

An impressionistic landscape painting with visible brushstrokes. The scene depicts a wide, flat landscape under a cloudy sky. The foreground is dominated by warm, earthy tones of ochre, tan, and red, with some cooler blue and green patches. The middle ground shows a flat expanse, possibly a field or plain, with a bright yellow-green strip. The background features rolling hills or mountains in shades of blue, green, and white, suggesting a distant or hazy horizon. The overall style is expressive and textured.

WALTER SCOTT

▶ BNY MELLON | INVESTMENT MANAGEMENT

**ESG INTEGRATION  
OVERVIEW  
AND STEWARDSHIP  
POLICIES**

# INTRODUCTION

At Walter Scott, we believe that successful long-term investment requires the integration of financially material environmental, social and governance (ESG) considerations throughout our process, alongside a commitment to active ownership on behalf of our clients. This assessment of ESG factors is consistent with our fiduciary duty to our clients to evaluate the factors that could have a material impact on a company's ability to prosper over the long term.

Our approach to ESG integration and Stewardship focuses on three key areas: ESG Research & Analysis, Engagement, and Proxy Voting. Our Research Team and Investment Executive integrate ESG factors into our investment analysis and conducts ongoing engagement and proxy voting.

## ESG INTEGRATION

Experience has taught us that the companies that make the best long-term investments for our clients typically adhere to the highest standards of 'Integrity' (our preferred term internally for ESG factors). Reflecting their importance, we seek to identify the issues most relevant to each company and integrate analysis of Integrity into our investment process.

## ENGAGEMENT

We believe engagement with companies is central to good stewardship. Through constructive dialogue with company management, we seek greater insight into the risks and opportunities that can affect a company's ability to deliver long-term value for clients. Engagement

also gives us a platform to advocate for change where required.

## PROXY VOTING

Considered proxy voting helps us ensure effective corporate governance and protect long-term shareholder value. It allows us to protect and promote the interests of our clients by expressing our views and initiating or contributing to change where required.

We consider every resolution on an individual basis and we ultimately vote at shareholder meetings in a manner consistent with our clients' best interests.

## GOVERNANCE AND OVERSIGHT

Our Investment Management Committee (IMC) is responsible for overseeing all investment activity at Walter Scott, including ESG integration and stewardship. The IMC delegates responsibility for the governance and oversight of engagement and proxy voting to the Investment Stewardship Committee, which includes members of our investment and operations teams, as well as representatives from Risk & Compliance to strengthen oversight and bring an independent perspective to the Committee.

## CONFLICTS OF INTEREST

In the event of a conflict of interest, or potential conflict of interest, we follow our Conflicts of Interest Policy. We also adhere to the conflicts policy of our parent company BNY Mellon. Our Proxy Voting Policy outlines our approach to any ambiguity or potential conflicts of interest in relation to proxy voting.

## REPORTING

We are committed to keeping our clients fully informed of our ESG integration and stewardship activities through regular communication.

We publish an annual Sustainability report. The report evidences our work and views on sustainability matters over the previous year. Our annual Sustainability report now incorporates our response to the UK Stewardship Code.

We also publish an overview of how we have addressed Shareholder Rights Directive II in implementing our engagement policy over the previous 12 months and additional disclosure of our proxy voting record is available on our website.

From June 2023 we will also be publishing a separate TCFD Report, which will be available on our website.

## SIGNATORIES AND MEMBERSHIPS

Underlining our commitment to the principles of ESG Integration and good stewardship, we are signatories to or members of a number of initiatives that we believe represent the best interests of clients. Details are available on our website.

## DATA

The Walter Scott Research team has access to a number of different sources of ESG and stewardship data and information and are supported by our Investment Operations to ensure that they have access to the best available third party data and analysis.

Walter Scott is also a member of a number of collaborative industry initiatives which provide access to additional ESG and stewardship content and analysis.

### **LEARNING & DEVELOPMENT**

Knowledge sharing and continuous development are essential to the Walter Scott Research team. Every member of the team is encouraged to deepen their knowledge by attending seminars, conferences, and events. A number of the Research team have also completed training certificates in aspects of ESG & Climate Integration. The firm has a regular programme of external speakers sharing insights and challenge our understanding of relevant established and emerging ESG and Stewardship issues.

