WALTER SCOTT

BNY MELLON | INVESTMENT MANAGEMENT

# TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES ENTITY REPORT

2022

**Stock Examples** – Companies referred to in this report have been chosen for illustrative purposes only to demonstrate our ESG Integration and Stewardship process and are not intended to be an indication of performance. This information should not be considered a recommendation to buy or sell any particular security. There is no assurance that any securities discussed herein will feature in any future strategy run by us. Any examples discussed are provided purely to help illustrate our investment style or, are given in the context of the theme being explored. The securities discussed do not represent an entire portfolio and in the aggregate may represent only a small percentage of a strategy's holdings.

# CONTENTS

# MANAGING DIRECTOR'S STATEMENT

**JANE HENDERSON**
Managing Director

This is Walter Scott and Partners Limited (Walter Scott or "the firm") first 'entity level' TCFD report, following the publication of our first report on climate change in 2022. This TCFD Entity Report covers the reporting period 1st January to 31st December 2022.

The TCFD recommendations provide an important framework for disclosing climate-related risks and opportunities. Understanding climate considerations, including transition risks and opportunities, and their financial implications, makes us better long-term stewards of our clients' capital. A number of temperature records around the world were surpassed in 2022, and many regions endured a range of climate-related natural disasters, such as the flooding in Pakistan and New Zealand, and hurricanes in Florida. Such real-world impacts highlight that significant climate change events are no longer just 'risk scenarios'. In addition to physical climate change risks, evolving regulations, changes to taxes and subsidies, and increasing customer expectations are combining to create new transition risks and opportunities for our investments and indeed for our own operations.

Building on a number of years of work in this area, climate considerations are now embedded within our firm; from the integration of climate considerations into the research and analysis of portfolio companies as part of our investment process, through to climate considerations forming part of the decision making within our own business operations. However our approach is ever evolving, and there is always more to do.

It is also important to acknowledge the context that we operate in. We manage assets on behalf of a diverse range of clients in a global economy that is only beginning to address the goals of the Paris Agreement and change direction away from the status quo of increasing emissions. To date, political commitment and incentives to support a widespread transition to a lower carbon economy have been haphazard and inconsistent in most markets. The world is still far away from a universal consensus on the need, the speed or the pathway of a low-carbon transition. We must therefore invest our clients' capital into the world that we are in, and within the guidelines that we are given by our clients, whilst endeavouring to understand the range of potential future outcomes and the corresponding impacts on portfolios. It is also important that we maintain our focus on our particular area of expertise – investing in well-established publicly listed businesses with strong balance sheets

*"Understanding climate considerations, including transition risks and opportunities, and their financial implications, makes us better long-term investors of our clients' capital."*

*“Our work on climate and transition is firmly anchored around financial risks and opportunities for our investee companies and within our investment time horizon and our area of investment specialism.”*

and prospects. To do otherwise would accentuate other kinds of investment risk for our clients. Whilst we recognise that a lot of capital will be required to fund the next generation of clean technology start-ups, that is not our area of expertise and we believe that we are not best placed to provide that type of venture capital into private markets. We can however strive to ensure that we are providing patient, long-term capital to innovative publicly listed firms that we believe can consistently compound wealth for our clients, through business models that manage climate-related risks and that take advantage of transition opportunities.

It is of course part of our broader fiduciary duty to identify and address to the best of our ability all systemic risks to our clients’ portfolios, and most would agree that climate change is indeed a growing systemic risk to the global economy. All of our work on climate and transition is firmly anchored around financial risks and opportunities for our investee companies, and within our investment time horizon and our area of investment specialism.

This TCFD Entity Report has been reviewed by the Walter Scott Board of Directors (the Board) and approved by the Executive Management Committee (EMC) of Walter Scott. An external consultancy firm has also reviewed the draft report against Walter Scott’s regulatory disclosure requirements and provided feedback and commentary that has been incorporated into the final report. I can confirm that the disclosures in this report comply with the FCA’s requirements within Chapter 2 of its ESG sourcebook.

Focusing on 2023 and beyond, our work in this area is continuing to evolve. We are undertaking further work to develop the utility of climate scenario analysis in our investment research and operations, and we are enhancing our analysis of investments that we have determined to be more at risk to climate change and transition considerations. We are also increasing the level of scrutiny applied to the management of climate risk at our Investment Management Committee (IMC) by expanding the scope of the information reviewed at that forum. We look forward to providing further information on these developments in our 2023 TCFD Entity Report.

Jane Henderson, Managing Director

# 2022 TCFD ENTITY REPORT OVERVIEW

*The table below provides a summary overview of our 2022 TCFD Entity Report and additional information on key activity to date in 2023. It is set out under the four pillars prescribed in the TCFD guidelines: Governance, Strategy, Risk Management and Metrics & Targets.*

| **Governance** | |
|---|---|
| **TCFD Recommendation** | "Disclose the company's governance around climate-related risks and opportunities." |
| **TCFD Recommended Disclosures** | (a) Board oversight<br>(b) Management's role |
| **Our Response** | (a) The Board is responsible for ensuring that financially material climate-related considerations are integrated into our strategy, decision-making, financial planning and business processes. Climate-related considerations are reviewed by the Board on a periodic basis.<br>(b) Management oversight provided by various committees, quarterly reporting on key data and significant developments. |
| **Additional Focus for 2023** | (a) The Board will hold a discussion of climate-related risks, opportunities and disclosures at least annually, including portfolio level scenario analysis.<br>(b) We will provide additional training across senior management and the research team on climate regulation, risks and opportunities. |

| **Strategy** | |
|---|---|
| **TCFD Recommendation** | "Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material." |
| **TCFD Recommended Disclosures** | (a) Risks and opportunities<br>(b) Impact on organisation<br>(c) Resilience of strategy |
| **Our Response** | (a) We seek to understand and integrate into our investment process evaluation of all material climate-related risks and opportunities. As a part of this goal, we expect that our investments have the ability to operate and grow in a Paris-aligned global economy, and that their business operations are resilient to physical climate risks under all future scenarios. We are further committed to ensuring that we evaluate transition related investment opportunities as part of our ongoing investment research process. We aim to ensure that our operations and business model are resilient to climate and transition related risks.<br>(b) We believe that we managed relevant climate-related risks appropriately in 2022 and that we gave consideration to quality transition related investment opportunities.<br>(c) We believe that our current strategy is resilient, but we continue to evolve our approach to this aspect of our business. |
| **Additional Focus for 2023** | (a) We will continue to evolve our approach for identifying and understanding climate-related investment risks and opportunities through developments to our process, and additional training and external insight sessions. In 2023 we are revising our definition of short, medium and long-term time-scales to align with wider industry practice (short 0-5 years, medium 5-10 years, long-term 10+ years).<br>(c) We will implement a transition plan for our own business operations. |

| Risk Management | |
|---|---|
| **TCFD Recommendation** | "Disclose how the company identifies, assesses, and manages climate-related risks." |
| **TCFD Recommended Disclosures** | (a) Risk identification and assessment processes<br>(b) Risk management processes<br>(c) Integration into overall risk management |
| **Our Response** | (a) We identify climate-related investment risks through our core investment research process, which includes an element of investee company-level scenario analysis. We aim to identify and assess climate-related business and operational risks through existing risk management processes.<br>(b) Our Research team and Investment Executive factor analysis of climate risks and opportunities into our long-term selection and outlook on investments. We factored material business and operational climate-related risks into our existing processes on an ad-hoc basis in 2022.<br>(c) We aim to integrate material climate-related risks into our wider processes for the management of investment risk. We included material operational climate risks in our wider business continuity and operational risk management framework. |
| **Additional Focus for 2023** | (a) We will undertake portfolio-level climate scenario analysis at least annually, and we will use this analysis to help identify our higher carbon intensity and higher physical climate / transition risk holdings. We will undertake further climate risk research and analysis on selective companies, engaging with management where required to understand their approach to managing climate and transition risks and / or to push for additional disclosure where required. We will undertake a structured review of operational climate-related risks.<br>(b) Portfolio-level climate scenario analysis will be presented to the IMC and Board at least annually. We will factor additional holding level analysis of climate risks and opportunities into our long-term selection and outlook on investments.<br>(b) and (c) A structured review of operational climate-related risks will be undertaken and presented to the Executive Management Committee and Board in 2023, and integrated into existing risk management frameworks. |

| Metrics & Targets | |
|---|---|
| **TCFD Recommendation** | "Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material." |
| **TCFD Recommended Disclosures** | (a) Climate-related metrics<br>(b) Scope 1,2 & 3 Greenhouse Gas (GHG) emissions<br>(c) Climate-related targets |
| **Our Response** | (a) We disclose Scope 1, 2 & 3 operational emissions data, and a number of climate-related investment metrics.<br>(b) We disclose Scope 1 & 2 WACI data for our holdings in our Annual Sustainability Report. We monitor but do not currently disclose Scope 3 emissions data for our portfolios due to third party and corporate data limitations. |
| **Additional Focus for 2023** | (c) We have set a target of undertaking an enhanced climate risk review of an initial 20 higher carbon intensity and higher physical / transition risk holdings by the end of 2023 (c.10% of Walter Scott holdings). We will set (or we will consider setting) additional climate and environment related operational targets. |

# GOVERNANCE

**BOARD OF DIRECTORS**

The Board of Directors of Walter Scott is responsible for ensuring that financially material climate-related considerations are integrated into our strategy, decision-making, financial planning and business processes. Climate-related considerations are reviewed by the Board on an annual basis, incorporating a discussion of climate-related risks and opportunities, in addition to a review of the firm's disclosures. Board and EMC training covering climate change and related risks and opportunities was provided in 2022, and we will continue to provide further training going forward.

