WALTER SCOTT

BNY MELLON | INVESTMENT MANAGEMENT

SECTION 172 STATEMENT

for the year ended 31 December 2023

Section 172 of the Companies Act 2006 requires directors to run the Company for the benefit of its shareholders as a whole and in doing so, the Company's Board of Directors (the “Board”) should take into account (i) the long-term impact of any decision, (ii) constructive stakeholder relationships, and (iii) the external impact of its activities - all while maintaining high standards of business conduct. In addressing these matters, the Company would like to expand on the following:

BUSINESS RELATIONSHIPS WITH SUPPLIERS, CUSTOMERS AND OTHERS

- The Board receives updates on key milestones and progress, against plan, to deliver the agreed strategy. Updates include client and business development activities e.g. wins, types of mandates, pipeline, and business at risk.
- The Board oversees the Company's operations including services provided by third parties or affiliates. This oversight includes any strategic considerations regarding any further potential outsourcing or insourcing opportunities, and specifically whether they may bring efficiencies to the business and benefit to its shareholders.
- As part of the Company's governance framework, the monthly Operations Committee receives an update on the management of all vendor relationships. Material issues are escalated as required to the Executive Management Committee ("EMC") and, ultimately, to the Board.
- The BNY Mellon Accounts Payable team ensures payments are made on behalf of the Company to suppliers on a controlled and timely basis. The Company publishes data in line with the Reporting on Payment Practices and Performance UK Regulations.
- The Board seeks assurance from senior management in relation to the implementation of any regulatory changes and compliance with ongoing regulatory requirements. This includes staff training on relevant legal and compliance matters and an annual attestation from staff to confirm compliance with the BNY Mellon Code of Conduct.
- The Company is committed to a culture of “doing the right thing”. Examples of initiatives in this space include policies to cover conflicts and also stringent conditions around personal account trading.
- The Company's modern slavery statement outlines the expected standards for all its suppliers.

HIGH STANDARDS OF BUSINESS CONDUCT

- The Board is responsible for and committed to good corporate governance. In fulfilment of its responsibilities, the Board delegates certain functions of oversight, risk mitigation, regulatory compliance, remuneration and other obligatory functions to its committees and, in certain instances, empowers them to make decisions on its behalf.
- The Company is regulated in the United Kingdom by The Financial Conduct Authority (the “FCA”) and operates within the rules of the FCA and the restrictions as defined within its regulatory licence.

- The FCA's Senior Managers & Certification Regime (“SM&CR”) classifies the Company as an Enhanced Firm. All Senior Managers, Certified Persons and Conduct Rules staff undertake ongoing appropriate training sessions.
- The aim of SM&CR is to reduce harm to consumers and strengthen market integrity by creating a system that enables firms and regulators to hold individuals to account. Under the auspices of SM&CR, the Company aims to:
  - Encourage staff to take personal responsibility for their actions;
  - Improve conduct at all levels; and
  - Ensure relevant staff clearly understand and can demonstrate their roles and responsibilities.
- The Board recognises the importance of risk management in the execution of its strategy and has defined the levels of risk acceptable to the Company i.e. its "risk appetite". The Board retains overall responsibility for approval of the Company's risk appetite and strategy, including its capital adequacy and financial liquidity.
- The Board seeks and receives assurances from the Board Risk Committee over the governance around preparing a number of regulatory submissions and associated policies.
- The Board approves an internal policies framework to maintain controls and governance within the business. The framework is reviewed at least annually.
- Company employees' activities are carried out in accordance with applicable processes and procedures. Issues with clients, market practice, regulators or vendors that require senior level consideration are addressed through the escalation mechanisms in the Board approved governance framework.
- The Board promotes a high performance culture by managing talent, strengthening employee engagement and ensuring effective employee communications. The Board Remuneration & Nominations Committee ("RNC") supports the Board to achieve this goal.

THE INTEREST OF EMPLOYEES

- The Board promotes a high ethical standard of culture by ensuring high standards of employee engagement and robust lines of communication throughout the Company.
- Company employees are paid competitive base salaries. The compensation structure is designed to promote fair and equal treatment of all staff. The RNC determines the salary and profit share allocation based on the overall performance of the Company. All Company employees are eligible to participate in its annual profit share. This is the sole source of incentive compensation. The components of compensation will also vary from year to year depending on the level of operating profit.
- The majority of annual compensation for Executive Directors and senior management comprises a share of the Company's profits. This is predominantly invested in a global equity fund of which Walter Scott is the investment adviser. There is a deferral period which vests on a pro rata basis over three or four years.
- The Board acknowledges the importance of a diverse culture and the positive impact cognitive diversity has on the long term success of the business. The Company has a Diversity, Equity and Inclusion Working Group which reports to the EMC twice per annum, makes recommendations and takes actions to improve diversity, equity and inclusion at the Company. Women comprise 48% of the workforce, 50% of the Executive Management Committee, and 22% of the Board.

IMPACT ON THE COMMUNITY AND ENVIRONMENT

In 2023, the total charitable donations made by the Company's Giving Group totalled £1,000,000 (2022: £1,000,000). In 2023, the Company supported 69 charities across Scotland and in Boston. There are a range of projects supported from mental health, young people and homelessness. There was a step-up for support in the community in both Edinburgh and Boston through new projects, such as a free soccer programme and a women's health and wellbeing programme.

