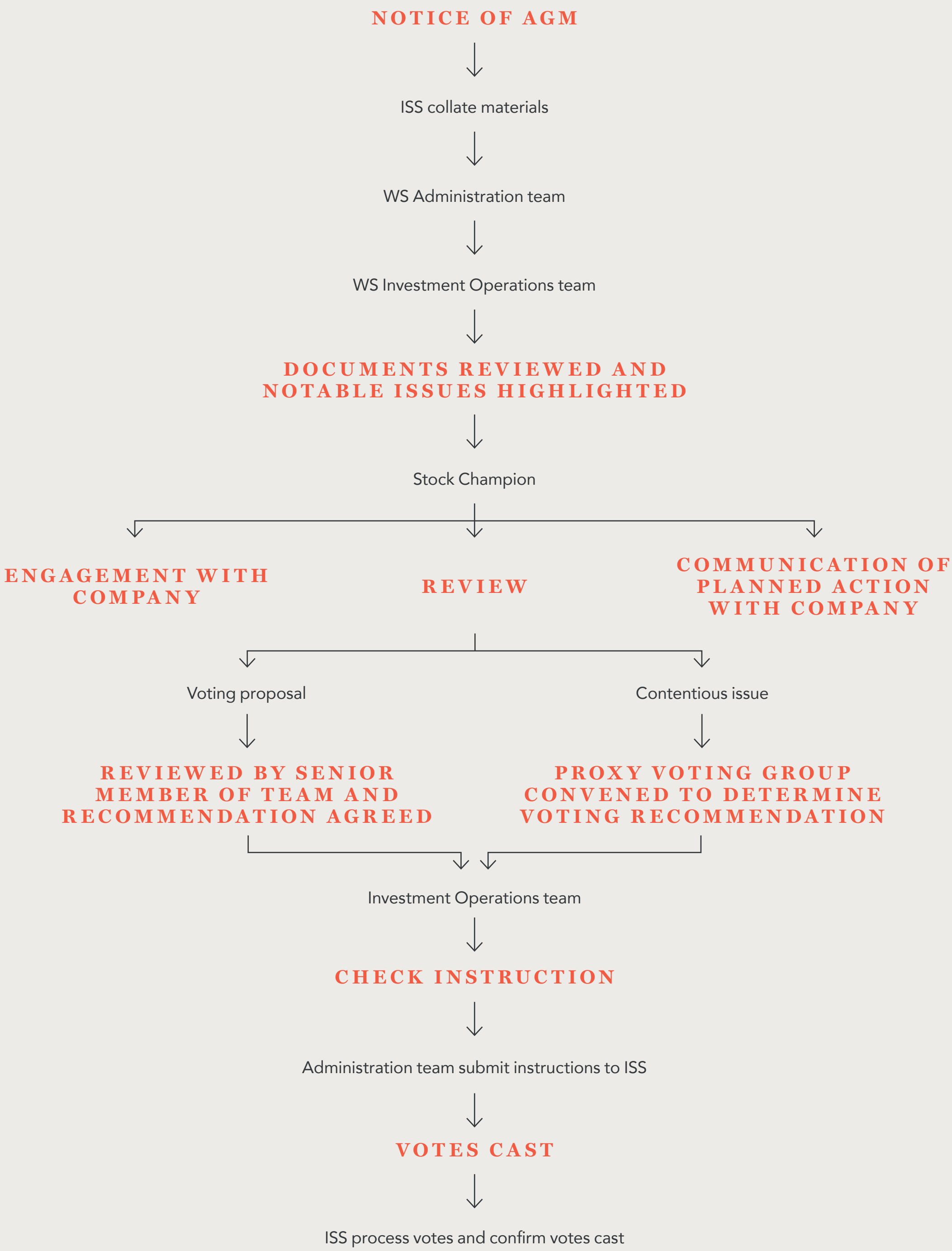
Sometimes, the voting decision will be very straightforward, in other instances engagement with a company will be needed to understand a particular approach. Those conversations might clarify a vote for or against, but regularly, it will be a chance for us to criticise, constructively. It might be that having aired our views, we decide to vote with management, having been reassured that progress will continue. We might want a company to take a bigger step, but we might vote for a smaller step on the understanding incremental progress will continue. Proxy voting, like all aspects of our investment work, is about judgement. The decision isn't always clear and often needs to be discussed, within the context of our well understood and consistently applied procedures. We strongly believe that is the best approach to both fulfil our responsibilities and advocate for change.

