Walter Scott & Partners Limited

MIFIDPRU 8 Disclosure

2023

Contents

1 Introduction

Background

Walter Scott & Partners Limited ("Walter Scott") is a long-only global equities investment manager based in Edinburgh. Walter Scott is a subsidiary of Bank of New York Mellon Investment Management European Holdings ("BNYM IMEH" or also known as "BNY Mellon Investment Management"). The firm's investment strategy focusses on a single asset class, listed global equities. The business has consistently applied the same investment philosophy and process throughout its history since founded in 1983.

Walter Scott has clients in over 20 jurisdictions and, as at the end of December 2022, had £69.2bn in assets under management ("AUM"). The firm has a broad range of institutional clients including governments, pension plan sponsors, corporations, foundations and charities.

Disclosure Approach

The Internal Capital Adequacy and Risk Assessment ("ICARA") process is the collective term for the internal systems and controls that a firm must operate to identify and manage potential material harms (to the firm's clients, the market in which the firm operates and to the firm itself) that may arise from the operation of its business, and to ensure its operations can be wound down in an orderly manner. The regulatory requirement to conduct an ICARA sits with the firm and the outcomes of the assessment are subject to Board Risk Committee ("BRC") approval on behalf of the Walter Scott Board of Directors ("the Board") and governance processes.

Compilation of the Walter Scott ICARA document and this disclosure has been undertaken by the Walter Scott Risk, Business and Finance teams.

Purpose of MIFIDPRU Disclosure

The Public Disclosure requirements of the Investment Firm Prudential Regulation ("IFPR") are set out in MIFIDPRU 8 which replaces the previous Pillar 3 requirements of BIPRU 11. The objectives are broadly similar, namely, to inject market discipline on firms, including Walter Scott, by requiring them to disclose information to key stakeholders and counterparties.

MIFIDPRU 8 seeks to refine this approach though disclosures on Walter Scott's culture (risk management, governance, and remuneration), own funds (financial strength) and behaviour (investment policy).

This document refers specifically to Walter Scott and has been prepared and approved as a Non-SNI (Non-small and non-interconnected investment firm) UK firm.

This document sets out the framework of the firm's approach to the Disclosure requirements containing the key qualitative and quantitative information required as part of the Disclosure.

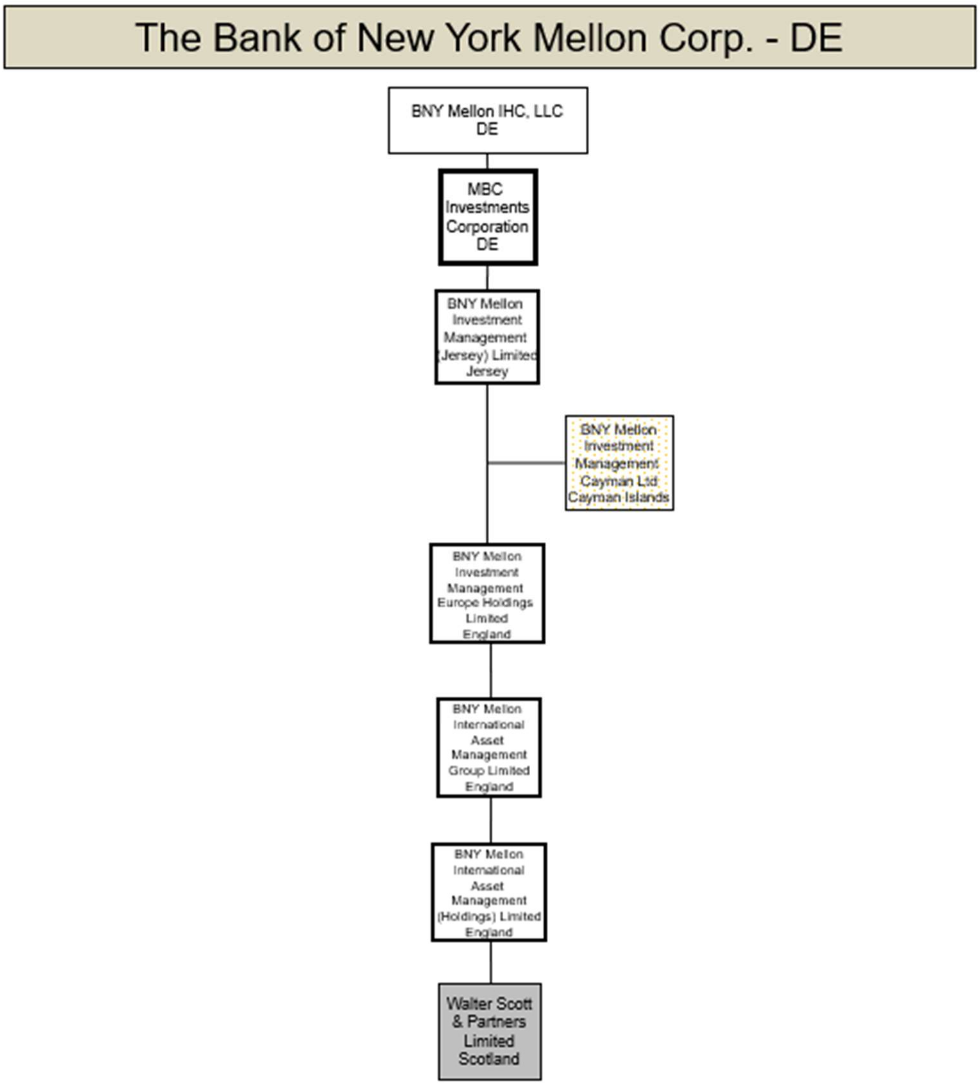
The disclosures under MIFIDPRU 8 are appropriate to the firm's size and internal organisation and to the nature, scope, and complexity of its activities.