To ensure a clear delineation between the investment and operational functions of the business, the Executive Management Committee delegates responsibility for the ongoing management of investment-related climate risks and opportunities to the Investment Management Committee, and the management of all internal sustainability matters, including our operational climate impact, to the Sustainability at Walter Scott Group.

A number of enhancements have been made by the Board to further strengthen our governance framework over the last few years. As part of that effort, and aligned with greater articulation of responsibilities under the UK Senior Managers and Certification Regime rules, the Board committee structure was streamlined during 2021 and responsibility for the firm's Environmental, Social & Governance (ESG) Framework was added to the Statement of Responsibilities of the firm's Managing Director.

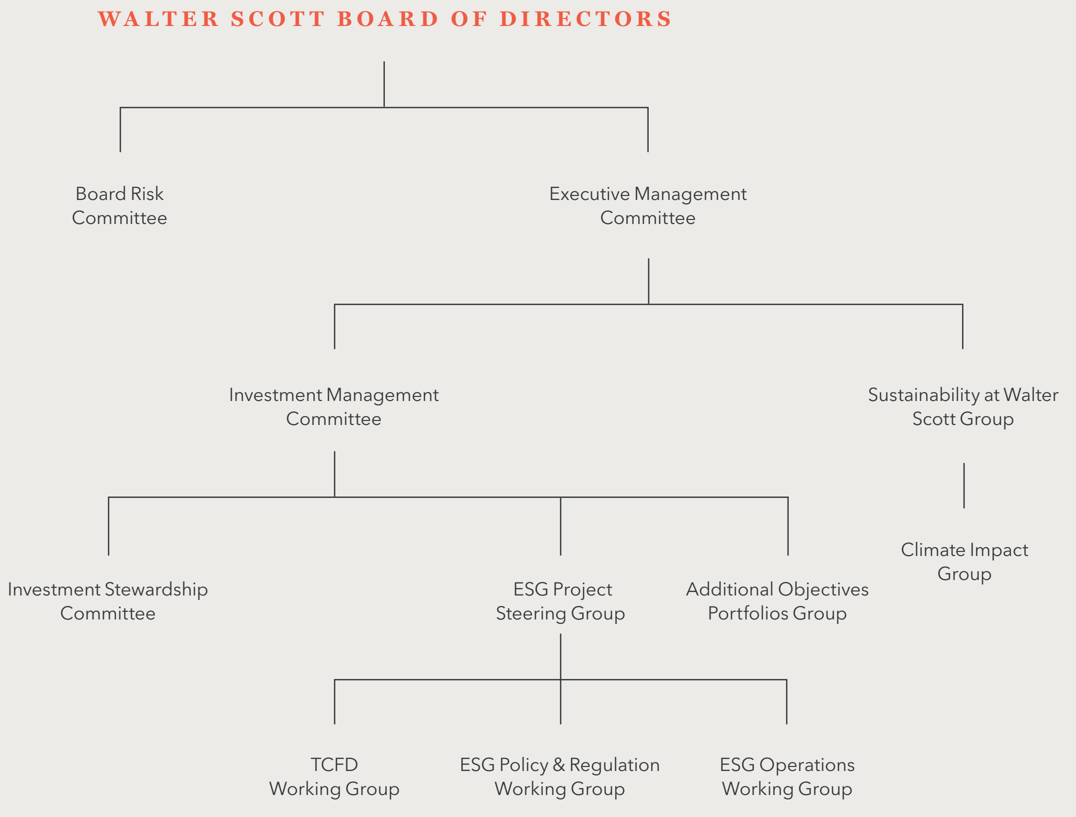
Further to establishing the ESG Project Steering Group and the Sustainability at Walter Scott Group in 2020, several additional working groups were established in 2021 and 2022 to meet client and regulatory project deliverables. The Investment Stewardship Committee (ISC) was also created in early 2021, replacing the previous Proxy Voting Group, with added responsibilities around stewardship and engagement.

Aligned to that new structure, management responsibilities were allocated. Hilda West, Head of Investment Operations and Sustainability, leads our efforts across this dimension of our business, supported by a number of colleagues.

The Head of Investment Operations and Sustainability and the Company Secretary work together to coordinate committee updates where the appropriate areas of climate-related risks and opportunities are considered across both our operations and client investment portfolios. For portfolios, a regular dashboard of climate-related metrics is provided. In 2022, we collated data for carbon emissions across the firm at a total-level, as well as highlighting individual top emitters from the firm's investee companies. This dashboard is evolving in 2023, and will continue to be improved over time, but has already been updated to include more detailed analysis on individual company emitters, strategy emissions, benchmark comparison, and historical trends. Periodic updates are included on relevant climate-related issues such as external collaborations and commitments. Starting in 2023, the IMC and Board now also receive an annual update on climate risk and scenario analysis for our investments.

An operational dashboard is also presented to the EMC and Board on a quarterly basis which contains usage and emissions data from operations. The Scope 1 and 2 usage and emissions data is presented along

## GOVERNANCE


WALTER SCOTT BOARD OF DIRECTORS
Board Risk Committee
Executive Management Committee
Investment Management Committee
Sustainability at Walter Scott Group
Climate Impact Group
Investment Stewardship Committee
ESG Project Steering Group
Additional Objectives Portfolios Group
TCFD Working Group
ESG Policy & Regulation Working Group
ESG Operations Working Group

> *"The Board is responsible for ensuring that climate-related risks and opportunities are managed by Walter Scott, both with respect to client portfolios and the firm's own business operations."*

with Scope 3 business travel distance and emissions data. Additionally, there is a summary of printing, recycling and general waste metrics.

## BOARD OF DIRECTORS

The Board is responsible for ensuring that climate-related risks and opportunities are managed by Walter Scott, both with respect to client portfolios and the firm's own business operations. The Board has delegated responsibility for the development and implementation of our climate change strategy, including management and oversight of risks arising from climate change, to the Managing Director in her role as Chair of the EMC. The Managing Director's execution of the firm's climate change strategy is the subject of annual review by the Board.

We are satisfied that there is sufficient knowledge and expertise at Board level to provide oversight on this issue. We have recently refreshed the composition of the Board. A number of directors now have experience of integrating climate-related investment or business risks and opportunities, and / or experience of collaborative industry initiatives to address climate change.

## BOARD RISK COMMITTEE

The Board Risk Committee (BRC) is responsible for escalating all material risks to the Board, including any emerging climate-related risks. A register of such risks is maintained and the consideration of emerging risks is a standing agenda item at each Board Risk Committee meeting. The agenda items also include the consideration of any matters relating to climate and carbon issues.

## EXECUTIVE MANAGEMENT COMMITTEE

The EMC is responsible for the management of Walter Scott and the development of the firm's climate change strategy which seeks to manage, mitigate and, where possible, address climate change risks and opportunities relating to the firm.

A number of members of our EMC have experience of integrating climate-related risks and opportunities into our investment process, and have attended climate-related training and insight sessions over the last few years. To assist us with the monitoring of investment risks, we also subscribe to a third party ESG data platform (currently MSCI). This data is used as an input to our analysis of relevant holdings undertaken by our stock champions who lead our research on individual holdings.

The Managing Director has a fortnightly meeting with the Head of Investment Operations and Sustainability where any relevant emerging firm-wide issues are addressed. In addition to this, the Managing Director has regular interaction with the firm's Sustainability, ESG and Stewardship resource, allowing for more detailed discussions on specific risks and opportunities as required. The Head of Investment Operations and Sustainability is a member of the firm's ESG Policy & Regulation Working Group, which has a remit to identify, understand and monitor external regulatory and industry developments, including those related to climate.

## INVESTMENT MANAGEMENT COMMITTEE

Regarding climate change related risks and opportunities and how these may impact client portfolios, the IMC is responsible for the oversight of all investment activity, and meets regularly to monitor, manage and challenge risks within our portfolios (including climate-related risks). While the IMC meets regularly to monitor, manage, and mitigate risks within our portfolios, it is also the responsibility of every member of our Research team to understand the impact of climate change on all of our investee companies.

## SUSTAINABILITY AT WALTER SCOTT GROUP

The Sustainability at Walter Scott Group considers how best to approach sustainability issues in our own company. Consisting of representatives from across the business, the group has responsibility for generating and communicating operational sustainability initiatives. Management of Walter Scott's operational climate impact is in turn delegated by the Sustainability at Walter Scott Group to the Climate Impact Group, which designs and monitors all climate-related operational initiatives and has responsibility for the provision and development of relevant non-financial metrics.

## CLIMATE IMPACT GROUP

The Climate Impact Group considers the climate impact of our own operations as a cross-function business risk, with relevant and material analysis from each area of the firm fed back into the EMC. The Climate Impact Group designs and monitors all operational climate-related initiatives and has responsibility for the provision and development of relevant metrics. To this end, the firm's own operational carbon footprint is measured and reported on a quarterly basis, along with updates on our efforts to reduce our operational climate impact. Annual disclosures are provided in accordance with UK Companies Regulations 2018 under the Streamline Energy and Carbon Reporting (SECR).

## INVESTMENT STEWARDSHIP COMMITTEE

The Investment Stewardship Committee (ISC) oversees the implementation of the firm's stewardship activities and compliance with the firm's related policies. The ISC is primarily responsible for ensuring the materiality, consistency and effectiveness of the firm's corporate engagement, in addition to monitoring proxy voting recommendations to ensure consistency with the firm's voting policy and guidelines.

The establishment of the ISC in 2021 was one of the most significant enhancements to our investment stewardship activities and oversight in recent years. The ISC meets at least quarterly with additional meetings as and when required.

## ESG STEERING GROUP AND WORKING GROUPS

The ESG Steering Group ensures appropriate governance, oversight and challenge of the firm's ESG project activities and compliance with the firm's related policies. This Group has oversight of three working groups (TCFD, ESG Policy & Regulation and ESG Operations) ensuring work is prioritised and resourced sufficiently.