### **ADDITIONAL OBJECTIVE PORTFOLIOS (AOP)**

We launched an additional framework and process in 2022 for clients who want their portfolio to be managed in line with additional sustainability requirements, such as the 'Article 8' fund framework set out in the EU's SFDR. Further details on our AOP capability and process are available on request.

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# ESG INTEGRATION OVERVIEW

Our business was founded over 40 years ago with the firm conviction of being long-term active owners of great companies on behalf of clients, and this core investment philosophy continues to serve us well to this day. From inception, our investment professionals have sought to identify, understand and take account of all financially material risks and opportunities confronting potential and current investments, including those arising from ESG factors.

Environmental, Social and Governance (ESG) Integration is therefore a key part of ensuring that we understand all financially material risks and opportunities pertaining to our clients’ portfolios and factoring these insights into our investment decision-making process. As businesses confront ever increasing ESG expectations and challenges, it is an increasingly important subset of fundamental investment research and analysis.

We define and approach ESG integration in a way that is entirely consistent with (and increasingly important to) fulfilling our fiduciary duty. We therefore incorporate ESG Integration for all of our clients, as our research would be incomplete without this information. This Policy sets out our approach to this important part of our investment process.

## ESG INTEGRATION PROCESS

We have always taken the approach that responsibility for Investment Research sits with our Research team. As ESG issues are another facet of the mosaic of potentially material research themes

which are relevant to company analysis, we have deliberately not created a separate ESG Analyst team. We have considered ESG factors in our analysis from the inception of the firm and have done so in a more structured way as part of our research methodology for over 25 years..

In recent years, there has been a significant increase in expectations regarding how companies operate, as well as heightened focus on the social and environmental impact of their core products. These expectations have resulted in businesses working in an increasingly complex commercial and regulatory environment, where reputation and integrity matter more than ever. The physical impacts and transition risks arising from climate change are also creating new challenges for all businesses.

We do not believe that ESG is a separate construct or a methodology that can be usefully applied in isolation from the financial analysis of our investments. Our long-established ‘Seven Sisters’ integrated research framework (see inset box)

remains unchanged, with ESG issues considered by the relevant stock champion primarily under the ‘Integrity’ dimension.

Since 2021, we have augmented our analysis with a framework focused on Integrity (effectively an expansion of that section of the Seven Sisters). Like the Seven Sisters, this framework is applied to all businesses regardless of sector or geography in order to address the material ESG risks and opportunities confronting those business. This document forms part of the overall documentation for research team discussions, Investment Executive meetings and the annual file review process.

The following topics are considered in the Integrity document investment analysis whenever deemed to be financially material:

### ENVIRONMENTAL CONSIDERATIONS

Pollution and waste management; water; natural resource usage; biodiversity; circular economy

### SEVEN SISTERS FRAMEWORK

When we research any company, regardless of geography or sector, we apply the same analytical framework. This framework involves analysis of historical financial records alongside consideration of seven key areas of investigation:

- Business activities and physical footprint
- Integrity
- Market characteristics
- Control of destiny
- Financial profile
- Management and board
- Valuation and trading

## CARBON RISK AND CLIMATE CHANGE

Carbon risk and climate change; physical risk; transition risk

## HUMAN AND SOCIAL CAPITAL

Bribery and corruption; conduct and culture; cyber security; data privacy; diversity; human capital management; labour rights; supply chain management; tax; community engagement and social license; product safety

## GOVERNANCE

Board diversity, skills and experience; board independence; executive remuneration; shareholder protection and rights; succession planning; insider selling; related party transactions; uncanceled treasury stock; poison pills

Identified issues will be considered in research team and Investment Executive discussions and where relevant incorporated into engagement and proxy voting activities.

## ESG INTEGRATION DATA

The Research team have access to a number of different sources of ESG data and information, and are supported by Research Operations to ensure that they have access to the best available third party data and analysis. Walter Scott are also members of a number of collaborative industry initiatives which provide access to additional ESG content and analysis.

## ESG INTEGRATION LEARNING & DEVELOPMENT

Knowledge sharing and continuous development is essential to the role of a Walter Scott Research team member. Every member of the Research team is encouraged to deepen their knowledge

by attending seminars, conferences, and events. A number of the Research team have also completed training certificates in aspects of ESG & Climate Integration. The firm has a regular programme of external speakers to share insights and challenge our understanding of relevant established and emerging ESG issues.