2 Scope of Application

Entity/Firm Description

Walter Scott is a long-only global equities investment manager based in Edinburgh. It is a subsidiary of BNYM IMEH, which is the UK parent company of the BNY Mellon owned investment management businesses based in the UK, Ireland, Switzerland and Luxembourg and subject to the requirements of MIFIDPRU. Walter Scott is a separate legal entity authorised and regulated by the FCA.

The following simplified legal entity chart illustrates the ownership structure on 25 January 2023.



Note – the above chart has been streamlined to only show the Walter Scott corporate relationship.

3 Governance Arrangements

Governance and Oversight Structure

The Board has ultimate responsibility for corporate governance. Walter Scott discharges its responsibilities through regular board meetings and by delegating aspects of that responsibility through a formal committee structure (see previous). Policies and procedures have also been established to ensure effective and appropriate governance of the business.

Directorships

At end December 2022 the Walter Scott Board comprised four Executive Directors, a Shareholder Representative and two independent Non-Executive Directors. Walter Scott independent Non-Executive Directors have been selected for their broad range of skills and experiences and their ability to provide an independent view on Walter Scott's strategy, governance, technology, external threats and opportunities. The number of external Directorships held by the Walter Scott Board members at end December 2022 were:

Voting Member	Role	External Directorships
A Hammond-Chambers	Chair - Independent Non-Executive Director	3
S Potter	Independent Non-Executive Director	3
H Smits	Non-Executive Director (The Bank of New York Mellon)	-
J Henderson	Chief Executive Officer	-
R Leckie	Director	-
C Macquaker	Director	-
J Smith	Director	-

Strategy

The Board provides strategic direction to its Executive Management Committee ("EMC") and approves and oversees delivery by the EMC of the Walter Scott Strategic Plan and supporting Business Plans. The Board owns the strategic relationship with BNY Mellon as its sole shareholder. The Board also reviews and monitors the day to day running of the business, which the Board delegates in full to the CEO and EMC, in relation to the firm's strategy, risk appetite, policies, budgets and performance objectives to align with and/or mitigate external market risks and opportunities. The Board oversees all climate risks and opportunities regarding client assets and Walter Scott's own business operations and approves any change to the strategic product offering.

Resources

The Board ensures that the necessary financial and non-financial resources are in place to meet Walter Scott's strategic plan and business objectives as well as to measure performance and take corrective action as necessary. This includes, inter alia, the appropriate levels of capital and liquidity. The Board oversees significant projects, programmes and corporate development activities and reviews the annual Walter Scott stress test. The Board ensures that the firm has an appropriately qualified and skilled team of executive and investment managers to oversee performance of the business and drive investment returns for clients.

Governance

The Board monitors the effectiveness of its corporate governance and oversees the firm's culture and conduct in order to comply and align with BNY Mellon's stated values, professional standards and those legal, regulatory and moral obligations (including as reflected in Walter Scott and BNY Mellon's policies) to support its long-term sustainable success and high standards of business conduct. The Board sets and reviews the firm's risk appetite with reference to the strategy and reviews any items escalated to the Board. The Board monitors any potential conflicts of interest. The

Board receives and actions reports from its underlying committees and approves their terms of reference. The Board reviews and approves the annual Walter Scott financial statements.

Diversity Policy

Walter Scott is committed to a culture built on openness, respect, and opportunity for all. To deliver on this commitment, the firm recognises how important it is to have policies and procedures in place that support and champion diversity, equity and inclusion. It is understood that policies and procedures can only do so much; therefore, all staff have a part to play in making Walter Scott a positive, welcoming, and engaging place to work.

What Diversity, Equity & Inclusion Means at Walter Scott

Walter Scott is committed to fostering a culture that values diversity at every level. The firm strives to create and maintain a positive environment where everyone feels welcomed, valued and respected, and that each individual who works at Walter Scott has an equal chance to fulfil their potential.

Walter Scott defines diversity, equity and inclusion as follows:

- Diversity - the range of human differences that inform our individual perspectives. Often these differences are obvious (for example race and gender) and are known as demographic diversity. Other forms of diversity are not obvious (for example sexual orientation, belief, neurological differences and cognitive styles).
- Equity - ensuring that processes and programmes are fair and impartial.

  People, policies and practices ensure that everyone has the same chance to achieve the same outcome.
- Inclusion - establishing and maintaining a workplace culture where all employees feel they belong, they are valued, respected and they are given the equal opportunity to contribute and progress.

Leadership is the keystone to inclusiveness. Leadership development assists and encourages leaders to embrace diversity in all its forms and build positive working environments. As with equity, inclusion is supported by people policies and practices.