## ADDITIONAL OBJECTIVES PORTFOLIOS GROUP

For clients that are interested in having their portfolios managed in line with additional sustainable investment objectives, including climate-related requirements, we have the capability to offer this through our Additional Objectives Portfolios (AOP) Process. The AOP Group oversees this process, providing an independent recommendation to the firm's investment decision making group with respect to the suitability of holdings for additional objectives portfolios.

## TRAINING AND DEVELOPMENT

Knowledge sharing and continuous development are essential to all employees of Walter Scott, and with respect to climate we utilised several external specialists for learning sessions in 2022. Every member of the Investment and Client Service teams is encouraged to deepen their knowledge by attending seminars, conferences and events, and relevant ESG integration research considerations are taken into account in annual employee reviews.

## EXECUTIVE REMUNERATION

We have not set specific climate-related metrics in our executive remuneration, however Walter Scott's Remuneration Policy has been designed to promote (amongst other objectives) sound and effective risk management across all categories of risk.

# STRATEGY

Our strategy with respect to climate-related considerations for our business is two-fold:

i) We aim to ensure that our business model and operations are resilient to climate and transition related risks, and that we are also identifying and executing on material climate-related business opportunities.

ii) We further seek to understand and integrate into our investment process all material climate-related risks and opportunities. As a part of this goal, we expect that our investments have the ability to operate and grow in a Paris-aligned global economy, and that their business operations are resilient to physical climate risks under all future scenarios. We are committed to ensuring that we evaluate transition related investment opportunities as part of our ongoing process for identifying investment candidates. Our process seeks to identify high-quality, growth businesses capable of resilient wealth generation over time. As investment in energy transition continues to accelerate and related technologies mature, we would expect more climate-related investment opportunities to meet these criteria.

> *“Our guiding long-term business objective is to protect and grow our clients’ assets over time by acting as effective stewards of our clients’ capital.”*

## BUSINESS DEVELOPMENT CONSIDERATIONS

Our guiding long-term business objective is to protect and grow our clients’ assets over time by acting as effective stewards of our clients’ capital. When combined with excellent client servicing, we believe that the long-term success of our business will be underwritten. To deliver this strategy effectively, we must seek to understand, as fully as possible, the full range of risks and opportunities faced by the companies in which we invest and the impact these could have on the performance of our portfolios.

With respect to our own business model, we believe that we are well positioned to take account of climate-related risks and opportunities, including developing (and potentially diverging) client expectations and requirements. Our business model is already predicated on understanding and integrating risks and opportunities into investment decision-making, and by the very nature of active management, our portfolios can and will evolve to take account of emerging climate risks and opportunities. In 2023 we are augmenting our existing climate risk analysis that we undertake for all holdings with an additional climate risk assessment for a limited number of companies with higher potential exposure to climate change and transition.

With respect to our product capability, we have recently developed our process for additional objectives portfolios and can therefore accommodate clients who wish to go further with respect to sustainability-related investment objectives. Should there be interest from our clients in investing in line with additional climate-related objectives, we are able to give this consideration.

In summary, we aim to demonstrate that our investment process takes due account of climate risks and opportunities, but with a clear focus on financial materiality and fiduciary duty. After careful consideration we have chosen not to implement a binding firm-wide transition commitment applicable to all client portfolios. As a firm we are client-led in all that we do, and for clients who wish to go further and prioritise climate-related objectives we can potentially accommodate those goals. In this way we believe that we offer clarity and choice in our investment approach, ensuring that we are guided by the investment objectives of our clients. We typically meet our clients at least annually and regularly discuss ESG integration and related topics in these interactions.

## INVESTMENT-RELATED CONSIDERATIONS

We have always sought to understand and assess material risks and opportunities as part of our investment

**CASE STUDIES OF ENERGY TRANSITION BENEFICIARIES**

> *"Novozymes has a positive climate impact, with products that in many cases directly replace more harmful chemical and oil-based alternatives."*

**NOVOZYMES – ENZYMES**

As the global leader in the development, production and sale of industrial enzymes, yeasts and other biotech products, Novozymes' business strategy is centred around developing solutions that can contribute to solving three global challenges, one of which is climate change. Through the use of biology to either generate productivity and efficiency gains in the production process or to improve the efficacy of an end-consumer product, Novozymes has a positive climate impact, with products that in many cases directly replace more harmful chemical and oil-based alternatives. Examples include: detergent enzymes which allow consumers to wash at lower temperatures and remove oil-based chemicals; enzymes used to produce bioethanol which is blended with gasoline to reduce emissions; and animal food supplements which improve nutritional uptake and reduce the intensity of rearing livestock.

**INFINEON – SEMICONDUCTORS**

The transition away from fossil fuel consumption will require massive investment in the electrification of transportation, buildings and industry. As the global market leader in the production of power semiconductors, Infineon is a beneficiary of this secular change. Power semiconductors offer increased energy efficiency in a wide range of applications, such as renewable energy, electro-mobility and consumer products. Infineon will be a major beneficiary of the adoption of elective vehicles, in which there is quadruple the value of power semiconductors relative to vehicles with internal combustion engines. The company is the dominant player in this market, with a share in excess of 30%.

process, and have long-considered financially material environmental and regulatory considerations pertaining to specific holdings.

In recent years, our work has evolved to encompass more analysis of climate-related factors, including decarbonisation strategies, stranded asset risk and technological advances (both at an individual company and sector-wide level). In 2022, we incorporated an element of climate scenario analysis into our investment analysis of each company, by requiring our stock champions to address two scenarios in the climate section of our research template, 'rapid transition' and 'hothouse world'. Whilst we believe that this high-level climate scenario analysis was sufficient for the purposes of initiating a more structured challenge of our core investment research on investee companies, we recognise that this analysis could be expanded in the years ahead, and we will be conducting strategy-level scenario analysis and more detailed holding-level analysis on selected companies in 2023 and beyond. As well as managing proximate risks to their businesses, our long-term aim is to ensure that over the decades ahead all of our investments have the ability to operate and grow within a Paris-aligned global economy, and that their business operations are resilient to physical climate risks under all future scenarios.

As careful stewards of clients' capital, regular engagement with management teams allows us to further assess a company's approach to climate-related risks and opportunities. These interactions afford us a greater understanding of the climate risks and opportunities faced by that business and enable us to support companies as they seek to reduce or limit their contribution to climate change. We encourage all of our investee companies to report according to the TCFD recommendations, as we believe that this not only helps investors understand climate-related risks and opportunities, but also provides a framework which helps management to identify and manage climate-related considerations for their business. Where we consider it appropriate and constructive, we engage collaboratively with other investors.

With respect to both climate change and potential legal and regulatory, reputational and commercial transition risks and opportunities in the coming decades, there are a wide range of potential variables depending on different scenarios. Furthermore, the physical and transition risks and opportunities of climate change will impact different companies, sectors, and economies in different ways, creating additional complexity with respect to long-term investing. We manage this complexity by performing detailed and rigorous due diligence on each company.

Caveated by this uncertainty, we have identified a number of material investment considerations that we believe are likely to manifest themselves over differing time horizons. We have already factored these considerations into our long-term investment analysis[1].

**Short-Term (0-3 years)**
In the immediate future, companies will be subject to increasing customer, shareholder and stakeholder scrutiny with respect to factors such as the carbon intensity of their operations, the efficacy of their transition strategies and anticipated regulatory changes. Increasing focus on carbon intensity will not be consistent across all markets and types of business, with very carbon intensive or consumer facing businesses in economies such as Europe facing the most challenge. Companies already exposed to the physical risks of climate change may also face higher operating costs. Businesses in a number of specific sectors such as automobiles will be exposed to increasing transition risks from the growth of Ultra Low Emission Zones and the gradual phase out of Internal Combustion Engines in a number of markets.

**Medium-Term (3-5 years)**
Over the ensuing few years, the developments outlined above could intensify. In that event, companies with significant carbon footprints would face rising costs of compliance as some governments begin to impose more widespread carbon taxes and introduce more regulation to combat climate change. There would be capital investment costs involved in adopting less carbon-intensive technologies and processes, but this may in time be offset by lower operating costs in some markets. Companies that fail to exhibit sufficient commitment and competence in managing their approach to climate impact may experience a higher cost of capital.

**Long-Term (5+ years)**
On a longer-term horizon, the transition to a lower carbon economy (anticipated in most markets) will see the growth of a range of innovative alternative lower carbon technologies that are likely to disrupt existing business models, rendering some obsolete. There is a risk of stranded assets for those companies that fail to adapt to changes in technology and regulation. As existing business models are disrupted, there is the opportunity for new leaders to emerge, whether these be incumbents that have successfully adapted to the transition or providers of new solutions and technologies.

Left unaddressed, climate change could foster significant social and economic dislocation and unrest, with a resulting impact on a wide range of companies and economies. The physical impacts of climate change are likely to result in significant population movements, both within but also between countries and regions.

[1]In 2023 we are revising our definition of short, medium and long-term timescales to align with wider industry practice (short 0-5 years, medium 5-10 years, long-term 10+ years).

## OPERATIONAL STRATEGY

Our strategic aim is to ensure that our operations and business model are resilient to climate and transition-related risks. We have invested in our resources and capability to improve our understanding of operational risks, and have recently undertaken our first physical climate and transition risk operational review, to focus our efforts on the most material risks relating to our business. In the latter part of 2023 we will be reviewing our operational strategy for managing climate-related risks and opportunities, and will consider implementing transition-related emissions targets.

## THE IMPACT OF CLIMATE RISKS ON OUR STRATEGY

Climate-related risks and opportunities impact our business at both an investment and an operational level.