As stated in our Proxy Voting Policy we will make every effort to vote all proxies but stock on loan, jurisdictional restrictions, split voting, excluded markets and custodian related issues are all circumstances that can on occasion impact our ability to vote. Following an AGM or EGM, the Investment Operations team will inform the Stock Champion of any notable results, including any items that received less than 85% votes for or where a shareholder proposal received more than 15% approval. This may lead to further engagement on the resolution, particularly if an item fails.

Recent voting examples
2020 voting records show that votes against management will most often stem from our stance, as stated in our Proxy Voting Policy, on bundled resolutions, potentially excessive dilution and political donations. Remuneration, over-boarding and shareholder proposals around reporting metrics on environmental and diversity and inclusion metrics have also been common topics of discussion around voting intentions.

> *"We have always believed that proxy voting is critical to effective stewardship."*

PROXY VOTING



PROXY VOTING

100%
of proxies voted*

92%
proposals voted with management

6%
of proposals voted against management recommendation

11%
of proposal voted against ISS recommendation

*Where we have authority to do so. Data as at 31 December 2020.

> *"Our Policy states that we will vote against unreasonable and excessive compensation, but where that line sits will be a matter for the Stock Champion to consider and discuss with colleagues."*

Proxy Voting Policy
Our Proxy Voting Policy* is publicly available on our website alongside a summary of voting undertaken.

Proxy Voting Policy

Our Policy has been written as a framework rather than an extensive set of rules. Where there are rules, we will vote against potential dilution of 10%, poison pills and political donations. We will abstain, where there are bundled resolutions or vague, poorly defined proposals. But in many areas we take a more subjective view. Within governance related items, for example, our initial view would always be to vote against the re-election of a non executive director where there is persistent failure to attend Board meetings. But, in that instance we might engage and then discover there is a valid excuse for poor attendance. Likewise, our Policy states that we will vote against unreasonable and excessive compensation, but where that line sits will be a matter for the Stock Champion to consider and discuss with colleagues. We might also consider the direction of travel. Environmental and social considerations are subjective and so a voting decision might not mean that we are happy with company's position but that we recognise positive steps have been taken and are assured further steps will be taken.

That said, whilst our current Policy might be considered more of a framework than a definitive set of guidelines, we do recognise that rules can be useful, and also useful in demonstrating our areas of particular focus and our commitment to our clients and to the companies we invest in and engage with on proxy voting. In that context, our Proxy Voting Policy has been reviewed to better articulate our approach and the strength of our belief.

That same 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 often share that voting intention and rationale as a matter of course should it impact the clients' decision to vote or to recall stock in order to vote.

*Following a review of our Proxy Voting Policy, it was updated in Q1 2021. This report reflects our approach and process in 2020 and our updated policy reflects our approach and process for 2021 onwards. As a result there a few small differences, for example, the Proxy Voting Group has been replaced by the Investment Stewardship Committee. More detail will be provided in our 2021 report.

EXAMPLES OF VOTES OVER 2020

EXCESSIVE BOARD POSITIONS AND COMMITMENT OF BOARD MEMBERS

Smith & Nephew, LVMH

The new Smith & Nephew CEO, Roland Diggelmann has a number of outside commitments. He is a non-executive director at publicly listed, Accelerate Diagnostic Inc. and also a non-executive director of two smaller companies. We decided to support the vote on his position on this occasion but contacted the company to re-iterate our concerns around what we view to be excessive outside commitments.

