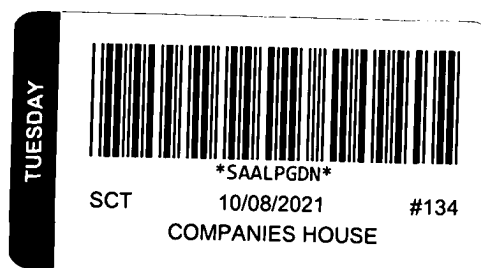


# **Walter Scott & Partners Limited**

Strategic report, Directors' report and financial statements

Registered number SC93685

31 December 2020



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# Walter Scott & Partners Limited

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# **Walter Scott & Partners Limited**

## **Board of Directors and other information**

### **Directors**

R A Hammond-Chambers (Chair of the Board)\*

J E Henderson (Managing Director)

M E Harris (resigned 30 September 2020)

R M Leckie

C E Macquaker

J R Miller (resigned 19 August 2020)

S N Potter (appointed 01 June 2020) \*

H Smits (appointed 10 December 2020)

J D Smith

\*Independent Non-Executive Director

### **Secretary**

Colin J Wood

One Charlotte Square

Edinburgh

EH2 4DR

### **Auditors**

KPMG LLP

Chartered Accountants

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

### **Registered Office**

One Charlotte Square

Edinburgh

EH2 4DR

### **Company Number**

SC93685

# **Walter Scott & Partners Limited**

## **Statement from the Chair of the Board of Directors**

**For the Year Ended 31 December 2020**

### **The year of the outbreak of the Coronavirus pandemic**

May I, on behalf of my board colleagues, extend our heartfelt wishes in these difficult times to all of our clients for whom we work and to all who work with us – our staff and those at the Bank of New York Mellon. The Coronavirus pandemic will have been – indeed continues to be – difficult for all in so many ways – including the loss of loved ones.

During the pandemic we have been concerned to make sure that we look after our clients' investments, mindful, as we always are, of protecting those investments and then with enhancing their value. All those involved have adopted successful COVID-19 modus operandi that both addressed this goal and kept all concerned as safe as possible. Courtesy of the extraordinary achievements in the world of digital information and communications, we have been able to continue to work and fulfil our commitment to our clients. It is worth noting that, while many of the institutions that serve our daily lives have experienced challenging times, the internet – faced with the quite gargantuan burdens that “staying safe” imposed on it – has not let us down.

It hasn't been easy but the selfless commitment of all involved – to do what has been necessary in the interest of all – has been a major factor in coming through these difficult times. Our modus operandi as a Company is all about team work so that the separation resulting from the isolation of working from home hasn't been easy. But the resiliency and adaptability of our staff has been exemplar and is testament to our commitment to our clients. It is one of the main reasons for the exceptional client loyalty we have experienced over many years. To both our clients and to our staff, huge thanks for your commitment to Walter Scott & Partners over many, many years. Thank you.

### **The business of Walter Scott & Partners: global equity investment**

**Purpose & Culture:** The purpose of our company, Walter Scott & Partners, is to earn spendable returns for our clients of the order of 7% plus per annum in real terms over the long term – it being at least seven to ten years. We are conscious of our clients' own obligations to earn positive returns for their own beneficiaries and of the investment risks that they can tolerate in order to achieve them. Our “Purpose” is important to us because it sets the tone for our culture – it being focused on serving our clients, looking after those that look after us – importantly our staff – and performing a responsible role within our community. That summarises the essence of “Environmental, Social & Governance” (“ESG”) that lies, quite rightly, at the heart of today's institutional culture and has been at the heart of our own ever since we were founded 38 years ago. The loyalty built up with our clients and staff is demonstrated by the very low client and staff turnover over those many years.

Indeed 2020 was a year when we were honoured to welcome a number of new clients and a year in which a number of our existing clients chose to commit further funds to our care. Our assets under management rose from circa \$80 billion to circa \$100 billion – in part largely from good positive returns and in part due to new investment flows.

We are also conscious that the returns we earn for our clients have to be competitive with both other active managers' returns (the competition) and passive management returns (indices). And while 7% plus per annum real returns have over the long-term been higher than those achieved by equity markets (making them competitive), we will not be able nor will we aim to achieve such returns on a short-term basis. That would involve switching styles as market fashions oscillate, something we could not do and which would materially add to our clients' investment risks.

However, our returns over the last 3 and 5 years have been positive and competitive. In particular we enjoyed good returns in 2020 as shown in our key strategies, Global and EAFE.

With the consequences of COVID-19 threatening the businesses of many sectors in the economy, survival became an all important factor in stock selection. Our focus has always been on making sure that the businesses we invest in will endure in very bad times and thrive in good times. That stood us in good stead in 2020 as the huge amounts of money within the financial system found their way into those shares in equity markets that would survive COVID and even, post-COVID, would have enhanced prospects – notably companies in the information technology and healthcare sectors. There was an enormous gulf between the winners and losers in 2020 equity markets.

## **Walter Scott & Partners Limited**

### **Statement from the Chair of the Board of Directors - continued**

**For the Year Ended 31 December 2020**

Not only is the Board committed to ESG in its own functioning but also the investment process ensuring appropriate ESG functioning within the companies we invest in. ESG isn't just a current fad – markets experience many of those as they fluctuate over the years. Rather it is the cultural construct that helps the sustainability of progress of companies over the years. Or in other words: it pays. Sustainability is a key contributor to equity risk mitigation.