Walter Scott does not set specific targets in respect of its Diversity, Equity and Inclusion policy; however, the firm is committed to:

- Promoting a culture and environment that encourages employees to feel they belong and are given the equal opportunity to contribute and progress.
- Providing mandatory annual and ongoing training to reaffirm personal accountability.
- Implementing and reviewing policies and practices to promote fairness and impartiality so all have the same chance to succeed.
- Seeking a diverse group of applicants through recruitment activities.
- Community outreach by partnering with organisations seeking to reduce inequality and promote opportunity.
- Assessing progress and reporting outcomes to the EMC on a bi-annual basis.

Taking Responsibility

Overall responsibility for diversity and inclusion at Walter Scott sits with the firm's EMC, which subjects all aspects of diversity and inclusion to a half-yearly review. The Committee is tasked with:

- The ongoing review and continuous improvement of our approach to diversity, equity and inclusion.
- Promoting an open, respectful, and equal working culture for all our people.

The Walter Scott Diversity, Equity and Inclusion Working Group reports to the EMC biannually and makes recommendations to improve all areas of diversity, equity and inclusion.

Managers are responsible for ensuring a respectful work environment and taking prompt action to prevent discrimination or harassment from occurring.

Ultimately, everyone at Walter Scott has a role to play in ensuring that individuals feel respected and included. The importance of personal accountability is reaffirmed through annual diversity and inclusion training.

4 Risk Management Objectives and Policies

Risk Management Framework

Walter Scott operates as a discrete entity. The Walter Scott Board and executive team members have a high degree of knowledge about the business and are very close to the day-to-day risk management. The Board has primary responsibility for both the management and the oversight of risks, together with the quality and effectiveness of risk management, compliance and regulatory frameworks in the firm. The Walter Scott Board meets at least on a quarterly basis and considers reports and issues escalated by the delegated groups and committees within the business. As at the end of December 2022, Walter Scott had appointed two Independent Non-Executive Directors to its board, one of whom is the Chair.

Risk Management Structure and Operations

The Board has ultimate responsibility for corporate governance, including the management of risk. It discharges its responsibilities through regular board meetings and by delegating aspects of that responsibility through a formal committee structure (overleaf). Risk matters are delegated to the firm's BRC. Policies and procedures have been established to ensure effective and appropriate governance of the business.

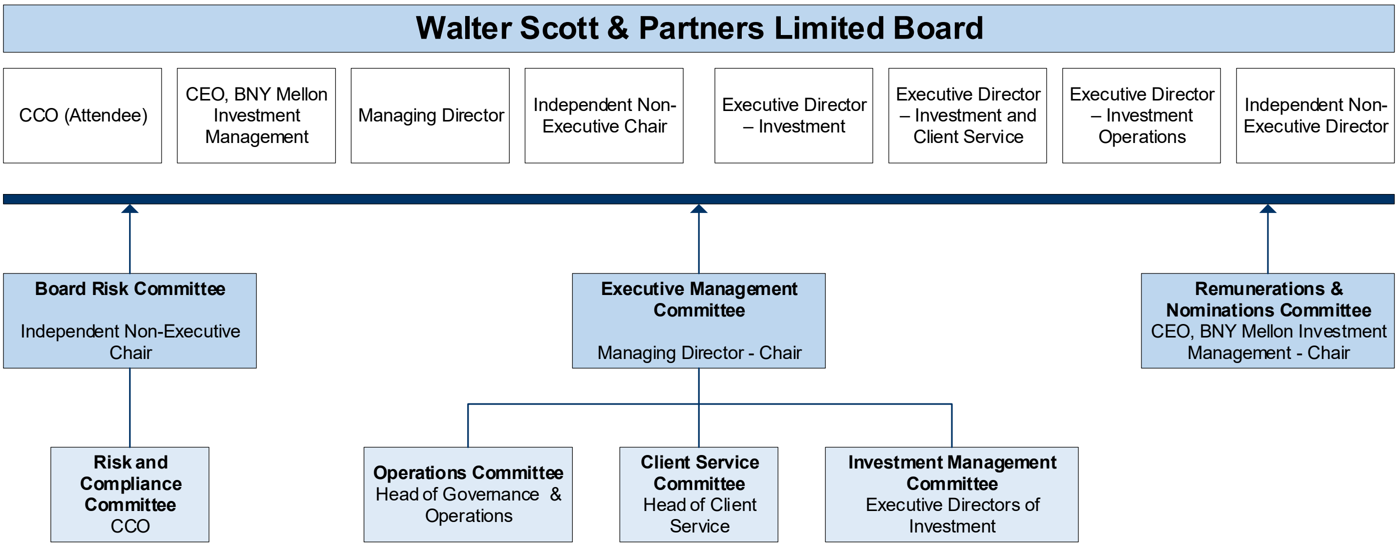
The BRC, which meets on an at least quarterly basis, has responsibility for:

- Strategy, including Strategic Risk Management and Resource Management
- Capital and Liquidity Management
- Risk Governance
- Risk & Compliance and Internal Audit functions
- Regulatory Relationship Oversight

The Walter Scott Risk & Compliance Committee ("RCC"), which meets on an at least monthly basis, under delegation from the BRC, has day-to-day responsibility for:

- Risk Strategy implementation, monitoring and escalation
- Risk Resource Management
- Risk Governance including the development and maintenance of Risk, Compliance and Internal Audit Policies

The Risk Framework is embedded across Walter Scott in the Three Lines of Defence model, the business areas which own and manage the risk are the first line, Risk Management which oversees risk is the second and Internal Audit is the third line of defence. Walter Scott Risk Managers work in conjunction with a central BNY Mellon Risk function.