### INVESTMENT

We are cognisant that a greater emphasis on climate considerations could drive future capital allocation decisions by asset owners. To address this increased focus, it is important that we continue to demonstrate the quality and depth of our climate-risk analysis, while striving where possible to enhance our current approach. We are already undertaking an element of risk related climate scenario analysis (both physical risk and transition risk) for all holdings, and measuring and assessing the carbon intensity of each on an annual basis. We also monitor which companies set net zero and / or science-based climate targets and those that report according to TCFD recommendations. This analysis is recorded and monitored on an ongoing basis and is subject to periodic review.

In the second half of 2023, we will be undertaking further climate-related scenario analysis and will be undertaking further analysis and evaluation of a number of our more carbon-intensive investments, as well as any additional holdings identified as having higher physical climate or transition risks relative to our portfolios.

### OPERATIONAL

Based on our recently undertaken structured climate and transition risk operational review, we believe that the current risk to our operations from physical climate change and transition issues is relatively low, with additional mitigating steps highlighted for consideration in several areas of our operations.

Potential risks to our buildings and our ability to work effectively are also analysed and reviewed on a regular basis by our Business Continuity Group as part of the ongoing management of business continuity risks. Business continuity processes cover crisis management, business resumption and technology recovery. This helps ensure the resilience of our business to the impact of climate change on physical assets and day-to-day working.

We continue to invest in technology to improve the resilience of our operations in the event of disruption from extreme weather events. Other operational risks we have considered include regulatory changes and rising energy prices.

*“We continue to invest in technology to improve the resilience of our operations in the event of disruption from extreme weather events. Other operational risks we have considered include regulatory changes and rising energy prices.”*

# RISK MANAGEMENT

We aim to identify, assess and manage all material risks relating to both our business and our clients' assets, including those arising from climate change and related transition risks. Rather than creating additional risk management processes to do this, our preference is to integrate the management of such risks into our core risk management framework. The diagram on the next page sets out the various groups and committees which oversee climate-related risks. Please also see the Governance Section of this TCFD Entity Report which sets out the roles of each of the various groups and committees.

Based on our own analysis physical climate change and related transition considerations are deemed to be current risks for our investment portfolios. With respect to our own business and operations, our Board Risk Committee is responsible for escalating all material risks to the Board of Directors, including any emerging climate-related risks. A register of such risks is maintained and the consideration of emerging risks is a standing agenda item at each Board Risk Committee meeting. An additional agenda item at that meeting is the consideration of any matters relating to the climate and carbon.

> *"Through our fundamental company-focused research, we seek to better understand and measure the risks and opportunities posed by all environmental, social and governance issues, including climate change and the anticipated transition to a lower carbon economy."*

## HORIZON SCANNING AND MONITORING OF CLIMATE-RELATED RISKS

The Head of Investment Operations and Sustainability is also an active member of the firm's ESG Policy & Regulation Working Group, which is responsible for identifying, understanding and monitoring external regulatory and industry developments, including those related to climate. A member of our Risk & Compliance team is also part of this group, and we receive regular updates from external vendors and the Investment Association on relevant regulatory developments.

The Sustainability at Walter Scott Group and the Climate Impact Group monitor emerging operational regulatory developments. With respect to our holdings, it is the responsibility of Stock Champions to monitor and address any climate-related regulatory developments at the individual company level that could have a material financial impact on our clients' assets.

In addition to the above, we have also benefited from being a member of a number of climate-related collaborative initiatives, and through our parent company BNY Mellon we contributed to a climate-related regulatory consultation in 2022, The UK Government Review of Net Zero.

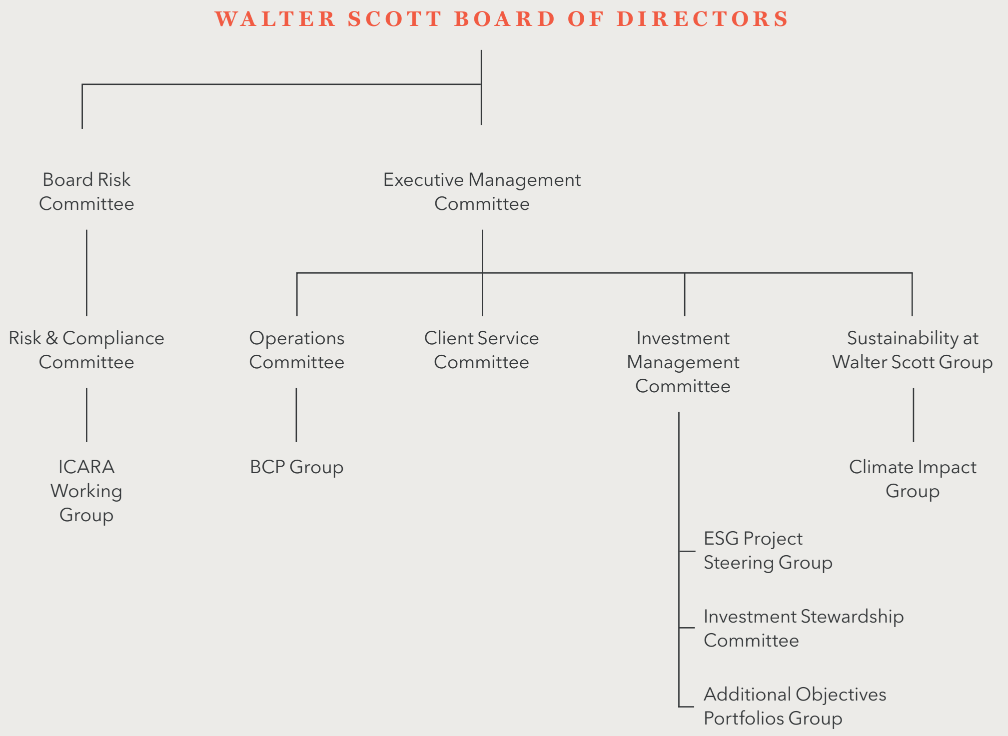
## IDENTIFYING AND ASSESSING CLIMATE-RELATED RISKS TO OUR CLIENTS' ASSETS

Through our fundamental company-focused research, we seek to better understand and measure the risks and opportunities posed by all environmental, social and governance issues, including climate change and the anticipated transition to a lower carbon economy. Our research and analysis of these risks and opportunities is integrated into our investment process.

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

- Business activities and physical footprint
- Integrity (Environmental, Social, Governance)

**RISK MANAGEMENT**




- Market characteristics
- Control of destiny
- Financial profile
- Management and board
- Valuation and trading

Climate risk is considered as part of our overall company research with analysis detailed in our Integrity document. Using a systematic template, we aim to better understand each company's material physical and transition risks and opportunities, and the resulting financial implications. The assessment of the materiality and probability of these risks and opportunities, and how they should be prioritised, is subject to the scrutiny and challenge of the entire Research team. In addition to our own research, we subscribe to a third party ESG data platform which contains additional data analysis on climate risk factors relating to our investments.

**Physical Risks**
These are the risks to our clients' assets arising from the physical manifestations of climate change

and the associated costs. Physical risks can be chronic or acute and can include drought, rising sea levels, failed harvests, and extreme weather events such as flooding and hurricanes that damage the physical infrastructure. Costs can include higher insurance premiums, rising commodity prices and falling asset values.

**Transition Risks**

These are the risks to our clients' assets arising from the anticipated move towards a less carbon-intensive economy. Transition risks include higher carbon prices and taxes, stranded assets, increased climate regulation and falling demand for carbon-intensive goods and services. Companies with high-carbon emissions are usually more exposed to transition risks. Our climate-related analysis is updated at least annually, which enables us to monitor a company's progress on material issues over time. This analysis is subject to the collective scrutiny of the Research team at a formal annual review of each holding. While our research is proprietary, we augment our understanding of climate risks with information and analysis from external sources, including third party research providers, academics, and subject-matter experts.

## IDENTIFYING AND ASSESSING CLIMATE-RELATED RISKS TO OUR BUSINESS AND OPERATIONS

In 2022 we considered a number of climate-related risks (such as extreme weather events) in our business continuity planning, but we did not undertake a comprehensive assessment of all potential risks. This has been addressed in 2023, where we have recently completed a structured climate and transition risk operational review. We used a proprietary operational risk assessment template to identify and assess climate-related risks to our operations, evaluating a very broad range of operational and business value chain risks including the following:

**Business Continuity Risks**

- Risks to office facilities and operations: adverse weather events (e.g. localised flooding from high rainfall, extreme heat, extreme cold, high snowfall, high winds)
- Risks to office facilities and operations: sea level rise
- Risks to employees' ability to commute to the office due to adverse weather events
- Risks to employees' ability to work from home due to adverse weather events
- Risks to ability to service existing clients as a result of climate-related travel disruption
- Risks to the resilience of the firm's technology infrastructure from climate-related impacts
- Risk of resource shortages and supply chain disruption (e.g. water shortages, energy supply, IT equipment)

**Business Development Risks**

- Inability to generate new business as a result of climate-related travel disruption
- Inability to attract and retain talent in economies where key offices are located as a result of climate-related risks and impacts

**Operational Cost Risks**

- Significant increases in energy costs (heating, cooling, ventilation)
- Capital depreciation of firm assets (e.g. buildings and IT hardware) as a result of climate-related impacts and risks
- Significant increases in business insurance costs as a result of climate-related risks and impacts
- Significant increases in business travel costs (especially long-haul aviation) as a result of climate-related risks and impacts

*"Our climate-related analysis is updated at least annually, which enables us to monitor a company's progress on material issues over time. This analysis is subject to the collective scrutiny of the Research team at a formal annual review of each holding."*

- Significant rises in taxes and / or local business rates as a result of climate-related risks and impacts
- Rising employee costs as a result of climate-related risks and impacts

Whilst the assessment did not identify any immediate areas of significant concern, it did highlight several areas where further work on risk mitigation should be considered. Further details will be provided in our 2023 TCFD Entity Report.