**Ownership** – This overview is owned by Walter Scott's Investment Management Committee and is reviewed annually.

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# **STEWARDSHIP POLICIES**

# PROXY VOTING POLICY

Considered proxy voting strengthens our ability to be engaged, active owners of companies on behalf of our clients. It helps us to promote effective corporate governance and the prioritisation of long-term shareholder value creation.

Voting complements our engagement with leadership teams by allowing us to express our views on specific issues, and to contribute to initiating change when required to protect and promote the best interests of our clients.

It is, in our view, a key lever in our ability to be effective stewards of shareholder capital. For these reasons, we have a strong preference for being given full discretionary voting authority by our clients.

We carefully consider management's views when determining how to vote at shareholder meetings but our decision is always subject to our assessment of the likely client impact.

While we aim to vote at every shareholder meeting and on every resolution, this is on a 'best endeavours' basis and may not always be possible. Instances where we might not be able to vote include, but are not limited to, when the client has directed stock lending, power of attorney is not in place, we did not receive the ballot from the custodian or it is a restricted market. As proxy voting can be an effective feedback mechanism, when voting against management recommendations we typically notify the company in question, outlining our rationale for the decision.

To ensure that we have all the necessary information on an Annual General Meeting or Extraordinary General Meeting, we receive documentation on forthcoming votes from custodians and receive meeting analysis from an external proxy voting advisory service. We consider third party recommendations for information purposes but arrive at voting decisions independently, based on company meeting materials and, where required, engagement with the company for additional information.

## 1. REVIEW & MONITORING OF PROXY VOTING

Voting is overseen by the Walter Scott Investment Stewardship Committee (ISC) and all votes are signed off by one of the Chair or Vice Chair of that Committee, Head of Investment Operations and Sustainability, Co-Head of Research, Head of Research Operations or in their absence a Director of Walter Scott. The ISC reviews all proxy voting decisions formally on a quarterly basis.

The ISC will conclude our approach to voting on items that are not expressly covered in our policy or where further guidance has been requested by a member of the Research Team.

Contentious issues or sensitive items are also referred to the ISC for a final voting decision. The Research Operations team is responsible for managing the proxy voting process. The team works with the investment managers and analysts to ensure voting is consistent and aligned with our approach.

## 2. CONFLICTS OF INTEREST

Potential conflicts of interest may arise when we exercise our discretionary proxy voting authority on behalf of clients. For example, several of our clients are corporate-sponsored pension schemes associated with companies in which we invest.

Walter Scott as a firm, or senior employees of the firm, could potentially have business or personal relationships with companies or stakeholders involved with the proxies that we are voting. This could be, for example, the issuer, proxy solicitor or a shareholder activist.

This is not an exhaustive list and we may encounter additional conflicts when exercising our discretionary proxy voting authority. We have designed our Proxy Voting Policy and pre-established voting procedures to ensure that only the interests of our clients influence our voting decisions. In the event of a potential conflict, the matter is referred to the ISC to confirm whether the voting position in question is consistent with the Proxy Voting Policy.

If the ISC determines that a vote cannot be made consistent with the Proxy Voting Policy due to an actual or perceived conflict of interest e.g. if the proxy proposal is not addressed by our pre-established voting guidelines or the conflict is too great, the committee will not approve voting. Instead, it will consider options deemed necessary and appropriate to manage the conflict and act in the best interests of clients including, but not limited to, seeking voting direction or consent from clients.

### 3. VOTING GUIDELINES

While we consider all votes on a case-by-case basis, we have guidelines in place for specific issues. If an investment manager or analyst chooses not to follow these guidelines, they must explain the rationale and submit their recommendation to the ISC for review.

### 4. BOARDS & DIRECTORS

#### 4.1 BOARD COMPOSITION

We expect boards to be comprised of individuals who collectively bring a range of skills, external experience, support and challenge to the boardroom. We generally prefer to see an independent chair of the board and / or an independent lead director (with the authority to convene the independent directors when appropriate).

We generally presume directors are not independent if they have served on the board for ten or more years and we do not consider representatives of shareholders or former company executives to be independent.

