

WALTER SCOTT

---

➤ BNY MELLON | INVESTMENT MANAGEMENT

**ESG INTEGRATION  
OVERVIEW,  
PROXY VOTING  
AND ENGAGEMENT  
POLICIES**

# INTRODUCTION

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

Our approach to ESG integration and stewardship focuses on three key areas: ESG research & analysis, proxy voting and engagement. Our Research team and Investment Executive integrate ESG analysis into our investment process, and the Research team oversees ongoing proxy voting and engagement, supported by our Stewardship & Sustainability team.

## ESG INTEGRATION

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

## ENGAGEMENT

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

we believe such improvements can enhance the long-term financial performance of a company.

## PROXY VOTING

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

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

## GOVERNANCE AND OVERSIGHT

Our Investment Management Committee (IMC) is responsible for overseeing all

### STEWARDSHIP & SUSTAINABILITY GOVERNANCE



Effective 1 September 2019. Revised 1 December 2024

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

The ISSC has in turn delegated operational responsibility for key elements of its remit to specialist groups with representation from relevant parts of the firm (see chart). Our Proxy Voting & Engagement Group supports our stewardship activities, and our ESG Research Group supports our work on ESG Integration via thematic research and support on specialist topics such as climate scenario analysis and social and environmental supply chain risks.

Additionally, the Sustainability Communications and Reporting Group and Sustainability Policy and Regulations Group focus on external reporting and emerging policy and regulations respectively. The firm also has a specialist group that implements our framework for assessing the suitability of investments for clients with additional social and / or environmental investment objectives, and a Sustainability Client Group that coordinates interactions with clients relating to additional ESG, stewardship or sustainability requirements.

## CONFLICTS OF INTEREST

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

## REPORTING

We are committed to keeping our clients fully informed of our ESG integration

and stewardship activities through regular communication.

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

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

In June 2024 we published our second TCFD Report, available on our website. This regulatory annual report sets out our approach to managing climate-related risks and opportunities across our business.

## SIGNATORIES AND MEMBERSHIPS

Underlining our commitment to the principles of ESG integration and good stewardship, and to provide access to additional ESG and stewardship insights, we are signatories to or members of several initiatives that we believe represent the best interests of clients. Details are available on our website.

## LEARNING & DEVELOPMENT

Knowledge sharing and continuous development are important elements of our investment research process. The Research and Stewardship & Sustainability teams are encouraged to deepen their knowledge by attending seminars, conferences, and events. In addition to relevant Stewardship & Sustainability team qualifications, a number of the Research team have also completed training certificates in aspects of ESG and climate integration. The firm has a regular programme of external speakers to share insights and challenge our understanding of established and emerging ESG and stewardship issues.

## ADDITIONAL OBJECTIVES PORTFOLIOS (AOP)

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

WALTER SCOTT & PARTNERS LIMITED, ONE CHARLOTTE SQUARE, EDINBURGH EH2 4DR  
TEL: +44 (0)131 225 1357 · FAX: +44 (0)131 225 7997

WWW.WALTERSCOTT.COM

Registered in Scotland 93685. Registered Office as above. Authorised and regulated by the Financial Conduct Authority.  
FCA Head Office: 12 Endeavour Square, London E20 1JN · www.fca.org.uk

# ESG INTEGRATION OVERVIEW

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

ESG integration is therefore a key part of ensuring that we understand all financially material risks and opportunities pertaining to the companies included in our clients' portfolios and that we factor these insights into our investment decision-making process. As businesses confront increasing ESG expectations and challenges, it is an important subset of fundamental investment research and analysis.

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

## ESG INTEGRATION PROCESS

Our Investment team has considered relevant ESG factors in our analysis from the inception of the firm, and has done so in a more structured way as part of our research methodology for over 25 years.

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

We do not believe that ESG is a separate construct or a methodology that can be usefully applied in isolation from the financial analysis of our investments. Our long-established 'Seven Sisters' integrated research framework (see inset box) remains unchanged, with ESG issues considered by the relevant stock champion primarily under the 'Integrity' dimension.

Since 2021, we have augmented our analysis with a framework focused on Integrity (effectively an expansion of that section of the Seven Sisters). Like the Seven

Sisters, this framework is applied to all investee companies regardless of sector or geography in order to address the material ESG risks and opportunities confronting those businesses. This document forms part of the overall documentation for Research team discussions, Investment Executive meetings and the annual file review process.