*“Our primary means of managing the climate risks of our clients’ investments is through our fundamental company analysis, which applies across all investment strategies and clients.”*

## INVESTMENT CLIMATE-RELATED RISK MANAGEMENT

Our primary means of managing the climate risks of our clients’ investments is through our fundamental company analysis, which applies across all investment strategies and clients. Through diligent research, we look to avoid investments in companies that are likely to be materially impacted by climate change to an extent which would undermine the investment case in that business. Where we have concerns about a company’s approach to climate risks, we seek dialogue to facilitate greater understanding of its strategy and the challenges it faces. Regular engagement with management teams allows us to further assess the depth of each company’s assessment of climate-related considerations. These interactions afford us a greater understanding of the climate risks and opportunities faced by that business, enabling us to better evaluate the potential impact on the investment case for that company.

It is the responsibility of the IMC to ensure that no portfolio is exposed to excessive risk of any form, and we continue developing the information that we provide to the IMC to help monitor and manage relevant and financially material climate risks. We would typically engage with our holdings to discuss the management of climate-related risks prior to any decision to sell or reduce our position. Our 2022 Annual Sustainability Report (available on our website) provides examples of climate-related engagements. Careful stock selection and investment stewardship are our primary means of mitigating climate-related investment risks.

## OPERATIONAL CLIMATE-RELATED RISK MANAGEMENT

Through the Climate Impact Group, we consider the climate impact of our own operations as a cross-function business risk, with relevant and material analysis from each area of the firm being fed back into the Executive Management Committee. The Climate Impact Group designs and monitors all climate-related initiatives and has responsibility for the provision and development of relevant metrics. To this end, the firm’s Scope 1 and 2 carbon footprint and business travel emissions are measured and reported on a quarterly basis, along with updates on our efforts to reduce our operational climate impact. Annual disclosures are provided in accordance with the UK Companies Regulations 2018 under the Streamlined Energy and Carbon Reporting. Further details of how we manage our operational climate impact can be found in the Metrics and Targets section of this report.

# METRICS AND TARGETS

Included in this section are a number of climate-related metrics and charts which provide the recommended TCFD disclosures.

All charts use an aggregation of Walter Scott composites active at a given point in time (as annotated on each chart), unless stated otherwise, referred to here as 'Walter Scott Representative Holdings'.

Further details on methodology are available in the explanatory notes at the end of this section.

Climate-related metrics are currently limited to carbon intensity and emissions. We will be undertaking a review in 2023 of our operational climate and environment related metrics and targets.

No metrics or targets have been identified for climate-related investment opportunities, however our investment research process is designed to ensure that we give careful and ongoing consideration to all investment opportunities, including those that are climate-related.

## EXPLANATION OF METRICS

The principal carbon emissions metrics listed below are used to describe the positioning of Walter Scott companies against MSCI ACWI, and development of emissions over time. Below is our analysis of their purpose, description, strengths, limitations, and formulae.

**Carbon Footprint ($tCO_2e$ / USDm invested)**

$$\frac{\sum_{i=1}^{n}\left[\frac{\textit{Company value of investment}}{\textit{Company EVIC}} \times (\textit{Company Scope 1 \& 2 Emissions})\right]}{\textit{Part portfolio Value}}$$

**Total Financed Carbon Emissions ($tCO_2e$)**

$$\sum_{i=1}^{n}\left[\frac{\textit{Company value of investment}}{\textit{Company EVIC}} \times (\textit{Company Scope 1 \& 2 Emissions})\right]$$

**Total Financed Carbon Intensity ($tCO_2e$ / USDm Revenue)**

$$\frac{\sum_{i=1}^{n}\left[\frac{\textit{Company value of investment}}{\textit{Company EVIC}} \times (\textit{Company Scope 1 \& 2 Emissions})\right]}{\sum_{i=1}^{n}\left[\frac{\textit{Company value of investment}}{\textit{Company EVIC}} \times \textit{Company Sales}\right]}$$

**Weighted Average Carbon Intensity ($tCO_2e$ / USDm Revenue)**

$$\sum_{i=1}^{n}\left[\frac{\textit{Company value of investment}}{\textit{Part portfolio Value}} \times (\textit{Company Scope 1 \& 2 Emissions Intensity})\right]$$

## OVERVIEW AND COMPARISON OF KEY METRICS

| | Purpose | Description | Strengths and Limitations |
|---|---|---|---|
| **Carbon Footprint** ($tCO_2e$ / USDm invested) | To understand how the emission intensities of different portfolios compare to each other **per monetary unit.** | The portfolio's total absolute emissions divided by the investment amount in USD.<br><br>Expressed as $tCO_2e$/USDm invested. | - Allows for comparison to other portfolios and benchmarks.<br>- Can set a baseline for comparison in the future.<br>- Allows investors to understand how much $CO_2e$ emissions are accounted for each other their $M invested.<br>- Sensitive to changes in EVIC (Enterprise Value Including Cash) of the companies held in the portfolio. |
| **Total Financed Carbon Emissions** ($tCO_2e$) | To understand the **total climate impact** of investments. | The total GHG emissions of a portfolio.<br><br>Expressed as $tCO_2e$. | - Shows the actual climate impact of the portfolio in totality.<br>- Limited use in comparison to other portfolios, benchmarks or points in time. |
| **Total Financed Carbon Intensity** ($tCO_2e$ / USDm Revenue) | To understand the **efficiency** of a portfolio in terms of total GHG emissions per dollar of revenue sourced from the portfolio's companies. | The portfolio's total absolute emissions divided by the portfolio's total ownership of dollar revenue from companies held within the portfolio.<br><br>Expressed as $tCO_2e$/USDm company revenue. | - Allows for comparison against other portfolios and benchmarks.<br>- Can set a baseline for comparison in the future.<br>- Sensitive to changes in EVIC and Revenue of the companies held in the portfolio. |
| **Weighted Average Carbon Intensity** ($tCO_2e$ / USDm Revenue) | To understand **exposure** to emission intensive companies. | The portfolio's exposure to emission intensive companies.<br><br>Expressed as $tCO_2e$/USDm company revenue. | - Allows for comparison to other portfolios and benchmarks.<br>- Can set a baseline for comparison in the future.<br>- Can be skewed by 'outlier' companies with abnormally high carbon emission intensity. |

Source: Partnership for Carbon Accounting Financials (PCAF), Walter Scott & MSCI
Note: '$tCO_2e$' stands for 'tonnes of Carbon Dioxide equivalents'

## CARBON EMISSIONS FOR WALTER SCOTT REPRESENTATIVE HOLDINGS

General notes for all calculations related to investment company or Walter Scott representative holdings calculations:

1) Charts and tables are for 'Walter Scott Representative Holdings', which is an aggregation of Walter Scott composites active at a given point in time.
2) Source: Walter Scott & MSCI – MSCI's emissions data has been aggregated by Walter Scott to a portfolio/benchmark-level using TCFD guidance.
3) Enterprise Value Including Cash has been used to determine ownership of emissions, unless stated otherwise.
4) Holdings data are as at 31 December of the relevant calendar year.
5) For calculations where 'USDm invested' is in the denominator, cash has been excluded and the holdings reweighted.
6) Cash is assumed to have zero emissions attributed to it.
7) Estimated emissions values are provided by MSCI; Walter Scott did not make any assumptions or use proxies.
8) Where data is missing for any input value needed for the calculation on a company level, whether a constituent of the portfolio or benchmark, the company has been excluded from that calculation entirely. This is represented in the calculations above as "part portfolio value", i.e. the portfolio value excluding cash and excluding any companies with relevant data gaps.

### SCOPE 1 & 2 EMISSIONS

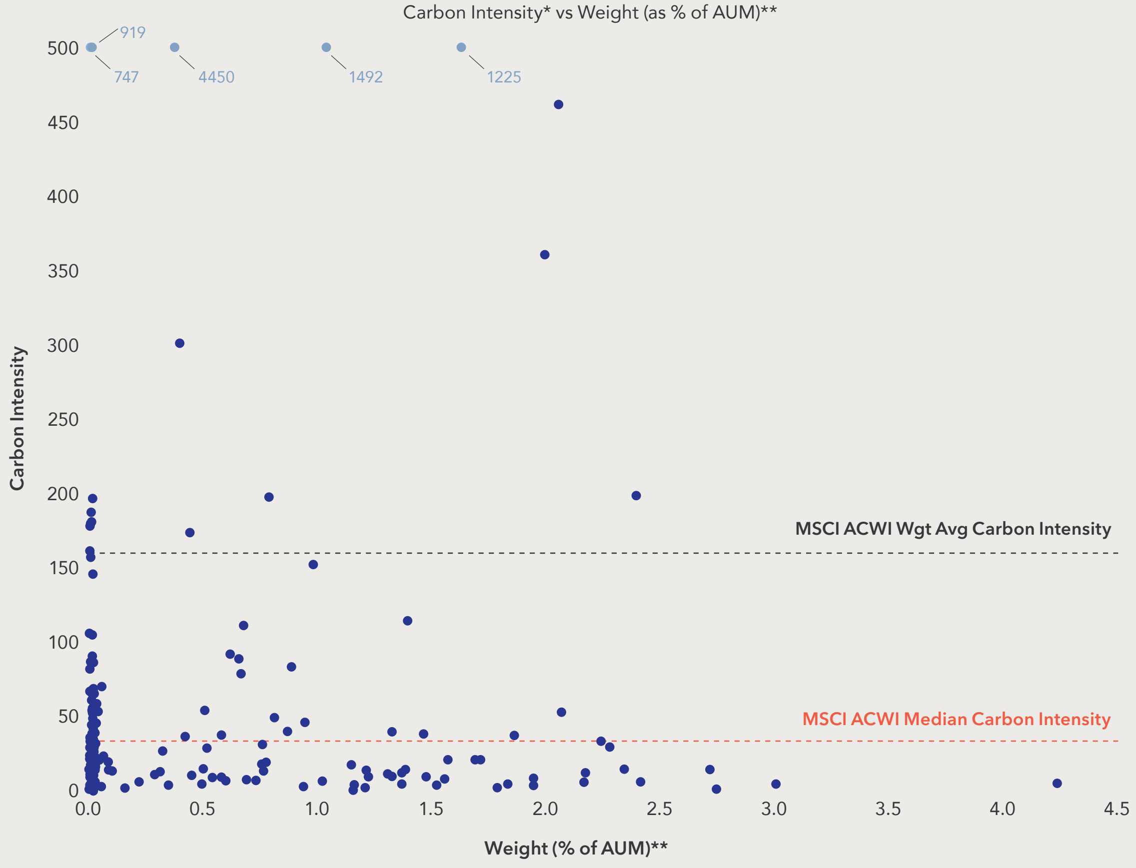
| | Walter Scott Representative Holdings | MSCI ACWI | % Below MSCI ACWI |
|---|---|---|---|
| **Carbon Footprint (tons $CO_2e$ / USDm invested)** | 22 | 59 | 63% |
| **Total Financed Carbon Emissions (tons $CO_2e$)** | 1.58m | N/A* | N/A* |
| **Total Financed Carbon Intensity (tons $CO_2e$ / USDm Sales)** | 99 | 176 | 44% |
| **Weighted Average Carbon Intensity (tons $CO_2e$ / USDm Sales)** | 96 | 157 | 38% |