#### **The stewardship of Walter Scott & Partners: our governance**

The Board of Directors provides leadership and through it guidance to management on the running and development of the business. Although we are a wholly owned subsidiary of the Bank of New York Mellon, our Board still has its own governance responsibilities and duties to all of the stakeholders in its business. Whereas some 20 or so years ago, there was a fairly narrow focus on earning ever higher profits for shareholders year to year, those responsibilities now concern the broad range of stakeholders in the business and on a long-term basis (sustainability). While we take pride in the fact that it were ever thus in our case, the new circumstances of governance require us to evidence it.

In the last 20 or so years there has been an explosion of new regulation and expansion of old regulation. While there is usually good cause that lies behind regulation, its complexity and the need for evidence of compliance makes it not always easy to comply with. It provides a challenge for boards and how they govern their company. Shareholders want good returns from their investment in companies while regulators want evidenced compliance with their rules. Boards effectively have two masters, whose demands are not always the same.

With that in mind we spent 2020 undertaking a thorough review of how we fulfil these two demands – bearing in mind that in the coming years we expect to develop the business and that there will be yet more rules and regulations to take responsibility for. We have already appointed two independent directors to the Board – a special welcome to Steve Potter with his considerable experience in our business working with Northern Trust – and me (appointed as an independent chair of the Board). We have undertaken a thorough review of board committees and broadened their terms of reference and responsibilities. We have reviewed the content of board packs to make sure that they are well presented and focus on the agendas (as opposed to an album of management information statistics). We have planned out our agendas for the next two years so that our governance can focus on long-term development alongside the inevitable short-term review of the current status of the business. Our hope and belief is that our governance – focused on its ESG commitments, including to our clients and staff, on its business goals and on its regulatory commitments – will be as effective as it can possibly be.

May I take this opportunity to thank Mitchell Harris and John Miller who have retired from the Board, for their contribution to the governance of Walter Scott & Partners. Our parent company, the Bank, has a number of different asset management subsidiaries each with their own characteristics that are so important to their individual successes. Mitchell played an important part in protecting our own characteristics within the totality of the Bank's asset management business and thereby helped to contribute to the returns we earned for our clients. We welcome Ms Hanneke Smits, Mitchell's successor, to our board. Her own asset management experience will be important to our clients, staff and business generally.

Finally, I am happy to report on the good work of Walter Scott & Partners within its community during the pandemic. In addition to the direct financial support of many worthy causes of more than £600,000 by the Walter Scott Giving Group, more than 20,000 meals were provided to the less fortunate within the Company's home city of Edinburgh.

Alex Hammond-Chambers

Chair, Board of Directors  
25 March 2021

# Walter Scott & Partners Limited

## Strategic report

In accordance with Section 414A(1) of the Companies Acts 2006, the Strategic report includes a review of Walter Scott & Partners Limited's ("the Company" or "Walter Scott") business and future developments, a description of the principal risks and uncertainties facing the Company, key performance indicators, and reports against miscellaneous reporting requirements set out in Section 172 of the Companies Act 2006.

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. As at the end of 2020, one member of the Board was a direct employee representative of the Company's shareholder, the Bank of New York Mellon ("BNY Mellon").

The following disclosure provides insight into how the Board discharged its duties under Section 172, including the breadth of matters discussed and debated during the year.

### Strategy

Walter Scott's business strategy, investment philosophy and process remain fundamentally unchanged since the Company was founded in 1983. The Company provides equity portfolio management services to institutional investors around the world, with a focus on research based investment decisions.

Walter Scott considers long term factors when making investment decisions. The investment philosophy states that, over time, the returns derived from investment in the shares of a company will simply reflect the internal wealth generated by that business.

The Company's overriding strategic objective is to generate sustainable wealth over the long term for clients. This is accompanied by other objectives which include the delivery of world class client service and an aspiration to be the employer of choice.

The Company's day-to-day decision making processes, as outlined in this Strategic report, support the delivery of these long term objectives.

The Board, having responsibility for the payment of any dividends, takes into consideration regulatory capital requirements and financial resources needed for the long-term growth of the Company when declaring dividends.

### Business and future developments

The business is focused on serving clients first and foremost, and so takes a careful approach in taking on new clients and assets to be managed. The Company continues to invest in operational infrastructure to ensure the highest standards of client service are maintained. With a significant percentage of clients based in North America, Walter Scott enhanced its collaboration with BNY Mellon Securities Corporation in 2019, whereby a small client facing team based in Boston would focus solely on Walter Scott business in North America, and this team grew further in 2020.

The business started the year with assets under management of £60.4bn and ended the year at £74.3bn - an all time high for Walter Scott.

Board meetings follow a carefully tailored agenda. Quarterly meetings focus on matters of strategic importance along with reports from the Managing Director that outline key highlights of the performance and development of the business. Matters reviewed include portfolio and financial performance, client service and business development, human resources, risk and compliance, operational and governance developments.

During 2020 Stephen Potter joined the Walter Scott Board as an independent non-executive director. John Miller, Head of Corporate Development for BNY Mellon resigned. Hanneke Smits, the new BNY Mellon Investment Management CEO joined, following the retirement of her predecessor Mitchell Harris.

# Walter Scott & Partners Limited

## Strategic report - continued

On a semi-annual basis the independent non-executive directors are invited to meet with the BNY Mellon CEO of Investment Management, which provides an opportunity for a two-way dialogue on the role and contribution of the Company to the success of the overall group and its stakeholders.

Walter Scott's Board retains ultimate responsibility for the governance of the Company and it delegates some of its responsibilities to three formal committees, namely, the Executive Management Committee, the Board Risk Committee and the Remuneration & Nominations Committee.

Prior to this structure, four additional board committees existed, namely the Investment Management Committee, the Client Service Committee, the Operations Committee and the Risk & Compliance Committee. From the end of 2019, The Investment Management Committee, the Client Service Committee and the Operations Committee came under the responsibility of the Executive Management Committee. The Risk & Compliance Committee reports to a Board Risk Committee which is chaired by the Company's Non-Executive Director, Alex Hammond-Chambers.