A vote on board positions at the LVMH AGM in June was an example of our concern over the attendance record of one of the non-executive directors. However, having raised our concern with the company ahead of the AGM and having been satisfied by the response, we voted in favour of his re-election. LVMH's board reports showed that non-executive director, Diego Della Valle, had attended only 67% of meetings, with no explanation for those absences. Whilst, clearly, we would not demand 100% attendance by every member of the board 100% of the time, such a low attendance rate demands explanation before determined whether to vote for re-election. However, having engaged with the company, we were informed that some Board meetings last year relating to LVMH's proposed acquisition of Tiffany had in fact been called in on very short notice, which would have made it difficult for Mr Della Valle to attend. For the Stock Champion, this was an acceptable and warranted excuse removing any need to vote against board appointments this year. His attendance will however be monitored going forward.

BUNDLED RESOLUTIONS

Kone

We abstained on the election of directors at Kone. We had no particular issues against any of the individuals up for reappointment but felt re-election of all as a bundled resolution was inappropriate. We wrote to the company to communicate that view and will continue to raise this as an issue in future engagement.

SHAREHOLDER PROPOSALS

Starbucks, Adobe, Verizon, Johnson & Johnson, Alphabet

As we engage with companies, shareholder proposals have become an increasingly prevalent topic of conversation. The shareholder proposal might seem sensible and appropriate, but often in discussion with the company we will learn more about the broader context and/or steps being taken by the company to address the particular issue in a different way. It is then for the team to consider the value in voting for the shareholder resolution when weighed up against the company's proposed actions.

Following discussion with Starbucks during a call ahead of the AGM in the first quarter of 2020, we decided to vote against a shareholder proposal to require a report on the risks of omitting viewpoint and ideology from the company's EEO (equal employment opportunity) policy. Whilst recognising the importance of reporting, we are also alert to the fact that more information and reporting doesn't necessarily provide greater value or clarity, and so we will typically judge such proposals from a standpoint of pragmatism and reasonableness.

During the first quarter of the year, we also voted against a shareholder proposal, but in line with management, at Adobe's AGM. The proposal was to require a specific form of reporting on gender pay differences where we remain comfortable with the company's existing reporting on diversity metrics.

Over recent years we have engaged repeatedly with Johnson & Johnson around opioid litigation and risk, in order to fully understand the situation and any financial risks as well as any resultant question marks over culture and management. However, this year we voted against a shareholder proposal to require a report on governance measures around opioids. One of the tenets of Johnson & Johnson's case is that this has always been a small part of the business, which we accept. We also recognise that generally speaking, governance across the business is strong, as is disclosure. Through our analysis and engagement, we have also found disclosure and dialogue around the very serious issue of opioid use to be satisfactory. For all those reasons we did vote in support of this shareholder proposal but did raise the issue of enhanced reporting in conversation with the company at a later date.

Conversely, later in the year, the Stock Champion for Verizon proposed that we support two shareholder proposals at its AGM. The first targeted the elimination of Above-Market Earnings in Executive Retirement Plans and the second was to ensure that Severance Agreements (change-in-control) would require a Shareholder Vote.

In the case of Alphabet, we have also repeatedly voted for a shareholder proposal to require one-vote-per-share. We believe this is fundamental to shareholder rights and robust governance and so we have supported this proposal for the past three years. We have also communicated that decision to the company directly. Alphabet has a Class A, B and C share structure. Class A have 1 vote per share, class B have 10 votes per share and class C have no voting rights. The proposal has yet to be passed, primarily because of this multi-share structure. In 2018, it received a 29% vote, 30% in 2019 and 32% in 2020.

REMUNERATION

Nike, Alphabet

We decided to withhold our vote in regard to the re-election of three non-executive directors at Alphabet, all of whom sit on the company's Compensation Committee. Having engaged previously with the company around what we consider excessive compensation, we continue to be concerned by the executive compensation and stock plan. The introduction of Performance Share Units was insufficient, in our view, in addressing egregious remuneration practices. We engaged again with the company on this subject and later informed the company of our decision, recapping on our rationale.