The committees that report to the Board generally meet on a monthly or quarterly basis, with the exception of the Remuneration and Nominations Committee which meets as required. The Chair of the Board, an Independent Non-Executive Director, also chairs the firm's BRC. The shareholder representative is the BNY Mellon Investment Management CEO. The Managing Director of Walter Scott is a member of the firm's Board and a member of all committees.

Notwithstanding the autonomy of the Board, Walter Scott adopts a common overall risk framework in line with global BNYM policy standards. This helps to ensure thoroughness of risk management activities, consistency of approach, and commonality in escalation to the BNY Mellon Investment Risk Committee. The elements of the risk management framework are:

Risk Appetite Statement

A Risk Appetite Statement ("RAS") is reviewed and agreed by Walter Scott on an annual basis. Identified within this document are the levels of risk that the firm has determined it will accept, and how those levels will be monitored and reported. The firm has a low appetite for risk across all risk categories.

Risk and Control Self-Assessment

As part of its Risk and Control Self-Assessment process, Walter Scott assesses the risks associated with its key business processes. Assessments consider the frequency and severity of operational losses, performance of key risk indicators, emerging risks, audit and regulatory findings.

Key Risk Indicators

Key Risk Indicators ("KRIs") are used by Walter Scott to evaluate control effectiveness and residual risk within a business process on a monthly or quarterly basis. Material risks are monitored by appropriate KRIs which relate directly to key risks identified in the RAS.

Operational Risk Events

Operational risk events are recorded internally with any significant operational risk events recorded on the BNYM Risk Management Platform.

Emerging and External Risks

Emerging and External Risks are identified and rated as 'High', 'Moderate', and 'Low' with direction anticipated. These risks are discussed at the BRC.

Stress Testing

Stress testing is performed by Walter Scott as part of its ICARA process. The process reflects stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration. Scenarios are derived from current, emerging, and plausible future risks and strategy, and are subsequently reviewed, discussed, and agreed by the firm's BRC. The conclusion of the stress testing process is a statement of the future risk(s) the business faces, control improvements to mitigate the impact should the risk arise and where appropriate, a recommendation for the capital held against each risk type.

Walter Scott receivables management is undertaken by Walter Scott Finance and Walter Scott Client Operations fee billing teams. Procedures and controls exist around the collection of receivables and escalation of outstanding items. Walter Scott has not experienced any bad debts in its history.

Additional Own Funds Requirement

Walter Scott currently conducts annual liquidity stress testing and through this has established a minimum cash requirement, its Liquid Asset Threshold Requirement ("LATR") of £31.2m to fund its ongoing operations for 12 months during a liquidity crisis. This minimum sits alongside the Own Funds Threshold Requirement ("OFTR") (£39.9m as at 31 December 2022) held with third-party banks outside of BNY Mellon for diversification purposes. This diversification level ensures that Walter Scott will always have liquid net assets higher than the LATR. In conclusion, the ICARA Working Group ("IWG") therefore does not deem it necessary or appropriate to hold any additional own funds to address the potential harms posed by Liquidity risk.

Concentration Risk

Products – In terms of investment products, as at 31 December 2022 Walter Scott primarily offers Global and EAFE long-only equity mandates.

The remaining AUM is represented by regional equity mandates and variations in investment style. In broad terms, these can still be considered as one product, that being long-only equity, and the likelihood of this product falling out of favour is considered low by the Board as it tends to form part of a client's asset allocation.

Management has considered and accepted the single product risk associated with this long-only equity strategy.

Clients – Walter Scott has a diverse client base covering a number of client types and jurisdictions, with no material concentration risk for any single client.

Client development has ameliorated concentration by geography, type and size. Diversification from the US market to numerous markets worldwide ensures diversification of regulatory risk, reputation risk and fee income.

Walter Scott has adopted a policy by which no single client will exceed 10% of AUM at the time of funding, with the exception being BNY Mellon Investment Mellon Investment Advisor, formerly BNY Mellon Investment Management (Cayman) Limited, the manager of the commingled funds, which represents approximately 10% of AUM.

It is not deemed necessary to hold additional own funds to address harms posed by concentration risk.

Business / Strategic / Reputational / Regulatory Risks

In order to challenge other aspects of risk assessment and additional own funds allocation, Walter Scott has developed a number of added scenarios designed to align with both high-risk issues identified within the firm and external macro concerns. The scenarios are reconsidered and revised annually in accordance with the highest risk to create plausible scenarios which stress the firm's capital. Whilst risks inherent to the business such as poor investment performance are consistent in their inclusion, if not their exact content, external risk-based stress scenarios are added or removed with the firm's assessment of the prevailing risk.

Unlike the AMA scenarios used in the firm's ICARA Operational Risk modelling, the ICARA Stress Scenarios do not focus solely on operational aspects of the business but are designed to include aspects of strategic, group, regulatory, reputational and business risk.