The committees that report to the Board generally meet on a monthly or quarterly basis, with the exception of the Remuneration & Nominations Committee, which meets as required.

Policies and procedures, as well terms of reference for each of the committees ensure the effective and appropriate governance of the Company.

### Financial key performance indicators

The Company's key financial and other performance indicators during the year were as follows:

	2020 £m	2019 £m	Change £m	Change %
Turnover	295.8	255.8	40.0	16%
Administrative expenses*	96.3	5.0	91.3	1,826%
Net assets	289.8	278.9	10.9	4%
Assets under management	74,340	60,430	13,910	23%

\*In 2019, the Company received £76.3m from Her Majesty's Revenue and Customs (HMRC) in relation to an overseas fund tax matter. Further details can be found in Note 11.

### Principal risks and uncertainties

The principal risks and uncertainties affecting the business have been considered and addressed in the Directors' report on pages 14 to 20.

# **Walter Scott & Partners Limited**

## **Strategic report - continued**

### **Impact of Coronavirus ("COVID-19")**

Starting in the first quarter of 2020, the Coronavirus pandemic has created significant disruption to people's lives and to economies and global markets. The Board and Management recognised the risks to the Company's clients, employees and suppliers and acted promptly - putting in place procedures to safeguard lives and to monitor and mitigate other risks that the pandemic might throw up.

The Board and Management are committed to ensuring that the Company is able to continue to serve its clients and wider stakeholders while prioritising the health and wellbeing of the people that support the business. Accordingly, substantially all of those people have been asked to work from home with only a small number of essential in-office roles supported by social distancing protocols. The Company's existing IT infrastructure is supporting this way of working and the Company is fully operational, demonstrating its resiliency, commitment and capacity to support its clients.

The Company benefits from the wider BNY Mellon Group COVID-19 Response Programme ("CRP"). With periodic strategic direction from BNY Mellon Group Executive Committee, the CRP reviews key data on the impact of the pandemic for work streams relating to people, clients, third-party service providers, the industry, government and the regulatory environment and appropriate actions are taken where issues are identified.

The Company has enhanced its monitoring of operational and financial resilience during this period, reviewing and reporting to the Board on aspects such as Service Level Agreement ("SLA") misses, volumes, system performance and client feedback. The Company's management meetings continue to be held in order to enhance oversight of the Company's performance.

An assessment of the impact of the uncertainty on the Company's current financial position and operational resilience has been performed and management has concluded that the pandemic will not have a substantial impact on the Company's ability to continue as a going concern. This consideration has been included within the "Risk management" section of the Directors' report.

The Company continues to carefully monitor and mitigate the risk on an ongoing basis.



# Walter Scott & Partners Limited

## Strategic report - continued

### Business relationships with suppliers, customers and others

- The Board receives updates on key milestones and progress, against plan, to deliver the agreed strategy. Investment and Client Service reports include updates on client and business development activities (wins, mandates, pipeline, and business at risk) and the Board reviews progress against plan and audit priority items.
- The Board oversees the due functioning of the Company's operations, including any operational services provided by third parties or affiliates. The Board's oversight includes any strategic considerations regarding potential outsourcing opportunities, and specifically whether they may bring efficiencies, cost or otherwise, to the business and benefit to its shareholders.
- As part of the Company's governance framework, the Operations Committee meets monthly and, as a standing agenda item, includes an update regarding the management of all the Company's vendor relationships. Material issues are escalated as required to the Executive Management Committee and, ultimately, the Board.
- 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 Regulations.
- The Board acknowledges the strategic and emerging risks impacting Walter Scott's business and in particular, the departure of the United Kingdom from the European Union ("Brexit") in 2020 and the end of the 12 month transition period on 31 January 2021. Walter Scott, as part of BNY Mellon's Brexit programme, has taken into account a range of potential economic scenarios and regulatory changes that may impact the Company's operating model and the retention and growth of client relationships in the EU.
- The Board receives updates and seeks assurance from senior management in relation to the implementation and embedding of regulatory change initiatives 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.

# **Walter Scott & Partners Limited**

## **Strategic report - continued**

### **Section 172 Statement**

Under section 414 of the UK 2006 Companies Act (the "Act"), the Company is required to include a section 172 statement describing how it has had regard to those matters set out in section 172 of the Act during the period in question. In addressing these matters, the Company would like to expand on the following:

#### **High standards of business conduct**

- 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.
- All Senior Managers, Certified Persons and Conduct Rules (SM&CR) staff undertake ongoing SM&CR training sessions. Walter Scott is classified as an Enhanced Firm.
- 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. SM&CR aims to:
  - Encourage staff to take personal responsibility for their actions;
  - Improve conduct at all levels; and
  - Make sure firms and staff clearly understand and can demonstrate the roles and responsibilities of all relevant staff.
- The Board recognises the importance of risk management in the execution of its strategy and the Board has defined the levels of risk acceptable to the Company.
- The Board exercises its responsibility for the approval of the Company's risk appetite and strategy, including capital adequacy and liquidity of financial resources.
- Walter Scott is aligned with BNY Mellon's stance on governance, best practices and diversity. The Company's governance policies are outlined further in the Directors' report.
- The Board seeks and receives assurances from the Board Risk Committee over the governance and input in preparing a number of regulatory submissions, such as the Internal Capital Adequacy Assessment Process ("ICAAP"), and associated policies.
- The Board approves an internal policies framework to enhance controls and governance within the business. The policies framework is reviewed at least annually as required.