Ahead of Nike's AGM in September, the team took time to review proposed changes to the company's remuneration arrangements, in particular the Covid-19 related adjustments to its LTIP metrics. Having previously been based on revenue and EPS, the metrics are now based on relative TSR. The company was proactive in contacting us to explain the rationale for these changes which, after discussion amongst the team, we accepted and voted for, in line with the management recommendation. With the financial impact of Covid-19 so significant and widespread, we expect changes to executive remuneration targets to feature frequently in the roster of AGM items. We recognise the need to reward and incentivise management whilst also ensuring that there is proportionality and that any targets are aligned with the interests of all stakeholders. This isn't an exact science and so very often a vote in support will belie discussion, often over time, with individuals from the company's remuneration committee and amongst the Research team.

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.

At the outset of our relationship with ISS, we specifically required that any ISS rating be removed from any papers that we might be sent, reflecting the importance we attach to coming to our own views. However, over time, we have reverted to ISS' standard reporting, with ratings.

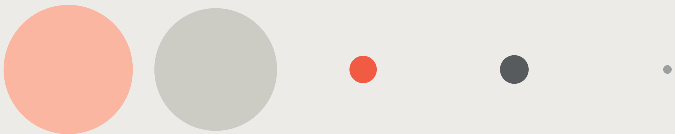
Our Stock Champions all appreciate the need to undertake their own research, plan their own engagement and reach their own recommendations within the framework of the firm's Proxy Voting Policy, but do sometimes find it useful to test their thesis against the ISS view, occasionally to challenge or confirm thinking that is contrary to that of ISS.

We have a two-stage check to ensure that success. One person places the instruction on the ISS platform and another checks that instruction matches, as well as checking the voting information entered correctly into our investment accounting system. If there is a client-specific proxy vote instruction then a manager in our Client Administration 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 Administration 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 management and we want to re-iterate our case and concern.

We do not undertake stock lending. The arrangements for any client that

PROXY VOTING SUMMARY



223 Number of meetings

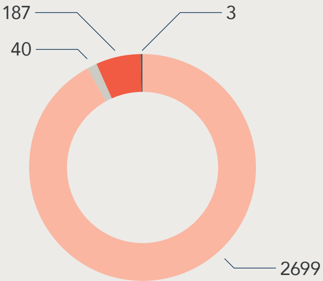
201 Total Voted AGMs

10 Total Voted Special Meetings

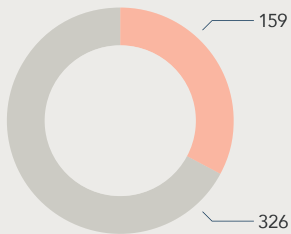
11 Total Mix Meetings

1 Total Court Meetings

BASED ON ALL / VOTED MEETINGS



- Total proposals voted 'For'
- Total proposals voted 'Abstain'
- Total proposals voted 'Against'
- Total proposals voted 'Withhold'



- Total votes against Mgmt rec
- Total votes against ISS rec

VOTES AGAINST MANAGEMENT RECOMMENDATION RATIONALE

92 Due to potential dilution >10%

14 Ad hoc items

10 Political donations

10 Bundled resolutions

9 Vague/ poorly defined proposal

7 Shareholder proposal

5 Compensation and stock option plans – Not reasonable or excessive dilution

5 Corporate governance issue

3 Non-disclosure of individual board member's remuneration

2 Persistent failure to attend Board meetings

1 Excessive non-audit fees

1 Preference for a one vote per share structure

SHAREHOLDER PROPOSALS – TOTAL 90

15 Shareholder proposals voted 'FOR'

71 Shareholder proposals voted 'AGAINST'

4 Shareholder proposals voted 'ABSTAIN'

Data as at 31 December 2020.

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 in order to vote unless we deem a particular vote to be material.

Voting records

Having previously not made any public disclosure on our proxy voting decisions and actions, we do now disclose our full voting records on a quarterly basis including a rationale for any votes against management. 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. In addition to this, our Shareholder Rights Directive II disclosure provides further detail in regard to significant votes.

- *Proxy Voting Activity Q1 2020*
- *Proxy Voting Activity Q2 2020*
- *Proxy Voting Activity Q3 2020*
- *Proxy Voting Activity Q4 2020*
- *Shareholder Rights Directive II Annual Report 2019-2020*

© Kimberly Bartsch

Kimberly Bartsch
Untitled 1

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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Investing in **foreign denominated and/ or domiciled securities** involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

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