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

### ENVIRONMENTAL CONSIDERATIONS

Biodiversity risks and impact; water and natural resource usage; circular economy; pollution controls and waste management.

### CLIMATE CONSIDERATIONS

Physical climate risks; 'Paris alignment' and transition-related risks and opportunities; climate strategy; climate-related disclosures.

### SEVEN SISTERS FRAMEWORK

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

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

## SOCIAL CONSIDERATIONS AND HUMAN CAPITAL

Bribery and corruption; tax practices; cyber security; AI ethics & data privacy; corporate conduct and culture; product safety and consumer protection.

Human capital management; diversity and inclusion; employee relations; labour rights and human rights in the workplace and supply chain; community engagement and social license to operate.

## CORPORATE GOVERNANCE

Board and committee composition – independence, diversity, skills and experience; director commitment; share structures and voting standards; director and executive remuneration; succession planning and board development.

Related-party transactions and conflicts of interest; auditor independence; corporate disclosure; shareholder protection and rights; capital allocation and dividend policy; capital issuance and dilution; poison pills and anti-takeover practices; political donations.

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

## ESG RESEARCH AND RISK MANAGEMENT

Our ESG Research Group supports our work on ESG integration via thematic research and support on topics such as climate risk.

We undertake a quarterly ESG Company Review, where financially material ESG factors are summarised to the Research team, largely on a company level. We also

undertake a quarterly ESG Risk Review covering financially material ESG factors across all holdings, as well as various strategies and benchmarks, which provides insights on trends and absolute and relative exposures.

The firm believes that the management of material climate risks is an important element of fiduciary duty. Climate scenario analysis is incorporated into the Integrity Document and updated annually for all holdings. For companies considered to be potentially more exposed to climate risks, Walter Scott conducts Enhanced Climate Assessments. In addition to the integration of holding-level climate risk analysis into our overall process for managing investment risk, we also undertake selective strategy-level climate scenario analysis, with the results reviewed by our Investment Management Committee (IMC) as part of its remit to oversee all investment-related risks.

## ESG DATA

The Research team has access to a number of different sources of ESG data and information, and is supported by the Stewardship & Sustainability team to ensure that it has access to the best available third-party vendor data and analysis. Walter Scott are members of several collaborative industry initiatives which provide access to additional ESG content and analysis.

As part of the Integrity Document, we now include an ESG Datasheet which hosts a range of metrics, such as carbon emissions intensity data and governance metrics. Consistent with our fundamental analysis of financially material risks and opportunities for every investment, on a company-by-company basis we also track carbon emissions history (absolute and intensity), commitments (e.g. Science-Based Target initiative [SBTi] commitments) and reporting (e.g. Task Force on Climate Related Financial Disclosure [TCFD] and Carbon Disclosure Project [CDP]).

## OWNERSHIP

This document is owned by Walter Scott's Investment Management Committee and is reviewed annually.

WALTER SCOTT & PARTNERS LIMITED, ONE CHARLOTTE SQUARE, EDINBURGH EH2 4DR  
TEL: +44 (0)131 225 1357 · FAX: +44 (0)131 225 7997

WWW.WALTERSCOTT.COM

Registered in Scotland 93685. Registered Office as above. Authorised and regulated by the Financial Conduct Authority.  
FCA Head Office: 12 Endeavour Square, London E20 1JN · www.fca.org.uk

# PROXY VOTING POLICY

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

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

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

We carefully consider management's views when determining how to vote at shareholder meetings, but our decision is always subject to our assessment of the likely long-term financial implications, and by extension, client impact.

While we aim to vote at every shareholder meeting and on every resolution, this is on a 'best endeavours' basis and may not always be possible. Instances where we might not be able to vote include, but are not limited to, the following:

- Where the client has directed stock lending. Walter Scott does not undertake stock lending. Any such arrangement rests solely with clients and their appointed custodian. Walter Scott generally does not ask clients to recall stock on loan in order to vote.
- Where the necessary power of attorney is not in place.

- When the proxy-voting documentation is not delivered in a timely manner by the custodian.
- Where jurisdictional restrictions are applicable, such as excluded markets.