The scenarios, underlying assumptions and mitigants focus on financial impact, client action and management action. They are not intended to provide an in-depth narrative of each scenario, nor are they necessarily likely. They are however, considered plausible and are purposely aggressive.

It is concluded that the firm does not require to hold additional own funds in respect of any of the risks captured in the stress scenarios.

Risks not considered relevant:

Walter Scott has considered a number of other risk categories including Legal risk, Pension Obligation risk, Securitisation risk, Interest Rate risk, Insurance risk & Model risk. After reviewing, it was concluded that due to the Walter Scott business model, these risks were not material, and do not require the firm to hold additional own funds.

Liquid Assets

Walter Scott Liquid Assets held at 31 December 2022	
	£'000
Core liquid assets (MIFIDPRU 6.3)	205,859
Non-core liquid assets - post haircut (see MIFIDPRU 7.7)	0

Liquid Asset Threshold Requirement

		Input £	Capital Assessment £
Ref	**Basic Liquid Asset Requirement**		
A	1/3 FOR	3,640,701	
B	1.6% Client Guarantees	-	
C	Basic Liquid Asset Requirement ***(A+B)***		**3,640,701**
Liquid Assets for Ongoing Operations			
D	Q1	0	
E	Q2	9,191,034	
F	Q3	9,191,034	
G	Q4	9,191,034	
H	Total Liquid Assets for Ongoing Operations ***(D+E+F+G)***		27,573.102
Liquid Assets to Commence Wind-down			
I	Liquid Assets Required to Commence Wind-down		**22,900,545**
Liquid Asset Threshold Requirement			
J	Liquid Asset Threshold Requirement ***(C+ Higher of H or I)***		**31,213,803**

5 Own Funds and Own Funds Requirement

Own Funds

This disclosure has been made in accordance with the MIFIDPRU 8.4 requirements, using the MIFIDPRU 8 Annex 1R template as required. The information contained within this section is as of 31 December 2022.

Composition of regulatory own funds			
	Item	**Amount (GBP 000s)**	**Source based on reference numbers/ letters of the balance sheet in the audited financial statements**
1	**OWN FUNDS**	**251,479**	
2	**TIER CAPITAL**	**251,479**	
3	**COMMON EQUITY TIER 1 CAPITAL**	252,578	
4	Fully paid-up capital instruments	25	Statement of Changes in Equity
5	Share premium:		
6	Retained earnings	252,553	Statement of Changes in Equity
7	Accumulated other comprehensive income:		
8	Other reserves	19,166	Statement of Changes in Equity
9	Adjustments to CET1 due to prudential filters	(19,166)	Statement of Changes in Equity
10	Other funds:		
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(1,099)	Note 10
19	CET 1: Other capital elements, deductions and adjustments	-	
20	**ADDITIONAL TIER 1 CAPITAL**		
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
25	**TIER 2 CAPITAL**		
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(1) TOTAL DEDUCTIONS FROM TIER 2	-	
29	Tier 2: Other capital elements, deductions, and adjustments	-	

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
Figures are in GBP thousands (£000s) unless noted otherwise				
-	-	**a**	**b**	**c**
-	-	**Balance sheet as in published/ audited financial statements**	**Under regulatory scope of consolidation**	**Cross-reference to template OF1**
-	-	**As at period end**	**As at period end**	-
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Tangible assets	12,026	-	-
2	Intangible fixed assets	1,099	-	-
3	Debtors	83,165	-	-
4	Investments	41,341	-	-
5	Cash at bank and in hand	220,487	-	-
	Total Assets	358,118	-	-
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Creditors: amounts falling due within one year	61,584	-	
2	Creditors: amounts falling due after more than one year	24,790	-	
	Total Liabilities	86,374	-	
Shareholders' Equity				
1	Called up share capital	25	-	
2	Other reserves	19,166	-	
3	Profit and loss account	252,553	-	
	Total Shareholders' equity	271,744	-	

Own funds: main features of own instruments issued by the firm
Own funds are comprised of share premium, fully paid-up capital instruments and retained earnings which are accounted for within shareholders equity. Called up share capital constitutes 25,126 of ordinary shares of £1 each.

Own Funds Requirement

This disclosure has been made in accordance with the MIFIDPRU 8.5 requirements. The information contained this section is as of 31 December 2022.

Walter Scott has complied with its Own Funds requirement throughout the period.

	Walter Scott Own Funds Requirement	Input £	Capital Assessment £
Ref	**Own Funds Requirement**		
A	PMR	75,000	
B	FOR	10,922,104	
C	K-AUM	14,628,415	
D	K-COH	6,435	
E	KFR ***(C+D)***	14,634,850	
F	Own Funds Requirement ***Higher of (A, B or E)***		**14,634,850**
Own Funds for Ongoing Activities			
G	Harms from Ongoing Activity Assessment	31,527,273	
H	Additional Own Funds from Ongoing Activity ***Higher of (G-C or 0)***	16,898,858	
K	Harms 'other'	8,321,286	
L	Additional Own Funds for Ongoing Activities ***(H+K)***		25,220,144
M	Own Funds to Address Risks from Ongoing Activities ***(E+L)***		39,854,994
Own Funds to Wind-down			
N	Cost Of OWD (Gross)	22,900,545	
O	Cost of OWD (Net)	19,470,995	
P	Additional Own Funds to Wind-down ***Higher of (O-B or 0)***	8,548,891	
Q	Own Funds Necessary for Orderly Wind-down ***(P+B)***		**19,470,995**
Own Funds Threshold Requirement			
R	Own Funds Threshold Requirement ***Higher of (M, Q or A)***		**39,854,994**
S	Early Warning Indicator **(110% of R)**		43,840,493
T	Wind-down Trigger **(B)**		10,922,104