#### **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.

## Walter Scott & Partners Limited

### Strategic report - continued

- Walter Scott's staff are paid competitive base salaries and the compensation structure is designed to promote fair and equal treatment of all staff. The Board's Remuneration & Nominations Committee determines the salary and profit-share allocation based on the overall performance of the Company. Everyone in the Company is eligible to participate in the Company's 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. There is no cap on profit share as a percentage of base salary.
- For Executive Directors and senior management, the majority of annual compensation comprises a share of the Company's profits. An element of this is deferred via a long-term incentive plan. This is invested partly in a global equity fund of which Walter Scott is the investment adviser and partly in BNY Mellon stock. Both have a deferral period which vests on a pro-rata basis over 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. Regarding gender diversity the Company's Managing Director is Jane Henderson and the gender split on the Company's Executive Management Committee is 31% female and 69% male. Overall, the Company is split 47% female and 53% male.
- Walter Scott's first culture survey was launched in December 2020. This allowed the Company to understand how deeply shared its culture is, to help shape plans to build the culture in the future and to allow the opportunity to share their views and ideas.
- All recent and new recruits are paired with a mentor. The mentor is there as an extra level of support to help new staff settle in to the Company. They are a 'friend' and safe sounding board, and have proven important as the business continues to work from home.
- The business successfully transitioned to working from home during 2020 but the wellbeing of employees during these new working conditions has increased in importance to the Company. The efforts of the Company's Wellbeing Champion in supporting colleagues have been supplemented with virtual coffee breaks, Zoom based movement and stretching classes, additional resilience coaching and telephone calls from Directors.

### Impact on the community and environment

- For Walter Scott, the consideration of Economic, Social and Governance ("ESG") factors in the management of both its own business and of its clients' portfolios is not new. They constitute a fundamental component of the Company's research approach and have always been included in the analysis of companies. The quest for businesses that will generate wealth for clients over the long term involves the assessment of all material risks and opportunities. It has never been the practice of the investment team to separate ESG matters from others in assessing the long-term sustainability of a business. With this in mind, the 'one size fits all' approach needs to reflect differing expectations, regulatory regimes and views of the Company's client base.
- While considerations of ESG factors have previously been implicit in the modus operandi of Walter Scott, the Company, in response to clients' interest in ESG and to new regulation is now providing evidence of its ESG management. This requires no fundamental shift in approach; instead the aim is to strengthen and build upon existing good practice. This process began last year with the hiring of an external consultant to review practices and suggest areas for improvement. This review, combined with the requirements from new regulations, led to the establishment of an ESG project group. The group's remit is to engage with all ESG-related matters across the Company and bring these together in a set of consistent and workable practices that are compliant with the new regulations and reflective of the investment approach and values.

# Walter Scott & Partners Limited

## Strategic report - continued

- Walter Scott 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 is on its website, outlining expectations of standards that all suppliers should adhere to.
- 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. These are distinct from the committees that focus on the investments made on behalf of the Company's clients. The Company also adheres to the policies set out by BNY Mellon.
- In 2020, charitable donations totalled £626,500 (2019: £436,529). The annual donations are administrated by the Walter Scott Giving Group ("The Giving Group"). The ambition is to support local charities that focus on community, education and health. Through multi-year commitments to a number of charities, it is hoped a meaningful difference can be made. The Giving Group requires assurance that donations are efficiently spent and the benefits are evidenced. The Giving Group actively supported 40 charities in the local community over the year, including the first one in Boston, USA. The Company worked closely with these charities, many of which faced challenges in delivering their programmes.
- During 2020, the Walter Scott Giving Group focused on helping vulnerable and isolated families during the COVID-19 pandemic. This involved working with local partner charities to distribute food to families. Walter Scott's facilities and catering team also supplied 20,000 packed lunches and 4,000 ready meals to these families living in multiple deprived communities. There was also a focus on supporting people's mental health, given the impact on health and well-being through the lockdowns and extended social restrictions, including programmes which helped school children, young carers, frontline key workers and the elderly. A number of new charities were supported including: Edinburgh Women's Aid, helping children living in an abusive environment and Sikh Sanjog, giving a stronger voice to socially isolated women from ethnic minority communities living in Scotland.
- Walter Scott employees across the firm also volunteered their time in supporting charitable activities. Over 80 colleagues volunteered at Mission Christmas, over several weeks and in line with social distancing measures, to help sort presents for children to open on Christmas Day, keen cyclists within the firm also participated in a sponsored bike ride to support Edinburgh Women's Aid and numerous charities nominations by colleagues.
- The Company runs two internship programmes, one for Research and one for Operations, engaging with a wide range of organisations to attract a diverse pool of potential candidates. Examples include;
- Crankstart Internship, which supports students from low income households at the University of Oxford.
- The Robertson Trust is based in Scotland. The Trust's mission is to improve the quality of life and realise the potential of Scotland's people and communities. In particular, it focuses on the health, social and educational inequalities prevalent in Scotland. The Trust allows young people in the community who may not have been aware of, or considered Walter Scott as a viable employer, an opportunity to work and experience life within an investment firm. There are currently three permanent employees who have come through the Trust and there has been a total of five Robertson Trust interns who have worked at the Company.

## **Walter Scott & Partners Limited**

### **Strategic report - continued**

- Girls Who Invest, a US-based non-profit organisation that identifies talented and motivated young women who are seeking the opportunity to succeed in the investment industry.
- The charity, Future Asset, promotes careers in asset management to school-girls in Scotland. The organisation aims to develop young women's interpersonal skills, confidence, problem solving and resilience in an effort to open up the traditionally male-centric industry of investment to future generation of women. During 2020, as part of the business' involvement with Future Asset, two Walter Scott Investment Analysts coached teams of girls at two high schools to compete in a national investment management competition.
- Women Returners Professional Network. This organisation supports women in Scotland to return to careers in the financial services industry after extended career breaks. The network aims to create more flexible career paths, which remove the career gap penalty and helps women move forward confidently in the workplace.