Calculated using approximate dollar invested proportionate weights of companies across all portfolios included in composites within Walter Scott.
Scope 1 and 2 emissions from most recent fiscal year available at time of calculation (emissions data run on 24 April 2023).
*Total financed carbon emissions have not been calculated for MSCI ACWI since the assets represented by MSCI ACWI's adjusted market capitalization ($56.2Tn) are significantly larger than that of the portfolio, and thus the emissions attributed to these assets are incomparable to the emissions attributed to the portfolio. Please see Carbon Footprint for a normalised comparison.

## COVERAGE

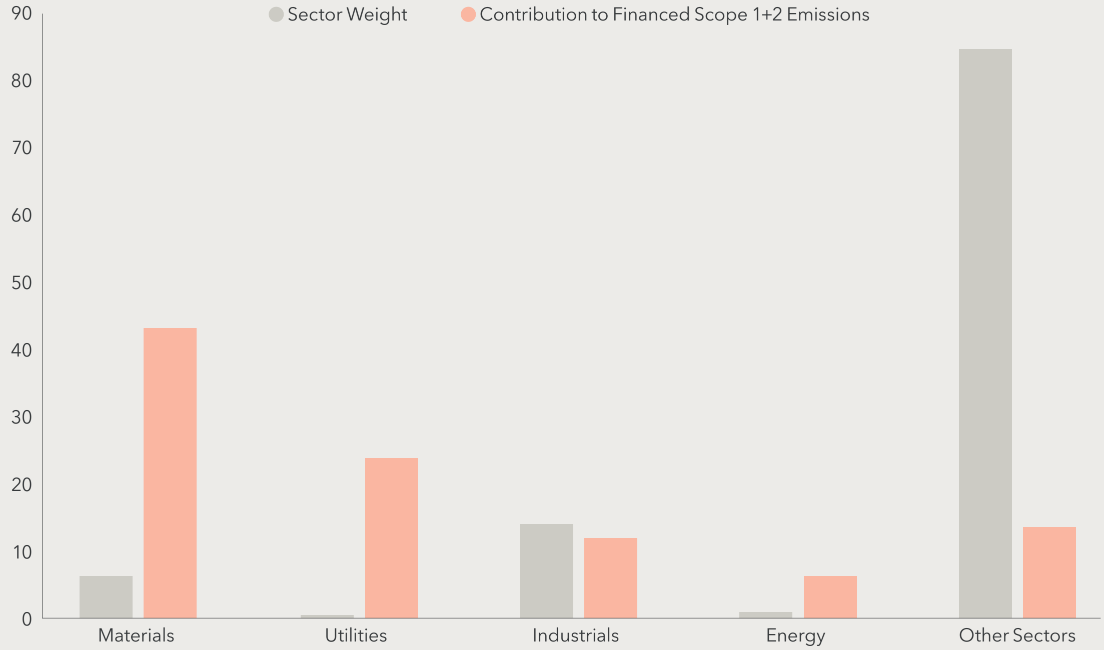
| | Walter Scott Representative Holdings | | | MSCI ACWI | | |
|---|---|---|---|---|---|---|
| | % Reported Values | % Estimated Values | % No Coverage | % Reported Values | % Estimated Values | % No Coverage |
| Financed Carbon Emissions ($tCO_2e$ / USDm invested) | 80% | 19% | 1% | 68% | 32% | 0% |
| Total Financed Carbon Emissions ($tCO_2e$) | 80% | 19% | 1% | 68% | 32% | 0% |
| Total Financed Carbon Intensity ($tCO_2e$ / USDm Sales) | 80% | 19% | 1% | 68% | 32% | 0% |
| Weighted Average Carbon Intensity ($tCO_2e$ / USDm Sales) | 80% | 19% | 1% | 67% | 32% | 0% |

## WALTER SCOTT COMPANIES – WEIGHTED AVERAGE CARBON INTENSITY




* Tonnes of Scope 1 and 2 $CO_2$ Equivalent Emissions per $m Revenue from last fiscal year available. Companies with emissions higher than 500t/$m are shown at the 500 mark and are highlighted.
** Approximate dollar invested proportionate weights of companies across all discretionary portfolios within Walter Scott.
NB. Holdings as at 31 December 2022. Emissions data run on 24 March 2023, sourced from MSCI.

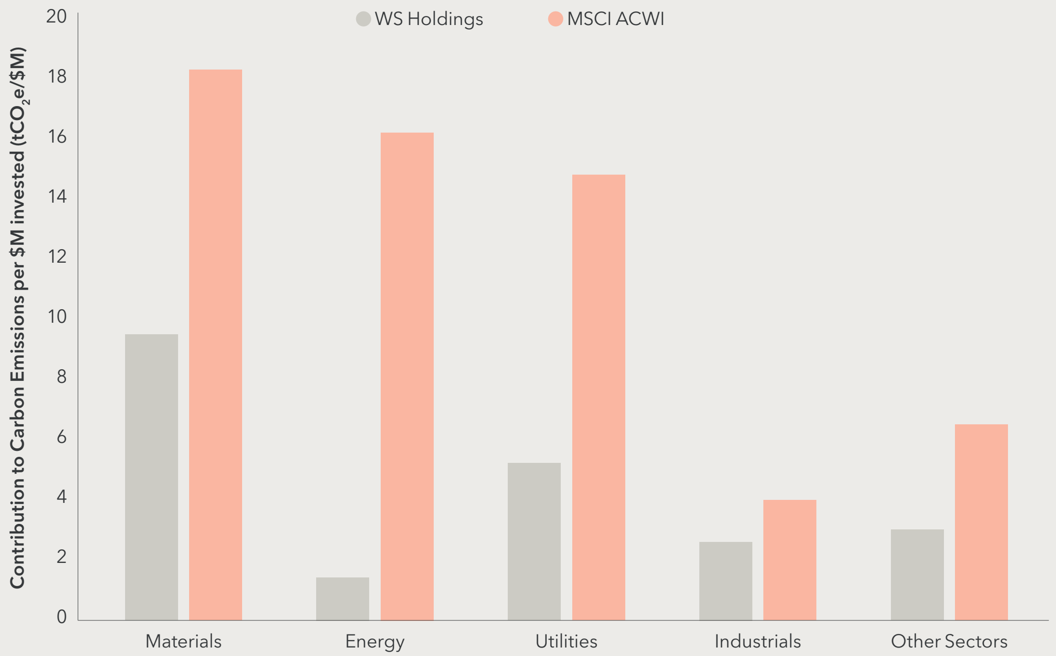
WEIGHT OF SECTOR VS CONTRIBUTION TO EMISSIONS
WALTER SCOTT REPRESENTATIVE HOLDINGS




Note: Contribution to Emissions is calculated as the financed emissions attributed to the holdings within a sector(s), divided by the total financed emissions attributed the entirety of the Walter Scott representative holdings.

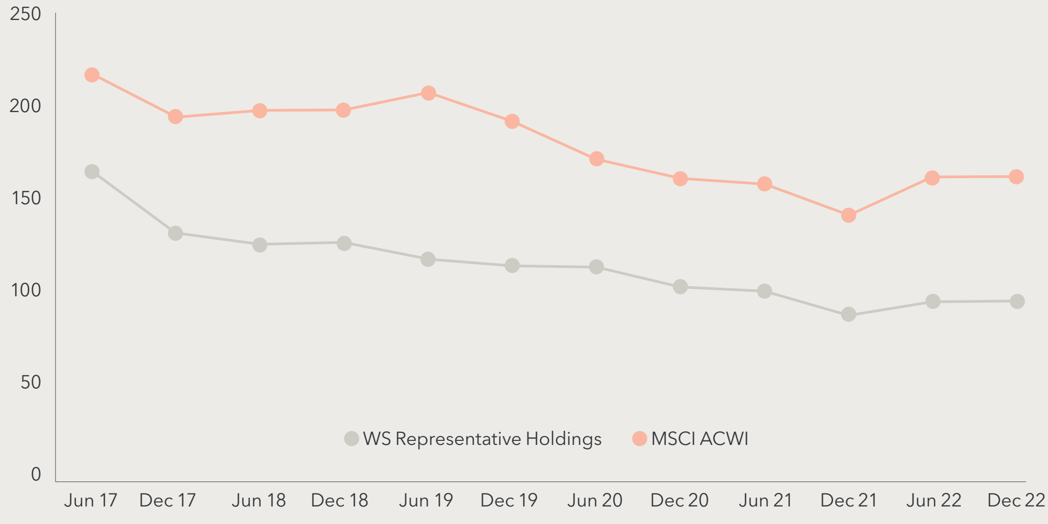
SECTOR CONTRIBUTION TO FINANCED EMISSIONS (PER $1M INVESTED)
WALTER SCOTT REPRESENTATIVE HOLDINGS VS MSCI ACWI

**FINANCED EMISSIONS ALLOCATED TO EACH SECTOR (PER $1M INVESTED)
WALTER SCOTT REPRESENTATIVE HOLDINGS**




Contribution to Financed Emissions (per $1m invested) is calculated as the financed emissions attributed to the holdings within a sector(s), divided by the total financed emissions attributed to the entirety of the Walter Scott representative holdings (or MSCI ACWI), divided by the total assets represented by either the Walter Scott representative holdings (or MSCI ACWI).