- 47% of the 2023 budget was allocated to multi-year programmes. Many charities are heavily reliant on annual funding, so long-term support offers valuable financial security and enables charities to plan with confidence.
- The Giving Group's approach is to focus on specific projects whose outline, budget, expected outcomes and evaluation are clear. The evaluation element provides the Group with clear accountability for the efficiency and impact of donations made. It also offers the opportunity for further future improvements to the programme.
- The Group maintained a close relationship with its supported charities through the year. At each monthly meeting of the Giving Group, an invited charity provided an update on its work and the impact of the Group's donation.
- The Company ran its Research and Operations internship programmes in 2023. These enabled the Company to deepen its relationship with organisations such as The Crankstart Internship, which supports students from low-income households at the University of Oxford and The Robertson Trust, which is based in Scotland, and whose mission is to improve the quality of life and realise the potential of Scotland's people and communities. In 2023, three of our eleven interns were Crankstart Scholars.

Our investment approach and climate change

- The consideration of sustainability factors in the management of its clients' portfolios is fundamental to the Company's approach and has always been included in the analysis of companies.
- As long-term stewards of clients' capital, the Company must seek to understand the material climate-related risks and opportunities faced by companies today and in the future. These risks and opportunities are managed through constructive engagement.
- The objective of the above engagement is to create long-term value for clients. The Company wants to ensure that its holdings have the requisite strategy, operational capability and management commitment to reduce the carbon intensity of their business to an extent that will allow them to operate and grow within the constraints of a Paris-aligned global economy. The Company also wants to ensure that exposure to additional unforeseen transition or physical climate risks are factored into any analysis.
- The Carbon Disclosure Project ("CDP") is a not-for-profit organisation that runs a system of global environmental disclosures. By collaborating with CDP, the Company aims to promote the disclosure of more and better quality environmental data, which facilitates more focused company engagement and analysis.

Operations and sustainability

- Overall, the Company's carbon emissions (using the location-based method), excluding emissions associated with the investments managed by the Company, for 2023 were 35% greater than 2022, but 14% less than 2019 base year emissions (when comparing like for like emissions sources).
- The Company's objective is to ensure that its operations and business model are resilient to climate and transition-related risks. In 2023, the Company undertook its first physical climate and transitional risk scenario analysis in assessing climate risk to its operations. 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 that have been considered include regulatory changes and rising energy prices.
- In 2023 the Company achieved ISO 14001 certification, the international standard for environmental management systems ("EMS"), for both of its sites in Edinburgh. This has helped assess the Company's ability to operate an EMS and mitigate the environmental impact of our Edinburgh offices, as well as ensuring we comply with all necessary laws and regulations.

- The Company has set the following targets relating to its operations and sustainability to be tracked versus the baseline year of 2019:

  Maintain an average annual recycling rate of 70% of total Edinburgh office waste

  The Company's recycling rate, which was an average of 72% for 2023 (2022: 74%; 2019: 72%), continued to exceed the Scottish government's 2025 target of 70%. The Company will continue to identify strategies to help further reduce overall waste going forward.

  A reduction in total office waste by 5% by the end of 2024 compared to the base year 2019

  Total waste generated in 2023 of 22.8 tonnes represents a reduction of 1% versus the 23.1 tonnes generated in 2019. General waste has reduced by 5% and the Company expects this to reduce further in 2024. New bins will be introduced to help improve the recycling ratio and more detailed waste audit will be conducted.

  An 80% reduction in office printing compared to the base year 2019:

  Print volumes were down 87% versus the base year 2019 level. There was also a 2% decrease in print volumes compared to 2022 which suggests that reduced printing has become embedded within post-Pandemic work practices.

  A 5% reduction in business travel related emissions compared to the base year 2019

  Excluding emissions associated with the investments managed by the Company, business travel is the single largest contributor to the Company's climate impact. Given 2023 was the first full year of post-pandemic travel, business travel emissions increased 71% compared to 2022. Compared to the base year 2019 business travel related emissions fell by 12%. The ability to travel without restrictions allowed the Company to physically meet clients, prospective clients, and companies across the world.

  Meeting clients and companies is an important part of doing business and the Company has worked hard to ensure it travels more efficiently. Better planning of trips has helped to ensure that, where possible, client meetings in North America are undertaken by resources based locally and where possible supported by Edinburgh based resources via virtual conferencing facilities, when needed.

  A 5% reduction in scope 1 and 2 emissions compared to the base year 2019

  In 2023, gas consumption (329,277 kWh) was in line with 2022 (331,610 kWh) with a 14% reduction in scope 1 emissions compared to the base year 2019. Office electricity consumption in 2023 (244,944 kWh) decreased by 5% versus 2022 (257,283 kWh) with a 31 reduction in location-based scope 2 emissions compared to the base year 2019.

The Company's primary focus will be on its emission reduction efforts. The Company has not subscribed to any Net Zero frameworks and does not make any claims with respect to the Carbon Neutrality of its operations. In 2023, the Company organised an employee tree planting day in the Scottish Borders where staff planted native species trees in a remote upland site in the Tweedsmuir Hills. This volunteering exercise has contributed to protecting and expanding the remnants of ancient woodland as well as helping to improve biodiversity in the area. Additionally, the volunteering day enabled staff to engage with one another outside the office.

ACTING FAIRLY BETWEEN MEMBERS OF THE COMPANY

Walter Scott & Partners Limited, which is a wholly owned subsidiary within the BNY Mellon group, is governed by its Board. It maintains an open relationship with BNY Mellon, where ideas and strategic objectives are exchanged and shared, ensuring that its directors are aware of the strategic objectives and corporate values of its shareholder and that the Company is aligned with them whenever appropriate. Across all decisions, the Walter Scott Board is fully committed at the same time to ensuring due regard to the interest of other stakeholders as described above.