#### **Streamline energy and carbon reporting ("SECR")**

- The Company is committed to sustainability in its daily business operations by, for example, monitoring the Company's carbon footprint and energy usage as well as committing to recycling waste.
- In accordance with the Companies Regulations 2018, the Company reports its energy use and associated greenhouse ("GHG") emissions resulting from energy use in our buildings and employees' business travel. The methodology used to calculate GHG is the Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard Revised Edition, defined by the World Resource Institute/World Business Council for Sustainable Development ("ERI/WBCSD"). Per the GHG Protocol Scope 2 Guidance, Scope 2 emissions using both the location-based and market-based methods have been reported. The market-based method reflects emissions from electricity arising from a renewable energy supply contractual arrangement whereas the location-based method does not. The Company continuously reviews and updates performance data based on updated carbon emission factors, improvements in data quality and updates to estimates previously applied. The conversion factors applied have been published by the UK Government: Department for Business, Energy & Industrial Strategy for 2020. The results are disclosed below:

# Walter Scott & Partners Limited

## Strategic report - continued

### Location-based method

2020

#### Breakdown of emission sources:

	Usage	Units	Emissions (tCO <sub>2</sub> e)
Scope 1 <sup>[1]</sup> Direct emissions - Gas	348,278	kWh	71.0
Scope 2 <sup>[2]</sup> Indirect emissions - Electricity purchased and used	238,357	kWh	55.6
Scope 3 <sup>[3]</sup> Other - Business travel	510,234	km	111.3
Carbon offsets <sup>[4]</sup>			(20.5)
<b>Total annual emissions</b>			<b>217.4</b>

### Market-based method

2020

#### Breakdown of emission sources

	Usage	Units	Emissions (tCO <sub>2</sub> e)
Scope 1 Direct emissions - Gas <sup>[5]</sup>	348,278	kWh	71.0
Scope 2 Indirect emissions - Electricity purchased and used	238,357	kWh	0.0
Scope 3 Other - Business travel	510,234	km	111.3
Carbon offsets <sup>[4]</sup>			(20.5)
<b>Total annual emissions (net)</b>			<b>161.8</b>

### Carbon dioxide emissions in tonnes per FTE

	Full time equivalent employees (FTE)	Emissions per FTE (tCO <sub>2</sub> e)
Scope 1 Direct emissions - Gas <sup>[5]</sup>	n/a	n/a
Scope 2 Indirect emissions - Electricity purchased and used <sup>[5]</sup>	n/a	n/a
Scope 3 Other - Business travel <sup>[6]</sup>	34	3.27

[1] Scope 1 covers direct emissions from combustion of fuels or activities owned or controlled by the Company. In line with UK Companies Regulations 2018 this relates only to UK energy usage.

[2] Scope 2 covers emissions that are associated with the Company's consumption of purchased electricity and heat.

[3] Scope 3 covers indirect emissions from business travel. UK Companies Regulations 2018 require disclosure of travel related emissions within the UK. However due to the nature of the business' primary business activity and location of clients emissions for international travel have also been included. Data relates to air travel and excludes train and car emissions due to the historic lack of accurate data. Air travel is the most significant component of business travel for the business. Our travel provider calculates the carbon emissions (tCO<sub>2</sub>e) associated with each journey and as such the conversion factors will vary depending on factors including the carrier, route and class of travel.

[4] The business uses 100% carbon offset gas in relation to one of the buildings it occupies.

[5] Data not provided for 2020 due to minimal FTE working from the Company's UK offices.

[6] 34 FTEs represents the number of individuals travelling in 2020.

- Carbon emissions related to business travel for Walter Scott largely reflect international travel given the nature of the business and its client base, and constitute the majority of the Company's emissions. Carbon emissions for 2020 reflect travel restrictions and home working that characterised the year due to the global COVID-19 pandemic and, as such, the results presented above do not represent usual levels of travel for the business.
- However, the changes to working practices during 2020 have provided a heightened focus on climate change related projects. During 2020, in addition to using only 100% renewable electricity, the Company continued to move towards 100% carbon-offset gas supplies. By the end of 2021, the Company aims to eliminate the use of avoidable single-use plastics from its Edinburgh offices, continue to reduce landfill or incinerated office waste, continue to invest in technology and other services to facilitate the increase in virtual conferencing and meetings. In addition, the Company has reviewed "paper free" activities such as electronic client communications and business operations which have been delivered successfully in response to the pandemic. Work is underway to ensure such practices continue beyond the pandemic. Overall, the Company aims to be at least carbon neutral by the end of 2021.

## **Walter Scott & Partners Limited**

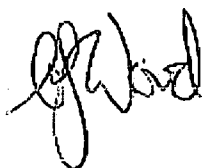
### **Strategic report - continued**

#### **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.

#### **Approval**

By order of the Board



CJ Wood  
Company Secretary

Walter Scott & Partners Limited  
One Charlotte Square  
Edinburgh  
EH2 4DR

25 March 2021

Registered number: SC93685

# Walter Scott & Partners Limited

## Directors' report

The Directors present their report and financial statements for the year ended 31 December 2020.

### Principal activities

The principal activity of the Company is the provision of global equity portfolio management services to institutional clients from around the world.

The Company is authorised and regulated by the Financial Conduct Authority ("FCA") pursuant to the Financial Services Act 2012. All of the Company's activities during the year are regulated and conducted within the scope of permissions granted to the Company by the FCA.