Adequacy of Own Funds Assessment

The firm's Own Funds Assessment was derived after completion of the 2022 ICARA process which considered all relevant material harms. As part of this process, the Own Funds Assessment was subject to challenge by firm specific, severe but plausible hypothetical scenarios designed to stress the firm's capital. Based on these activities it is believed the firm's Own Funds Assessment figure is adequate.

6 Remuneration Disclosure

Walter Scott is required to disclose information on its remuneration policy and practices for those categories of staff whose professional activities have a material impact on its risk profile. This disclosure is made in accordance with the MIFIDPRU 8.6 requirements. The information disclosed is as at 31 December 2022, in respect of Walter Scott. Where appropriate this disclosure exercises the confidentiality provisions of MIFIDPRU 8.6.8 (7).

Remuneration Policy and Governance

Walter Scott's Remuneration Policy is designed to align with the long-term interests of the firm's clients.

Walter Scott's Remuneration Policy has been designed to provide a remuneration approach that is consistent and appropriate to all its staff. It ensures that pay practices are appropriate and proportionate to the nature, scale and complexity of the current and future risks that are inherent in the business model and activities carried out.

In addition to being regulatory compliant and gender neutral, as well as supporting equal pay and diversity, the Remuneration Policy also promotes sound and effective risk management, aligns with the firm's business strategy and rewards long-term sustainable investment outcomes for its clients.

The approach to remuneration is governed by the Walter Scott Remuneration and Nominations Committee ("RNC"), which has delegated responsibility for remuneration matters from the Walter Scott Board which, in consultation with the BNY Mellon Investment Management Compensation Oversight Committee ("IM COC"), is responsible for remuneration policy decisions and the approval of year-end compensation awards for its respective regulated staff members. All new material incentive plans, material changes to existing incentive/sales plans and funding accrual decisions are subject to review and approval by the IM COC.

The RNC meets at least 3 times per year. Compensation proposals are made to the RNC on an annual basis which includes a review of proposals for the EMC members, Material Risk Takers ("MRTs") and other high earners. This review includes formal input from the Risk and Compliance and Human Resources functions. The RNC may, from time to time, consider additional input from external consultants as deemed appropriate.

To manage any potential conflicts of interest, remuneration decisions for employees in control functions are determined in conjunction with the BNY Mellon corporate function. Variable compensation deferrals for these employees are aligned to the BNY Mellon corporate deferral rates, subject to any additional regulatory requirements which may apply. Deferrals for this population are made predominantly in BNY Mellon LTIP arrangements rather than the Walter Scott specific LTIP.

The RNC is accountable for ensuring remuneration practices are implemented appropriately in line with the firm's business strategy, all relevant legal and regulatory requirements, policies and practices reflecting the risk profile, long term objectives and the overall philosophy of the firm.

Remuneration Philosophy

Walter Scott's overarching compensation philosophy is designed to align with the long-term interests of the firm's clients and to attract and retain the highest caliber of staff with a compensation and benefits package that is market competitive and is designed to reward:

- growth and development for our clients, our shareholders, our people, our business and the communities within which we operate to be consistent with, and promote sound and effective risk management,
- performance (of the firm, team and individuals against established goals),
- the creation and maintenance of an inclusive and positive culture focused on doing what is right and supporting sustainable long-term value,
- be in line with the firm's business strategy, objectives and long-term interests.

Linking Strategy to our Reward Philosophy

Walter Scott offers a total compensation opportunity that supports its values; passion for excellence, long term client relationships, integrity, strength in diversity and courage to lead. The business values individual and team contributions with rewards based on how both contribute to client and overall business outcomes. In support of this philosophy, variable compensation is regularly used as a means of recognising performance.

Through the compensation philosophy and principles, the interests of our clients, employees and shareholder are aligned by encouraging actions that contribute to superior investment performance for clients without taking unnecessary or excessive risks that threaten the value of the Walter Scott business or benefit individual employees.

The compensation structures are comprised of an appropriate mix of fixed and variable compensation that vests over time and are consistent with business and market practice.

Material Risk Takers

As required by the MIFIDPRU Remuneration Code, relevant investment firms are required to identify employees whose professional activities have a material impact on the risk profile of the firm or the assets that are managed by the firm. The Remuneration Code includes published criteria to assist in identifying those employees.

The Walter Scott RNC is presented with the firm's interpretation of the Remuneration Code identification criteria for formal approval on an annual basis. Using this identification criteria, a list of MRTs is also presented for approval. This intentionally captures those with responsibility to control risk and with potential risk exposure.