As proxy voting can be an effective feedback mechanism, when voting against management recommendations we typically notify the company in question, outlining our rationale for the decision.

To ensure that we have all the necessary information on an Annual General Meeting or Extraordinary General Meeting, we receive documentation on forthcoming votes from custodians and receive meeting analysis from an external proxy voting advisory service.

We consider third party recommendations for information purposes but arrive at voting decisions independently, based on company meeting materials and, where required, engagement with the company for additional information.

## 1. MONITORING, REVIEW AND ESCALATION OF PROXY VOTING

The Stewardship & Sustainability team in Investment Operations is responsible for managing the day-to-day proxy voting process. The team works with stock champions to ensure voting is consistent and aligned with our approach.

Voting is overseen by the Proxy Voting & Engagement Group (PVEG), a subgroup of the Investment Stewardship & Sustainability Committee (ISSC). All votes

are signed off by one of the Co-Chairs of the ISSC, the Head of Research, the Stewardship and Sustainability Lead, the Head of Research Operations or in their absence a director of Walter Scott. The PVEG reviews proxy voting decisions on a periodic basis.

The PVEG will determine our approach to voting on contentious or sensitive issues, or items that are not expressly covered in our policy, or where further guidance has been requested by a member of the Research team.

In the event that there is not agreement between the PVEG and the relevant stock champion on our proposed approach to voting, or where there is a particularly material or contentious issue, or a recommendation to vote in a manner that is contrary to our Proxy Voting Policy, the final decision will be escalated to the ISSC.

## 2. CONFLICTS OF INTEREST

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

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

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

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

### 3. VOTING GUIDELINES

While we consider all votes on a case-by-case basis, we have guidelines in place for specific issues.

## 4. BOARDS AND DIRECTORS

### 4.1 BOARD COMPOSITION

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

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

Whilst we take into account that corporate governance standards and expectations vary between regions, we typically expect a minimum of 50% of independent directors on the board for non-controlled companies. Controlled companies should generally seek to link board independence levels

to the economic stake held by minority shareholders. We may engage with companies in the first instance where board independence is in question. If a company is unable to justify the apparent lack of independence, we may vote against the election of all non-independent directors, and / or against the chair of the board where we have material concerns.

We will consider supporting resolutions aimed at increasing board diversity if these are in the best long-term financial interests of shareholders. We generally expect to see diversity on boards and may engage with companies where this is not the case.

### 4.2 BOARD COMMITTEES

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

### 4.3 DIRECTOR COMMITMENT & ATTENDANCE

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

### 4.4 CLASSIFIED / STAGGERED BOARDS & VOTING STANDARDS

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

## 5. AUDIT

The selection of an external auditor should ideally be subject to annual shareholder approval. There should be transparency in advance of an audit tender so that shareholders can engage with the company in relation to the process should they wish to do so. It is our preference that the audit firm should be periodically changed. If this is not expected market practice in the relevant region where the company is headquartered, then we would expect that the lead audit partner be rotated periodically, or we may vote against the re-election of the external auditor and / or vote against the chair of the audit committee.

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

## 6. REMUNERATION

### 6.1 DISCLOSURE

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

### 6.2 EXECUTIVE REMUNERATION

It is our preference for executive remuneration to be designed to align the interests of management and directors with long-term shareholders and durable value creation.

We generally vote in favour of compensation plans that we consider to be clear, robust and proportionate. We

will consider voting against proposals that appear permissive or excessive within the context of relevant sector and market practices, and with respect to any company specific circumstances.

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

### **6.3 NON-EXECUTIVE REMUNERATION**

The board as a whole should determine levels of pay for non-executive directors and the non-executive chair in such a manner as to ensure alignment with shareholders' interests, taking independent advice where appropriate to encourage objectivity. Performance-based pay or share options should not typically be granted to non-executive directors and non-executive chairs.

We may vote against compensation plans that fail to meet these standards or alternatively consider voting against the chair of the remuneration committee and / or the chair of the board if deemed to be appropriate.

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

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

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

### **7.1 RAISING EQUITY**

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

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

We generally vote against proposals to waive shareholders' pre-emptive rights to participate in a capital increase if the

potential dilution\* exceeds 10%. We may accept waiving of pre-emptive rights in certain situations such as the creation of shares to pay for acquisitions or to reward staff and will evaluate each proposal on its merits.