**WEIGHTED AVERAGE CARBON INTENSITY (SCOPE 1 & 2 EMISSIONS)*
WALTER SCOTT REPRESENTATIVE HOLDINGS** VS MSCI ACWI**




* Weighted average tonnes of Scope 1 and 2 $CO_2$ Equivalent Emissions per $m Revenue from relevant fiscal year. Most recent emissions values have been used for Dec 21 and after. Emissions data run on 4 May 2023, sourced from MSCI.
** Market-value weighted holdings across all discretionary portfolios included in composites at a given point in time.

For this year's report, Walter Scott is not disclosing climate value-at-risk or implied temperature rise metrics given data and methodology challenges. In 2023 we will continue to assess data availability and quality and developing assessment methodologies, and will be undertaking further research on these metrics with a view to increasing our level of disclosure in this area in the future.

## OPERATIONAL METRICS AND TARGETS

**Walter Scott Streamlined Energy and Carbon Reporting**

The Walter Scott SECR table is disclosed below. Whilst the table represents the firm's best efforts in capturing the data, it is worth highlighting that methodologies may change or there may be different ways of capturing and presenting the data in the future. The annual reporting period, 1st of January to the 31st of December, is aligned with the financial year. The conversion factors applied, specific to the year reported for 2019 to 2022, have been published by the UK Government: Department for Business, Energy & Industrial Strategy. In accordance with the Companies Regulations 2018, the Company reports its energy use and associated greenhouse gas (GHG) emissions resulting from energy use in its UK buildings and employees' business travel. Due to the nature of the firm's primary business activity and location of clients, business travel emissions reported include international travel and are not restricted to travel that both starts and ends in the UK.

Walter Scott has voluntarily reported additional emission types, where applicable utilising the calculation methodologies set out per the GHG Protocol, a Corporate Accounting and Reporting Standard Revised Edition, defined by the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD). Per the GHG Protocol Scope 2 Guidance, Scope 2 emissions using both the location-based and market-based methods have been reported. The market-based method reflects emissions from electricity arising from a renewable energy supply contractual arrangement whereas the location-based method does not.

## WALTER SCOTT EMISSIONS DATA

| | Units (kWh) | | | |
|---|---|---|---|---|
| **Energy Usage** | **2022** | **2021** | **2020** | **2019 (baseline)** |
| Gas combustion | 331,610 | 344,627 | 348,278 | 381,758 |
| Grid electricity consumed (location-based) | 257,283 | 241,353 | 238,357 | 296,111 |

| | GHG Emissions (metric tonnes $CO_2e$) | | | | |
|---|---|---|---|---|---|
| **Emission Source** | **2022** | **2021** | **2020** | **2019 (baseline)** | **Note** |
| Scope 1: GHG Emissions | 68 | 70 | 71 | 78 | 1 |
| Scope 2: GHG Emissions (location-based) | 50 | 51 | 56 | 74 | 2 |
| Scope 2: GHG Emissions (market-based) | 0 | 0 | 0 | 26 | 3 |
| Scope 3: GHG Emissions | 662 | 2,368,995 | 2,704,640 | 2,804,590 | |
| 1. Purchased Goods and Services[A] | 125 | 160 | n/a | n/a | 4 |
| 5. Waste generated in operations | 0.4 | 0.3 | 0.2 | 0.5 | 5 |
| 6. Business Travel | 359 | 44 | 111 | 698 | 6 |
| 7. Employee Commuting[A] | 177 | 205 | n/a | n/a | 7 |
| 15. Investments[B] | n/a | 2,515,598 | 2,770,741 | 2,860,087 | 8 |
| **Total Gross GHG Emissions** | **779** | **2,516,129** | **2,770,979** | **2,860,938** | |

| | Emissions (metric tonnes $CO_2e$) | | | |
|---|---|---|---|---|
| **Intensity Metrics (Per Person Employed Unless Stated)** | **2022** | **2021** | **2020** | **2019 (baseline)** |
| Scope 1: GHG Emissions[C] | 0.39 | 1.84 | n/a | 0.50 |
| Scope 2: GHG Emissions (market-based)[C] | 0.00 | 0.00 | n/a | 0.17 |
| Scope 3: Purchased Goods and Services[A] | 0.72 | 0.94 | n/a | n/a |
| Scope 3: Business Travel per person travelling[D] | 5.89 | 2.32 | 3.27 | 10.91 |

[A]Emissions not provided for 2019 and 2020 due to lack of available data.
[B]Emissions associated with the investments managed by Walter Scott on behalf of clients for 2022 are not reported due to a lack of available data. Additionally, investee company emissions reported for 2019 to 2021 have been restated following additional disclosures since the prior reporting period.
[C]Persons Employed (PE) figure based on annual average of individuals working in the UK offices. Data not provided for 2020 due to minimal PR working from Company's UK offices due to COVID-19 lockdowns.
[D]Persons travelling figure represents the number of individual employees travelling during the year.

# METHODOLOGY NOTES

1. Walter Scott's Scope 1 emissions includes emissions from the tracked use of natural gas in occupied facilities. Natural gas usage is tracked using meter readings at each of the buildings occupied in Edinburgh, UK.

2. Location-based Scope 2 grid electricity emissions are estimated based on recorded consumption in kWh which are then converted using UK government emissions conversion factors for each applicable year.

3. Grid electricity usage is recorded through meter readings in the buildings occupied in Edinburgh. Our energy provider supplies 100% renewable electricity from solar, wind and hydro. The supplier buys electricity on the wholesale market and for every unit purchased a Renewable Energy Guarantees of Origin (REGO) certificate is bought to match. From 2020 to 2022, electricity has been supplied in this manner, which allows the firm to report a reduced emission figure under the market-based method.

4. Purchased goods and services includes all upstream emissions from production of products and services acquired. This includes both tangible and intangible items and has been calculated using the hybrid method according to the GHG Protocol. This involves the use of a combination of supplier provided emissions data and the use of secondary data. Emissions reported are calculated using the most current Scope 1 and 2 emissions data specific to the vendor and where data is not available no estimate has been made. Figures are not provided for 2019 and 2020 due to a lack of available data.

5. Waste generated in operations includes emissions relating to the end-of-life disposal process, in accordance with the GHG Protocol waste-type-specific-method and have been calculated using the weight of waste materials multiplied by the relevant annual UK government emissions conversion factors.

6. Scope 3 business travel emissions include international travel due to the nature of the firm's primary business activity and location of clients. Our travel provider calculates the average estimated carbon emissions associated with each business trip and as such the calculated emissions will vary depending on factors including the route and class of travel. Emissions associated with hotel accommodation required for business travel have been included in the 2022 figure and this was not reported in prior years due to lack of available data.

7. Employee commuting includes emissions from the transportation of employees between their homes and the workplace. Additionally, emissions from teleworking (i.e. employees working remotely) have been included within this category.

   Transportation emissions associated with employee commuting have been calculated in accordance with the GHG Protocol distance-based-method. The calculations were supplemented with the results of a staff survey conducted in Q3 2022, which gathered information at a respondent level to improve overall accuracy. Details including, mode of transport used; distance from the office; and frequency of travel were collected.

   Emissions associated with employee home working have been reported using the results of the staff survey conducted in Q3 2022, in accordance with the GHG Protocol average data-method, as an estimate was required to determine the average energy consumption of an individual when working from home. The survey gathered information at a respondent level including the type of energy tariff the member of staff held at home; the number of electrical devices used; and whether they used additional heating or cooling equipment to enhance the accuracy of the average data-method calculation.

8. Emissions associated with the investments managed by Walter Scott on behalf of clients are reported using the investment-specific method according to the GHG Protocol. This method involves collecting Scope 1 and 2 emissions from the investee company and allocating the emissions based upon the share of investment on the 31st of December for the year reported. While the reporting guidelines for investment emissions in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard emissions are mostly clear, accurately capturing investment emissions is complex and for this reason emissions reported should be considered as an estimate. Due to a lack of available Scope 1 and 2 investee company data for 2022, emissions have not been reported.
   I. Source: Walter Scott & MSCI – MSCI's emissions data has been aggregated by Walter Scott to a portfolio-level.
   II. Cash is assumed to have zero emissions attributed to it.
   III. Ownership of emissions is determined by company shares owned across all portfolios within the business divided by total shares outstanding for

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| % Reported Values | 83% | 88% | 84% |
| % Estimated Values | 16% | 12% | 16% |
| % No Coverage | 1% | 0% | 1% |

Estimated emissions values are sourced from MSCI. Walter Scott did not make any assumptions or use proxies.

those companies. This should be considered representative of the firm's exposure.