Employees identified as MRTs include, but are not limited to, those who meet the following criteria:

- Members of a management body in its management or supervisory function, or a member of senior management
- Those with managerial responsibility for a regulated activity
- Those with managerial responsibility for a control function, including Risk and Money Laundering
- Those whose professional activities are otherwise determined to have an impact on the risk profile of the firm, or the assets managed.

All identified MRTs are informed of their status as MRTs and the implication of what this means for them through a notification letter. The list of MRTs is maintained through the year and updated as necessary by the firm. For the 2022 performance year 12 employees were identified as MRTs.

Structure of Compensation

The level of individual compensation is based on multiple factors, including:

- Job function – type of work being done, financial responsibility, decision-making authority and number of employees supervised,
- Knowledge requirements – skill, education and training required to successfully perform the job
- Competence – breadth and depth and competence of prior work experience
- Local labor market – local pay rate for similar jobs at other companies in the same global location
- Talent availability – number of qualified workers who fulfil the job requirements; and
- Individual performance – level of performance of the person doing the job.

Walter Scott's employee compensation structure is comprised of an appropriate mix of salary and variable compensation (incentives) that vests over time.

Fixed Component

The fixed component of an employees' compensation is determined by taking into account market practice, being sufficient to provide security and a financial foundation for the relevant location, reflect the size and scope and value of roles within the firm, in addition to the capability and competence of the individual.

Fixed compensation is set at a level high enough to ensure that there is no requirement or obligation to pay variable compensation when the performance of the individual, team or firm does not justify it.

Variable Component

The variable incentive pool, is determined by the profitability of the business and is calculated as a set percentage of the firm's annual pre-tax operating profits.

All Walter Scott employees are eligible to be awarded variable compensation but have no entitlement to such awards which are discretionary. Variable compensation is an important element of total compensation and is the firm's way of paying for performance. The proportion of total compensation made up of variable compensation typically increases with the seniority of the role and often constitutes the majority of total compensation.

Variable compensation may consist of both upfront cash and deferred components. The split is determined by the functional hierarchy of the business or function to which the individual staff member belongs, and in accordance with the terms and conditions of the incentive compensation plan that is applicable for the business or business partner service.

The deferred component is intended to align a portion of the variable compensation award with the management of longer-term business risk. It is generally awarded in the form of deferred cash which is invested in either BNY Mellon LTIP arrangements or the Walter Scott specific LTIP.

Guaranteed variable compensation is only awarded in exceptional circumstances and, in line with the regulatory requirements, limited to the first year of service and in the context of hiring new staff.

Buyout awards, which compensate a new joiner for forfeited deferred remuneration from a previous employer, will take into consideration the value and terms including any deferral period, nature of award (e.g. cash, shares etc.) and retention period of the variable compensation to be forfeited.

In addition, any retention or severance payments (in addition to any local statutory requirements) are made at the discretion of the Walter Scott RNC and are made in line with the regulatory requirements of the Remuneration Code.

To ensure effective risk adjustment, Walter Scott requires employees who receive variable remuneration awards (both upfront and deferred) to agree to forfeiture and claw back of such awards in the event of fraud, misconduct or actions contributing to the detriment of business interests, including competing with the business and soliciting employees or clients. Where required by regulations, awards to MRTs are subject to more stringent risk adjustment, including, but not limited to, forfeiture and claw back in the event of employee misbehaviour, material error, material downturn in business performance or a material failure of risk management.

Performance criteria

Variable compensation is designed to be determined based on individual, team and business performance measured against varied criteria and is intended to reward leadership performance equitably with technical performance and delivery.

Performance is measured against criteria including risk and compliance standards/policies/procedures and requirements, achievement of goals, modeling of diversity, equity and inclusion and ESG. The balance of each criteria ensures that variable remuneration does not encourage excessive risk taking nor affect the sound capital base of the firm. It also reflects the long-term performance of employees.

Long Term Incentive Plans ("LTIP")

Walter Scott operates a LTIP for certain employees based on their level of total remuneration. With the exception of control functions, awards are a deferred cash investment into funds of which the firm is the sub-advisor. These investments vest over a three-year period on a pro-rata basis (one third on each anniversary). Three-year deferral period is considered appropriate given the long-hold nature of the firm's investment approach and the low employee turnover.

Variable Remuneration of Control Function Staff

The variable compensation awarded to control function staff (for example, finance, risk and compliance) is dependent on performance that is assessed according to the achievement of objectives specific to their functional role and is independent of the activities they oversee.

Performance Adjustment

The Walter Scott RNC is responsible for ensuring any variable remuneration, including any amounts deferred, is paid or vests only if it is sustainable according to the financial position of the firm as a whole and justified by the performance of the individual, the individual's team and the firm.

All employees have three non-financial objectives on which they are assessed. These being Diversity, Equity & Inclusion, ESG and Risk and Compliance.

The Walter Scott RNC takes into consideration input from the HR and Risk and Compliance functions when determining remuneration outcomes and may, in its sole discretion, cancel or reduce all or any portion of an unvested award of variable remuneration ("Malus") based on criteria included in the Remuneration Policy, including but not limited to, employee misconduct, material error, material downturn in business unit performance, material failure of risk management and failure to meet fitness and proprietary standards. In addition, claw back may be applied for up to seven years from the date the variable remuneration was awarded.