Whilst corporate governance standards and expectations vary between regions, we typically expect a minimum of 50% of independent directors on the board for non-controlled companies. Controlled companies should generally seek to link board independence levels to the economic stake held by minority shareholders. We may engage with companies in the first instance where independence is in question. If a company is unable to justify the apparent lack of independence, we may vote against the election of directors whose appointment would cause independence to fall below the above standards, and / or against the chair of the board where we have material concerns.

We will consider supporting resolutions aimed at increasing board diversity if these are in the best long-term interests of shareholders. Whilst corporate governance standards and expectations vary between regions, we generally expect to see diversity on boards and may engage with companies where this is not the case.

#### 4.2 BOARD COMMITTEES

Where there are separate committees to oversee remuneration, audit, nomination

and other topics, we may vote against chairs or members where we have concerns about independence, skills, commitment or the matters overseen by the committee. Our preference is for 100% independent audit committees wherever feasible. For non-controlled companies, we typically expect to see a minimum of 50% of independent directors on remuneration, audit and nominations committees and an independent committee chair. Where this standard is not met, we may engage in the first instance, but should that prove ineffective we may vote against non-independent committee members, the chair of the nominations committee and / or the chair of the board or take any other voting action deemed to be appropriate.

#### 4.3 DIRECTOR COMMITMENT & ATTENDANCE

When voting on directorships, we give consideration to other commitments and the extent to which these might compromise the director's ability to carry out their responsibilities. If we believe a director is not fully committed to their role, we will typically seek to engage with the company in the first instance. If a director persistently fails to attend board and / or committee meetings without a satisfactory explanation, we will consider voting against the re-election of that individual or against the chair of the nominations committee and / or the chair of the board if deemed to be appropriate.

#### 4.4 CLASSIFIED / STAGGERED BOARDS & VOTING STANDARDS

We generally support declassification of boards and simple majority voting (as opposed to cumulative voting) for director elections. The provision for annual director election by shareholders is, in our view, typically in the best long-term interests of clients.

### 5. AUDIT

The selection of an external auditor should ideally be subject to annual shareholder approval. There should be transparency in advance of an audit tender so that shareholders can engage with the company in relation to the process should they wish to do so. It

is our preference that the audit firm should be periodically changed. If this is not expected market practice in the relevant region where the company is headquartered, then we would expect that the lead audit partner be rotated periodically or we may vote against the re-election of the external auditor and / or vote against the chair of the audit committee.

We further expect that there is an appropriate balance between audit and non-audit fees paid to the respective audit firm and will generally vote against the re-election of the external auditor and / or the chair of the audit committee if the non-audit fees exceed 50% of total fees payable in a calendar year without reasonable explanation.

### 6. REMUNERATION

#### 6.1 DISCLOSURE

Remuneration disclosure should be transparent and understandable, facilitating comparability and accountability. We will typically vote against remuneration disclosure that fails to meet these standards.

#### 6.2 EXECUTIVE REMUNERATION

It is our preference for executive remuneration to be designed to align the interests of management and directors with long-term shareholders and durable value creation. We generally vote in favour of compensation plans that we consider to be clear, robust and proportionate. We will consider voting against proposals that appear permissive or excessive within the context of relevant sector and market practices, and with respect to any company specific circumstances.

We have a preference for an annual vote on executive compensation. This helps to ensure ongoing alignment between management's remuneration and the interests of shareholders.

#### 6.3 NON-EXECUTIVE REMUNERATION

The board as a whole should determine levels of pay for non-executive directors and the non-executive chair in such a



manner as to ensure alignment with shareholders' interests, taking independent advice where appropriate to encourage objectivity. Performance-based pay or share options should not typically be granted to non-executive directors and non-executive chairs. We may vote against compensation plans that fail to meet these standards or alternatively consider voting against the chair of the remuneration committee and / or the chair of the board if deemed to be appropriate.

#### **6.4 EMPLOYEE STOCK PURCHASE PLANS**

We typically support employee stock plans that align with the interests of shareholders and are appropriate in quantum. We may vote against employee stock plans that fail to meet these standards or alternatively consider voting against the chair of the remuneration committee if deemed to be appropriate.