Additionally, the Company is registered in the USA with the Securities and Exchange Commission (SEC) as a registered investment adviser (RIA) and in South Africa with the Financial Sector Conduct Authority (FSCA). The Company is registered as an Exempt Market Dealer (EMD) (through which it offers certain investment vehicles on a private placement basis) in all Canadian provinces (Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland & Labrador, Nova Scotia, Ontario, Prince Edward Island, Quebec and Saskatchewan) and is also availing itself of the International Adviser Exemption (IAE) in these same provinces with the exception of Prince Edward Island. Each of the EMD registration and the IAE are in compliance with the National Instrument 31-103, Registration Requirements, Exemption and Ongoing Registrant Obligations. The Company operates in Australia under an Australian Securities and Investment Commission (ASIC) Class Order 03/1099 exemption and in Japan under the offshore investment manager exemption.

### Results and dividends

The profit for the year after taxation amounted to £159.4m (2019: £204.2m profit).

Dividends paid during the year amounted to £150m (2019: £100m).

### Risk management

The Company is a BIPRU firm, licenced and regulated by the FCA. Capital and other financial returns are prepared and submitted to the regulator on a semi-annual basis. At 31 December 2020 capital as reflected within the Company's regulatory returns amounted to £78.6m (2019: £53.8m).

### Governance and policies

Governance of the Company is the responsibility of the Board of Directors ("The Board"). The Board is responsible for the ongoing success and development of the Company's business as well as setting the risk appetite for the Company as part of the risk framework.

The Board committees have been set up to help ensure a high standard of governance, risk management and controls are in place. Each committee has clearly stated terms of reference which includes their purpose and responsibilities.

The current Board committees are:

- The Executive Management Committee
- The Remuneration and Nominations Committee
- The Board Risk Committee

Policies and procedures also exist throughout the Company to help ensure there is an appropriate level of risk management.

There are a number of key oversight committees within the BNY Mellon Global Risk Management Framework. The BNY Mellon Risk Management Committee is the most senior body and has an oversight responsibility covering all major risk sources. It is made up of senior Investment Management business and risk and compliance personnel. The Committee is



# Walter Scott & Partners Limited

## Directors' report - continued

### **Risk management continued**

#### ***Governance and policies continued***

provided with appropriate Management Information including any risk issues arising.

#### **Risk management process**

The Board is responsible for identifying the risks associated with its key business processes, business change or external threats and identifying and assessing the quality of controls in place to mitigate risk and assigning accountability for the effectiveness of those controls. The objective of this detailed self-assessment is to prevent or minimise:

- Errors or service delivery failures, especially those with impact on clients
- Financial losses
- Compliance breaches
- Reputational damage

The Company utilises the BNY Mellon Operational Risk Platform to record the above. The platform is used to maintain risk and control self-assessments, key risk indicators and tracking of operational risk events. Risk Management works in partnership with the business to ensure that there is adequate understanding and assessment of, and accountability for, all risks that relate to the Company.

The Risk Appetite at the Group level is set and owned by the BNY Mellon board of Directors, giving the overall strategy and willingness to take on risk at a global level. The Company's Risk Appetite identifies the amount and type of risk that the business is willing to take in order to meet its strategic objective. It is commensurate with guidance set by BNYM Investment Management.

Capital requirements are directly related to the Company's risk profile and are considered as part of the ICAAP.

### **Certain risks**

#### ***Credit risk***

Credit risk covers default risk from counterparties or clients for loans, commitments, securities, and other assets where realisation of the value of the asset is dependent on counterparties' ability to perform.

#### ***Market risk***

Market risk is the risk of loss due to adverse changes in the financial markets. Market risk arises from foreign exchange exposure in respect of revenue, expenses, deposits and borrowings, and interest rate exposure on cash balances, deposits and borrowings.

#### ***Concentration risk***

Concentration risk may be defined in relation to investment products, mandates, clients, geography, intermediaries, cash at bank and staff.

#### ***Operational risk***

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events including the potential for loss that arises from problems with operational processing, human error or omission, breaches in internal controls, fraud, and unforeseen catastrophes.

# Walter Scott & Partners Limited

## Directors' report - continued

### **Risk management process continued**

#### ***Liquidity risk***

Liquidity risk is the risk that a firm, although balance sheet solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

#### ***Business risk***

Business risk includes risk to a firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy.

#### ***Compliance risk***

Compliance risk covers the risk relating to earnings or capital from violation, or non-conformance with laws, rules, regulations, prescribed practices or ethical standards which may, in turn, expose the firm and its executors to fines, payment of damages, the voiding of contracts and damaged reputation.

### **Pillar 3 risk disclosures**

Basel II Pillar 3 disclosures about the Company (capital and risk management) are covered by the BNY Mellon Investment Management (Europe) Holdings Limited group disclosures which can be found on the group website (<https://www.bnymellon.com/us/en/investor-relations/regulatory-filings.html>).

### **Other macro environmental risks (coronavirus "COVID-19" outbreak)**

In 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organisation. The situation remains dynamic and has led to a continued level of uncertainty among companies and global financial markets. To ensure the health and wellbeing of its people and continuing ability to service its clients, the Company has moved to a largely working-from-home model and both the Company and wider BNY Mellon Group have implemented enhanced monitoring and oversight controls. Consideration of the impact of the uncertainty on the Company's financial statements and operational resilience is summarised below.

#### ***Financial statement consideration***

Particular focus has been on the Company's key areas of significant judgement and estimation of uncertainty.

- Since the year end there has been an increase in management fee revenue based on a higher level of assets under management ("AUM"). The Company could face a potential reduction in client activity over time, driven by possible risk averse customer behaviour leading to a reduction in new business and client assets held.
- The Company continues to closely monitor the impact of market volatility on its balance sheet. The Company currently has sufficient liquidity in excess of its regulatory requirement to absorb any short-term demands.
- No provisions have arisen as a result of management's actions in response to the pandemic.