Termination Payments may be made where the employment contract is terminated early at the initiative of the employer. The payments will be subject to general standards that are dependent on a number of factors which may include the seniority of the individual, their length of service, the circumstances surrounding the termination and any applicable legal requirements and shall not reward failure or misconduct. Termination payments do not reward failure (personal or corporate) or misconduct. Termination payments are made in line with applicable legal requirements.

Quantitative Disclosures

Walter Scott is required to disclosure information on the aggregate remuneration for its employee and MRTs for the 2022 performance year.

The remuneration amounts below are presented on a gross basis, regardless of the time spent by staff in respect of Walter Scott.

	Senior Management	Other MRTs[1]	Other Staff
Total Number	10		172
Total Remuneration	£30,578,910		£38,464,440
Fixed Remuneration	£2,153,910		£10,713,196
Variable Remuneration	£28,425,000		£27,751,244
Cash	£11,438,500		
Upfront Shares	£40,000		
Deferred Shares	£311,977		
Share-linked	-		
Other	£16,634,523		
Deferred Remuneration awarded for prior year	£40,350,046		
2023 Vesting	£9,286,692		
Subsequent Years vesting	£31,063,354		
Due to vest but withheld due to performance adjustment	-		
Total Guaranteed Variable	None		
Total Severance Payments	None		
Highest Severance Payment	n/a		
Exemptions under SYSC 19G.5.9R	n/a		

[1] Under MIFIDPRU 8.6.9 no information is provided in order to prevent identification of two material risk takers.

7 Investment Policy

This disclosure has been made in accordance with the MIFIDPRU 8.7 requirements. The information contained within this section is at 31 December 2022.

- Walter Scott did not hold any shares directly during the period.
- Walter Scott did not hold shares indirectly on behalf of clients in excess of 5% of any issuance with voting rights attached.

IP1 – Proportion of Voting Rights

Company name	LEI	Proportion voting rights attached to shares held directly or indirectly in accordance with MIFIDPRU 8.7.4R
N/A	N/A	N/A

IP2 – Voting Behaviour

IP2.01 – DESCRIPTION OF VOTING BEHAVIOUR		
Row	**Item**	**Value**
1	Number of relevant companies in the scope of disclosure	0
2	Number of general meetings in the scope of disclosure during the past year	N/A
3	Number of general meetings in the scope of disclosure in which the firm has voted during the past year	N/A
4	Does the investment firm inform the company of negative votes prior to the general meeting? (Yes/No/Other – please explain)	No - As per Walter Scott's Proxy Voting Policy, in the event of a vote against management, we notify the company in question after the general meeting outlining our rationale for the decision.
5	On a consolidation basis, does the investment firm group possess a policy regarding conflicts of interest between relevant entities of the group? (Yes/No)	Yes
6	If yes, summary of this policy	Potential conflicts of interest are dealt with in Walter Scott's Proxy Voting Policy https://www.walterscott.com/wp-content/uploads/2022/06/20220620-Proxy-Voting-Policy.pdf

IP2.02 – VOTING BEHAVIOUR			
Row	**Item**	**Number**	**Percentage (of all resolutions)**
1	General meeting resolutions:	N/A	N/A
2	The firm has approved management's recommendation	N/A	N/A
3	The firm has opposed management's recommendations	N/A	N/A
4	In which the firm has abstained	N/A	N/A
5	General meetings in which the firm has opposed at least one resolution	N/A	N/A

IP2.03 – VOTING BEHAVIOUR IN RESOLUTION BY THEME (number unless specified)					
Row	**Item**	**Voted For**	**Voted Against**	**Abstained**	**Total**
1	Voted resolutions by theme during the past year	N/A	N/A	N/A	N/A
2	Board structure	N/A	N/A	N/A	N/A
3	Executive remuneration	N/A	N/A	N/A	N/A
4	Auditors	N/A	N/A	N/A	N/A
5	Environmental, social, governance not covered by rows 2-4	N/A	N/A	N/A	N/A
6	Capital transactions	N/A	N/A	N/A	N/A
7	External resolutions (e.g., shareholder proposals)	N/A	N/A	N/A	N/A
8	Other	N/A	N/A	N/A	N/A
9	Percentage of all resolutions put forward by the administrative or management body that are approved by the firm	N/A	N/A	N/A	N/A

IP3 – Use of Proxy Advisor Firms

IP3 – USE OF PROXY ADVISOR FIRMS
Explanation on the use of proxy advisor firms
Walter Scott receives third party research from Institutional Shareholder Services (ISS) for information purposes. However, the recommendations from any intermediary have no bearing on how Walter Scott votes.

IP4 – Voting Guidelines

IP4 – VOTING GUIDELINES
Voting guidelines regarding the companies the shares of which are held in accordance with MIFIDPRU 8.7.4R: short summary and, if available, links to non-confidential documents
Where authorized to do so, Walter Scott votes at shareholder meetings in a manner consistent with our clients' best interests. While Walter Scott considers all votes on a case-by-case basis, we have guidelines in place for specific issues, which are all detailed in Walter Scott's Proxy Voting Policy - https://www.walterscott.com/wp-content/uploads/2022/06/20220620-Proxy-Voting-Policy.pdf

8 Contact Information

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