### **7. CHANGES TO CAPITAL STRUCTURE**

#### **7.1 RAISING EQUITY**

We tend to vote against proposals that allow management to raise equity if the potential dilution\* exceeds 10% and no specific reason for the capital increase is given. If a specific reason is given, then we will evaluate each proposal on its merits.

#### **7.2 PRE-EMPTIVE RIGHTS**

We generally vote against proposals to waive shareholders' pre-emptive rights to participate in a capital increase if the potential dilution\* exceeds 10%. We may accept waiving of pre-emptive rights in certain situations such as the creation of shares to pay for acquisitions or to reward staff and will evaluate each proposal on its merits.

#### **7.3 SHARE REPURCHASES & REISSUANCE**

We will typically approve proposals asking for permission to repurchase shares. Furthermore, we will generally vote for proposals to authorise the reissuance of previously repurchased shares as long as the potential dilution\* is less than 10%.

#### **7.4 TAKEOVER PROTECTION**

We will generally vote against anti-takeover proposals or other 'poison pill' arrangements which can provide undue protection to entrenched management teams, including the authority to grant shares for such purposes.

### **8. PROTECTION OF SHAREHOLDER RIGHTS**

#### **8.1 VOTING STRUCTURES**

Our preference is for a 'one share, one vote' voting structure for ordinary or common shares. We discourage any divergence from this approach that gives certain shareholders influence or control disproportionate to their economic interests. In the event that such voting structures already exist, we encourage disclosure and explanation and favour the use of 'sunset' mechanisms. We further encourage commensurate extra protections for minority shareholders (particularly in the event of a takeover bid) and have a strong preference for controlling shareholders to recuse themselves from votes where there is a potential conflict of interest or advisory votes where it would be beneficial to determine the view of minority investors.

#### **8.2 RELATED-PARTY TRANSACTIONS**

We consider management's guidance on related-party transactions and we will vote in favour if the resolution aligns with the long-term best interests of shareholders.

### **9. MISCELLANEOUS**

#### **9.1 ANNUAL REPORT AND ACCOUNTS AND DISCLOSURE EXPECTATIONS**

We have a preference that company Annual Report and Accounts and proxy voting materials are available in English.

#### **9.2 ALLOCATION OF INCOME & DIVIDENDS**

We may consider voting against proposals where the dividend allocation is below what we consider to be appropriate and the company retains significant cash on its balance sheet without adequate explanation. We may vote against proposals if a company has not specified the dividend allocation.

#### **9.3 VAGUE OR POORLY DEFINED PROPOSALS**

Where proposals are vague or poorly defined, we generally seek clarification from the company. If this is not forthcoming, we may vote against the proposal.

#### **9.4 POLITICAL DONATIONS**

We generally oppose proposals asking for permission to make political donations. In certain markets (such as the UK) where there is a legal requirement to seek pre-approval from shareholders for all political donations, we will typically support proportionate requests that are designed to protect the company against inadvertent or unauthorised donations. In these circumstances we expect the company to clearly state in their notice of meeting that they do not intend to make any political donations and to have appropriate policies in place to manage the risk of inadvertent or unauthorised political donations.

#### **9.5 PLEDGING OF SHARES**

We generally discourage the pledging of stock by management and directors of investee companies.

#### **9.6 BUNDLED RESOLUTIONS**

We review bundled resolutions on a case-by-case basis and encourage unbundling.

#### **9.7 ESG ISSUES AND SHAREHOLDER PROPOSALS**

We consider ESG-related resolutions and shareholder proposals, including those relating to climate risk, on a case-by-case basis, taking account of management recommendation. We will generally vote in favour of shareholder proposals that encourage companies to enhance their understanding and management of material sustainability risks and opportunities, and which are in the long-term interests of shareholders.

#### **9.8 AD-HOC ITEMS**

We generally vote against proposals requesting approval for ad-hoc items.

\*Potential dilution is calculated as (authorised shares less outstanding shares) / outstanding share count.

## **10. PROXY VOTING DISCLOSURE**

We publish aggregate annual voting data on our website alongside quarterly resolution level data. Our annual Sustainability report also includes aggregate quarterly voting data.

## **11. OWNERSHIP & REVIEW**

This policy is owned by Walter Scott's Investment Management Committee and is reviewed on an annual basis.