# Walter Scott & Partners Limited

## Directors' report - continued

### Other macro environmental risks (coronavirus "COVID-19" outbreak) continued

#### *The Company's operational resilience*

Management has assessed the impact of COVID-19 on the Company's existing operational processes and its potential impact on its key stakeholders through its enhanced monitoring and oversight controls.

- **People:** The Company remains focused on the health and wellbeing of its employees. To achieve this objective, the majority of people supporting the Company's operations including offshore workforce are working from home supported by enhancements to existing technology and IT infrastructure. Both the onshore and offshore workforce remain operational, supported by the actions taken by management to minimise the operational risks associated with the current uncertainty.
- **Clients:** The Company has stayed fully operational, demonstrating its commitment to, and capacity for serving its clients.
- **Suppliers:** No significant issues have been noted to date.
- **Technology and infrastructure:** The Company's key information technology systems and infrastructure, including those outsourced, continue to operate as normal.

The Company is adequately capitalised and as at 31 December 2020 had surplus headroom above regulatory capital requirements.

#### *Going concern*

In response to ISA 570 (revised), management has performed an assessment to determine whether there are any material uncertainties that could cast significant doubt on the ability of the Company to continue as a going concern. No significant issues have been noted. In reaching this conclusion, management has considered:

- The financial impact of the uncertainty on the Company's balance sheet;
- Stress test scenarios such as a significant reduction in revenue over time. This incorporates a reduced level of management and performance related fees charged on assets under management and maintaining these reduced levels for at least a year;
- An extreme stress scenario with no revenue for at least a year after the date of the accounts are signed.
- Liquidity position based on current and projected cash resources. The Company's current cash and liquidity position is able to sustain its current operational costs for at least a year even with no revenue scenario;
- The Company's operational resilience including the impact of the pandemic and other potential disruptions to business continuity, on existing processes and key stakeholders such as suppliers, employees, customers and its existing IT systems and infrastructure.
- Operational reliance on the parent company. Walter Scott does not have any material operational reliance on BNY Mellon. Although there is a reliance on BNY Mellon for IT servers and IT security, the Company's hosting environment could be transitioned to cloud-based providers, hosted by Walter Scott vendors. Other operational activities currently performed by BNY Mellon resource could also be brought back in-house in a relatively easily manner given the existing in-house teams responsible for legal, human resource, client invoicing, IT and finance activities.

# Walter Scott & Partners Limited

## Directors' report - continued

### Other macro environmental risks (coronavirus "COVID-19" outbreak) continued

- BNY Mellon is a material distribution partner for the business. However, the extreme stress scenario removes all revenue and, therefore, demonstrates that the Company is not financially reliant on BNY Mellon distribution revenue in the context of going concern. There are no other material financial dependencies on BNY Mellon.

The Company continues to carefully monitor and mitigate the risk on an ongoing basis in order to minimise exposure while maintaining a robust balance sheet and sufficient headroom above regulatory capital requirements.

### Brexit

The UK formally left the European Union ("EU") on 31 January 2020 and ceased to be an EU member state on that date. The departure was subject to a transition period which ended on 31 December 2020. On 24 December 2020, the UK and EU reached a "Trade and Cooperation Agreement" which offered some major free-trade benefits, but also represented an end to most aspects of the free market access that the UK previously enjoyed as an EU member state. The new rules apply from 1 January 2021.

The UK's withdrawal from the European Union ("Brexit") has had a limited impact on the Company. The Board continues to monitor other risks which may arise as a result of post-Brexit changes to the UK legal and regulatory framework in which it operates. It could also be impacted by changing economic factors including changes in interest rates and foreign exchange rates.

With a robust balance sheet and significant headroom above regulatory capital requirements, the Directors believe that there is no material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern due to Brexit.

### EU Capital Requirements Directive IV ("CRD IV") disclosure

Institutions are required to publish details of their turnover, employment, profits, taxation and any public subsidies on a country by country basis under the EU Capital Requirements Directive IV ("CRD IV") from 1 January 2015.

Article 89 of CRD IV requires institutions to report the following information by member state and third countries in which it has an establishment:

- a) Nature of activities and geographical location (see 'Principal activities' on page 14);
- b) Turnover (see disclosure note 2 on page 38);
- c) Number of employees on a full time equivalent basis (see disclosure note 4 on page 40);
- d) Profit and loss before taxation (see Statement of profit and loss and other comprehensive income) on page 26);
- e) Tax on profit or loss (see disclosure note 8 on page 42);

### Employees

The Company is committed to a best practice approach to consult with employees on matters that are likely to affect their interests. Information of general interest to employees is provided through the intranet, newsletters and notices and general dialogue between line managers and employees, all of which seeks to achieve a common awareness of the financial and economic factors which impact on the Company's performance. In addition, the Company participates in the Group's Employee Information & Consultation Forum. The Forum builds on existing communication channels and provides more formal opportunities for dialogue between management and employees.

The Company adopts a total rewards and pay for performance remuneration philosophy. Any variable remuneration incentives are discretionary, based on individual and business unit performance together with other factors as determined from time to time in the context of the Company's operating plans and results and may be subject to deferral. All employees have the opportunity to purchase stock through the Group's Employee Stock Purchase Plan and the key employees are

# Walter Scott & Partners Limited

## Directors' report - continued

### Employees continued

eligible to participate in a long term incentive scheme which links their compensation to objectives including client retention and the growth in value and financial performance of the Company.

The Company is also committed to providing relevant training and development opportunities, including achievement of professional qualifications, to enable each employee to successfully fulfil their job responsibilities, and in addition, meet regulatory requirements. The Company adheres to the principles of Equal Employment Opportunity, and is committed to facilitating employment opportunities for people with disabilities.