IV. Calculations were run on 8 June 2023 and thus reflect the financial year emissions data available via MSCI at that time. As these emissions have been re-calculated specifically for this TCFD Entity report using emissions data available at the latest date possible, values may differ from those reported elsewhere by Walter Scott

V. Emissions data for each company included has been sourced for the relevant financial year, where available. Coverage is as above.

A number of scope 3 emissions categories were reviewed and subsequently deemed to be not applicable to our own operations and therefore are out of scope for our operational footprint reporting:

**Category 2: Capital goods** = Due to the relatively small scale of the firm's capital programme, emissions from purchased goods and services currently reflect all purchases (capitalised or not). Emissions from the use of capital goods are accounted for in either Scope 1 (e.g. fuel use) or Scope 2 (e.g. electricity use), rather than in Scope 3.

**Category 3: Fuel- and energy-related emissions not included in Scopes 1 or 2** = This category includes emissions related to the production of fuels and energy purchased and consumed by the reporting company in the reporting year that are not included in Scope 1 or Scope 2. As an investment management business, Walter Scott operations are not fuel/energy intensive.

**Category 4: Upstream transportation and distribution** = The operations of the business do not involve either shipping or freight activities, third-party transportation services between the Company's own facilities and the transportation of products or materials paid for by the Company.

**Category 8: Upstream leased assets** = Embodied emissions from manufacturing, production and transportation of leased technology assets is not applicable to Walter Scott given the nature of our investment management business and are not integral to the firm's operations. The emissions from direct energy use for leased assets are included in Scope 2 emissions.

**Category 9: Downstream transportation and distribution** = This category has been identified as non-relevant as the firm does not produce any physical products that require downstream transportation.

**Category 10: Processing of sold products** = This category has been identified as non-relevant as the Company does not produce any physical/ non-physical assets that involve the generation of further emissions while being consumed.

**Category 12: End-of life treatment of sold products** = This category has been identified as non-relevant as the services produced by the firm are not subject to "end-of life" considerations.

**Category 13: Downstream leased assets** = This category has been identified as non-relevant given downstream leased assets are not involved in the firm's investment management operations.

**Category 14: Franchises** = This category has been identified as non-relevant as the Company does not operate any franchises.

# APPENDIX A

## Abbreviations

**CDP:** Carbon Disclosure Project
**$CO_2e$:** Carbon Dioxide equivalents
**EMC:** Executive Management Committee
**EVIC:** Enterprise Value Including Cash
**GHG:** Greenhouse Gas
**IMC:** Investment Management Committee
**ISC:** Investment Stewardship Committee
**MSCI ACWI:** MSCI All Country World Index
**PCAF:** The Partnership for Carbon Accounting Financials
**SBTs:** Science Based Targets
**SBTi:** Science Based Targets initiative
**SECR:** Streamline Energy and Carbon Reporting
**TCFD:** Task Force on Climate-related Financial Disclosures

# APPENDIX B

## Glossary

***Additional Objectives Portfolios (AOPs):*** These are Walter Scott portfolios relating to clients who have opted to include additional environmental, social, and/or governance requirements in their investment guidelines or mandate.

***Additional Objectives Portfolios Process:*** This is Walter Scott's proprietary process for assessing the suitability of holdings for AOP clients, overseen by the internal AOP Group.

***Climate-related Physical Risk:*** This refers to the risk climate change poses to physical assets or operations, such as direct damage to assets and indirect impacts from supply chain disruption. Organisations' financial performance may also be affected by changes in water availability, sourcing and quality; food security; and extreme temperature changes affecting organisations' premises, operations, supply chain, transport needs and employee safety. Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns.

***Acute Risk:*** Acute physical risks refer to those that are event driven, including increased severity of extreme weather events, such as cyclones, hurricanes, floods or wildfires.

***Chronic Risk:*** Chronic physical risks refer to longer term, ongoing shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise, long-lasting droughts or chronic heat waves.

***Climate-related Transition Risk:*** This refers to the risks associated with the transition to a low-carbon or Net Zero economy. The most common transition risks relate to extensive policy, legal, technology and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organisations if they do not comply or adapt.

***Net Zero:*** This describes the state when a corporation reduces its relevant Scope 1, 2 and 3 category greenhouse gas (GHG) emissions following science-based targets, below 1.5°C pathways as much as possible, with any remaining GHG emissions being fully neutralised by like-for-like removals, for example permanent removals of fossil carbon emissions.

***Science-Based Targets (SBTs):*** GHG reduction targets are considered science-based if they are in line with what the latest climate science deemed necessary to meet the goals of the Paris Agreement. This is limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C.

***Task Force on Climate-related Financial Disclosures (TCFD):*** The Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit and insurance underwriting decisions. The recommended Financial Disclosures are organised into four categories: Governance, Strategy, Risk Management, and Metrics & Targets. The TCFD is unique in that it focuses on assessing the ability of a company to mitigate risks and maximise opportunities related to climate change.

# DISCLAIMERS

## WALTER SCOTT

The data in this report is sourced from Walter Scott's third-party data provider. Walter Scott has undertaken an internal review of the methodologies used by the third-party data provider against prescribed methodologies as set out within the TCFD recommendations and concluded that the data reviewed is of sufficient quality for use in product-level disclosures as required by the FCA. Please note, however, that whilst Walter Scott has reviewed the methodology used by the third-party data provider, the data may be open to challenge and/or contain inaccuracies due to data gaps, use of estimated data by the third-party provider, and unverified corporate disclosure underpinning the data. Furthermore, the Investment Manager used the data of one third-party provider, which may vary from that provided by other third-party providers.

## MSCI TCFD DISCLAIMER

This disclosure was developed using information from MSCI ESG Research LLC or its affiliates or information providers. Although Walter Scott's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## MSCI DISCLAIMER: NOTICE AND DISCLAIMER FOR REPORTING LICENSES

Certain information contained herein (the "Information") is sourced from/copyright of MSCI Inc., MSCI ESG Research LLC, or their affiliates (MSCI), or information providers (together the MSCI Parties) and may have been used to calculate scores, signals, or other indicators. The Information is for internal use only and may not be reproduced or disseminated in whole or part without prior written permission. The Information may not be used for, nor does it constitute, an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product, trading strategy, or index, nor should it be taken as an indication or guarantee of any future performance. Some funds may be based on or linked to MSCI indexes, and MSCI may be compensated based on the fund's assets under management or other measures. MSCI has established an information barrier between index research and certain Information. None of the Information in and of itself can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided "as is" and the user assumes the entire risk of any use it may make or permit to be made of the Information. No MSCI Party warrants or guarantees the originality, accuracy and/or completeness of the Information and each expressly disclaims all express or implied warranties. No MSCI Party shall have any liability for any errors or omissions in connection with any Information herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

**This document forms Walter Scott's Climate Change approach and is owned by the Investment Management Committee.**

**REGULATORY INFORMATION**

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

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

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

**IMPORTANT INFORMATION FOR USA**

Walter Scott & Partners Limited (Walter Scott) is authorised and regulated in the United Kingdom by the Financial Conduct Authority. Walter Scott is also registered as an investment adviser with the US Securities and Exchange Commission (SEC). Securities offered in the US by BNY Mellon Securities Corporation (BNYMSC), a registered broker-dealer. Investment advisory products offered in the US through BNYMSC employees acting in their capacity as associated investment adviser representatives of BNYMSC.

**IMPORTANT INFORMATION FOR CANADA**

Walter Scott is registered as an Exempt Market Dealer (EMD) (through which it offers certain investment vehicles on a private placement basis) in all Canadian provinces (Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland & Labrador, Nova Scotia, Prince Edward Island, Quebec, Saskatchewan and Ontario) and is also availing itself of the International Adviser Exemption (IAE) in these same provinces with the exception of Prince Edward Island. Each of the EMD registration and the IAE are in compliance with National Instrument 31-103, Registration Requirements, Exemptions and Ongoing Registrant Obligations.

**IMPORTANT INFORMATION FOR AUSTRALIA**

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

**IMPORTANT INFORMATION FOR SOUTH AFRICA**

Walter Scott is registered as a Foreign Financial Services Provider with the Financial Sector Conduct Authority in South Africa. FSP No. 9725.

**RISK FACTORS & IMPORTANT INFORMATION**

The statements and opinions expressed in this report are those of Walter Scott as at the date stated and do not necessarily represent the view of The Bank of New York Mellon Corporation, BNY Mellon Investment Management or any of their respective affiliates.

BNY Mellon Investment Management and its affiliates are not responsible for any subsequent investment advice given based on the information supplied. This is not intended as investment advice but may be deemed a financial promotion under non-US jurisdictions. The information provided is for use by professional investors only and not for onward distribution to, or to be relied upon by, retail investors.

**All investments have the potential for profit or loss and your capital may be at risk. Past performance is not a guide to future results and returns may increase or decrease as a result of currency fluctuations.**

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.

The material contained in this report which may be considered advertising, is for general information and reference purposes only and is not intended to provide or be construed as legal, tax, accounting, investment financial or other professional advice on any matter, and is not to be used as such. The contents may not be comprehensive or up to date and are subject to change without notice. Walter Scott assumes no liability (direct or consequential or any other form of liability for errors in or reliance upon this information.

If distributed in the UK or EMEA, this report may be deemed a financial promotion provided for general information only and should not be construed as investment advice. This is not investment research or a research recommendation for regulatory purposes. This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country in which such distribution or use would be contrary to local low regulation. Persons into whose possession this report comes are required I inform themselves about and to observe any restrictions that apply to distribution of this report in their jurisdiction.

As stated this document does not constitute investment advice and should not be construed as an offer to sell or a solicitation to buy any security or make an offer where otherwise unlawful. You should consult with your advisor to determine whether any particular investment strategy is appropriate.

This document should not be published in hard copy, electronic form, via the web or in any other medium accessible to the public, unless authorised by Walter Scott.



**Glen Scouller**
Sand and seaweed, Colonsay

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.