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# ENGAGEMENT POLICY

Through engagement, we signal our intentions and expectations as a long-term shareholder and achieve a more complete understanding of a company's strategy and practices. When we invest in a company, we communicate in writing our expectations as investors and the expectations we believe management should have of Walter Scott. Similarly, when we sell an investment, we write to the company explaining our reasons for doing so.

Given our relatively small number of investee companies, we aim to engage with most companies at least annually. This typically involves face-to-face meetings, either at our offices or on research trips, and conference calls. Research trips may include site visits and meetings with various stakeholders of the company in question. Written correspondence can also serve as a method of engagement, as well as to augment other forms of engagement.

We distinguish between two types of engagement: Engagement for Information – a meeting or correspondence involving a two-way exchange of information. Engagement for Change – typically a series of one-to-one meetings and correspondence, where we seek influence with a defined objective. Given the rigour of our analysis before making an initial investment, we find the need for engagements for change relatively limited when compared to engagements for information.

If we are not satisfied with the progress of an engagement for change, we will consider escalating the issue. The Investment Stewardship Committee

determines if and how to escalate. Issues are considered on a case-by-case basis but possible escalation strategies can include:

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

In the event that our escalation strategy proves unsuccessful, we may choose to sell our investment.

An engagement for change will often relate to Integrity issues. Our tailored approach enables us to focus on the issues or concerns material to each company. While these issues will inevitably differ by company, they will typically fall within one of the following categories:

- Business Strategy
- Environmental Considerations
- Carbon Risk and Climate Change
- Human and Social Capital
- Governance

Responsibility for company engagement sits with the investment manager or analyst who covers the stock. However, reflecting our team approach, the decision to pursue a specific engagement objective can come from a number of sources:

- The investment manager or analyst responsible for the research in the company identifies an objective and seeks confirmation to proceed from the Investment Stewardship Committee.
- Another member of the Research Team, Investment Executive or Research Operations team identifies an objective

and flags this to the investment manager or analyst responsible for the company. Agreement to proceed is then sought from the Investment Stewardship Committee.

- The Investment Stewardship Committee identifies engagement objectives for specific companies or a thematic engagement across multiple companies. Our Engagement Policy applies to all engagement with all investee companies, and with prospective investee companies (where applicable).

## 1. PROXY VOTING

We engage with companies on proxy voting on a case-by-case basis, allowing us to express our views on specific issues, and to contribute to initiating change when required to protect and promote the best interests of our clients. Considered proxy voting enables us to support effective corporate governance and the management of material sustainability risks, supporting long-term shareholder value creation. Further details can be found in our Proxy Voting Policy.

## 2. MONITORING ENGAGEMENT

It is the responsibility of the relevant investment manager or analyst to monitor the progress of engagements using a consistent process set by the Investment Stewardship Committee. Any salient issues are discussed with the Investment Stewardship Committee and, if appropriate, the wider Research Team and Investment Executive. The ISC monitors engagements and the effectiveness of our approach at a formal quarterly meeting.

### **3. COLLABORATION**

We think collaboration with other investors can be a useful tool in certain situations. For example, collective engagement can help drive ongoing improvements in sustainability and governance practices at our investee companies. As well as collaborating on company-specific matters, we will also engage with other investors on regulatory and policy matters, as well as with regulators and policymakers directly on relevant issues.

Whether to collaborate is a decision that we approach on a case-by-case basis and is the responsibility of the Investment Stewardship Committee. We will only undertake to work with other investors if we believe it is likely to prove effective and is in the best interests of our clients.

### **4. CONFLICTS OF INTEREST**

In the event of a conflict of interest, or potential conflict of interest, we follow our Conflicts of Interest Policy. We also adhere to the conflicts policy of our parent company, BNY Mellon. Our Proxy Voting Policy outlines our approach to any ambiguity or potential conflicts of interest in relation to proxy voting.

### **5. REPORTING**

All engagements are recorded on internal systems and meeting notes are sent to all relevant parties within Walter Scott. Under Shareholder Rights Directive II, we publish an annual report outlining how we have implemented our engagement policy in the previous 12 months.

### **6. RESPONSIBILITIES / OWNERSHIP**

This policy is owned by the Investment Management Committee.

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