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

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

### **7.4 TAKEOVER PROTECTION**

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

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

### **8.1 VOTING STRUCTURES**

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

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

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

## **9. MISCELLANEOUS**

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

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

### **9.2 ALLOCATION OF INCOME AND DIVIDENDS**

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

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

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

### **9.4 POLITICAL DONATIONS**

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

### **9.5 PLEDGING OF SHARES**

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

### **9.6 BUNDLED RESOLUTIONS**

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

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



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

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

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

We generally vote against proposals requesting approval for ad-hoc items (where potential proposals are not known prior to the meeting).

### **9.9 MATERIAL VOTES**

Where we believe a resolution is material, in that the outcome could significantly affect the long-term investment return, on a best-efforts basis we will generally seek to ask clients who lend stock to recall any stock on loan.

## **10. PROXY VOTING DISCLOSURE**

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

## **11. OWNERSHIP**

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

WALTER SCOTT & PARTNERS LIMITED, ONE CHARLOTTE SQUARE, EDINBURGH EH2 4DR  
TEL: +44 (0)131 225 1357 · FAX: +44 (0)131 225 7997

WWW.WALTERSCOTT.COM

Registered in Scotland 93685. Registered Office as above. Authorised and regulated by the Financial Conduct Authority.  
FCA Head Office: 12 Endeavour Square, London E20 1JN · www.fca.org.uk

# ENGAGEMENT POLICY

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

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

We distinguish between two types of engagement:

**Engagement for Information** – a meeting or correspondence involving a two-way exchange of information.

**Engagement for Change** – typically a series of one-to-one meetings and correspondence, where we seek influence with a defined objective. Given the rigour of our analysis before making an initial investment, we find the need for engagements for change relatively limited when compared to engagements for information.

If we are not satisfied with the progress of an engagement for change, we will consider

escalating the issue. The Investment Stewardship & Sustainability Committee (ISSC) determines if and how to escalate, advised by the firm’s Proxy Voting & Engagement Group (PVEG). Issues are considered on a case-by-case basis but possible escalation strategies can include:

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

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

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

- Business Strategy
- Environmental Considerations
- Climate Considerations
- Social Considerations and Human Capital
- Corporate Governance

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

- The investment manager or analyst responsible for the research into the company identifies an objective and seeks confirmation to proceed from the Chair(s) of ISSC and / or Head of Research.
- Another member of the Research team, Investment Executive or Stewardship & Sustainability team identifies an objective and flags this to the investment manager or analyst responsible for the company. Agreement to proceed is then sought from the Chair(s) of ISSC and / or Head of Research.
- The PVEG identifies engagement objectives for specific companies or a thematic engagement across multiple companies. Our Engagement Policy applies to all engagement with all investee companies, and with prospective investee companies (where applicable).

## PROXY VOTING

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

## MONITORING ENGAGEMENT

It is the responsibility of the relevant investment manager or analyst to monitor the progress of engagements using a

consistent process set by the ISSC. Any salient issues are discussed with the PVEG and, if appropriate, the wider Research team, ISSC and Investment Executive. The ISSC monitors engagements and the effectiveness of our approach at a formal quarterly meeting.

## COLLABORATION

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

Whether to collaborate is a decision that we approach on a case-by-case basis and is the responsibility of the ISSC, on the recommendation of the PVEG or the Sustainability Policy and Regulations Group as appropriate. We will only undertake to work with other investors if we believe it is likely to prove effective and that it is in the best interests of our clients.

## CONFLICTS OF INTEREST

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

## REPORTING

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

Responsibility for internally reporting material changes lies with Investment Operations. Quarterly updates requested from the relevant investment manager / analyst will inform internal reporting to the ISSC on all material changes during the period.

## OWNERSHIP

This policy is owned by the Investment Management Committee and is reviewed annually.

WALTER SCOTT & PARTNERS LIMITED, ONE CHARLOTTE SQUARE, EDINBURGH EH2 4DR  
 TEL: +44 (0)131 225 1357 · FAX: +44 (0)131 225 7997

WWW.WALTERSCOTT.COM

Registered in Scotland 93685. Registered Office as above. Authorised and regulated by the Financial Conduct Authority.  
 FCA Head Office: 12 Endeavour Square, London E20 1JN · www.fca.org.uk