### Directors

The Directors who served during the year and up to the date of the report were as follows:

	Appointed	Resigned
R A Hammond-Chambers* (Chair of the Board)	-	-
J E Henderson	-	-
M E Harris**	-	30 September 2020
R M Leckie	-	-
C E Macquaker	-	-
J R Miller***	-	19 August 2020
S N Potter*	1 June 2020	-
H Smits****	10 December 2020	-
J D Smith	-	-

\* R A Hammond-Chambers and S N Potter are Independent Non-Executive Directors.

\*\* M E Harris was the Chief Executive Officer of Investment Management for BNY Mellon and whilst he was a member of the board, he was not employed or remunerated by Walter Scott & Partners Limited.

\*\*\* J R Miller is the Head of Corporate Development for BNY Mellon and whilst he was a member of the board, he was not employed or remunerated by Walter Scott & Partners Limited.

\*\*\*\* H Smits is the Chief Executive Officer of Investment Management for BNY Mellon and whilst she is a member of the Board, she is not employed or remunerated by Walter Scott & Partners Limited.

### Directors' indemnity provision

The articles of association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the year but have not been utilised by the Directors (2019: none).

### Disclosure of information to auditor

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Post balance sheet events

There were no material post balance sheet events.

## **Walter Scott & Partners Limited**

### **Directors' report - continued**

#### **Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



J E Henderson  
Director

Walter Scott & Partners Limited  
One Charlotte Square  
Edinburgh  
EH2 4DR

25 March 2021

Registered number: SC93685

## **Walter Scott & Partners Limited**

### **Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements**

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101: *Reduced Disclosure Framework* ("FRS 101").

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, including FRS 101, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## **Independent auditor's report to the members of Walter Scott & Partners Limited**

### **Opinion**

We have audited the financial statements of Walter Scott & Partners Limited ("the Company") for the year ended 31 December 2020 which comprise of the Statement of profit and loss and other comprehensive income, Balance sheet, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101: *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.



## **Independent auditor's report to the members of Walter Scott & Partners Limited - continued**

### **Fraud and breaches of laws and regulations - ability to detect**

#### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and management, and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes and Risk and Compliance Committee minutes.
- Considering remuneration incentive schemes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the calculation of the revenue is non-judgemental and straightforward, with limited opportunity for manipulation.

We did not identify any additional fraud risks.

We also performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included all post year end closing journals.

#### *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

## **Independent auditor's report to the members of Walter Scott & Partners Limited - continued**

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's authority to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, data protection, anti-money laundering, market abuse regulations and financial services regulations including Client Assets, and specific areas of regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

### **Other information**

The directors are responsible for the other information, which comprises the Chairman's statement, Strategic report and Directors' report. Our opinion on the financial statements does not cover the other information and accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in the Chairman's statement, Strategic report and Directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## **Independent auditor's report to the members of Walter Scott & Partners Limited - continued**

### **Respective responsibilities**

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities)

#### **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Catherine Burnet (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*  
*Saltire Court*  
20 Castle Terrace  
Edinburgh, EH1 2EG

25 March 2021

# Walter Scott & Partners Limited

## Statement of profit and loss and other comprehensive income for the year ended 31 December 2020

		2020	2019
	Note	£000	£000
<b>Turnover</b>	2	295,793	255,767
Administrative expenses	3	(96,272)	(5,034)
<b>Operating profit</b>		199,521	250,733
Interest receivable and similar income	6	702	1,452
Interest payable and similar expenses	7	(4,196)	(1,297)
<b>Profit before taxation</b>		196,027	250,888
Taxation on profit	8	(36,628)	(46,722)
<b>Total comprehensive income for the financial year</b>		159,399	204,166

Notes 1 to 24 are integral to these financial statements.

All items dealt with in arriving at the Company's results for the financial year and prior year relate to continuing operations.

The Company has not prepared a separate statement of other comprehensive income as all the income and losses are reflected in the statement of profit and loss above.

# Walter Scott & Partners Limited

## Balance sheet at 31 December 2020

	Note	2020 £000	2019 £000
<b>Fixed assets</b>			
Tangible assets	9	8,702	9,709
Intangible fixed assets	10	370	504
		<u>9,072</u>	<u>10,213</u>
<b>Current assets</b>			
Debtors	11	89,858	155,279
Investments	12	37,274	27,434
Cash at bank and in hand	13	240,089	227,937
		<u>367,221</u>	<u>410,650</u>
Creditors: amounts falling due within one year	14	(70,202)	(125,931)
Net current assets		<u>297,019</u>	<u>284,719</u>
<b>Total assets less current liabilities</b>		<b>306,091</b>	<b>294,932</b>
Creditors: amounts falling due after more than one year		(16,288)	(16,072)
<b>Net assets</b>		<u><b>289,803</b></u>	<u><b>278,860</b></u>
<b>Capital and reserves</b>			
Called up share capital	19	25	25
Other reserves		16,883	15,339
Profit and loss account		<u>272,895</u>	<u>263,496</u>
<b>Shareholders' funds</b>		<u><b>289,803</b></u>	<u><b>278,860</b></u>

Notes 1 to 24 are integral to these financial statements.

These financial statements were approved by the Board of Directors and were signed on its behalf by:



J E Henderson  
Director

25 March 2021

Company registered number: SC93685

# Walter Scott & Partners Limited

## Statement of changes in equity

31 December 2020

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2019	25	13,947	159,330	173,302
Total comprehensive income for the financial year	-	-	204,166	204,166
Equity-settled share based payment transactions	-	1,392	-	1,392
Dividends	-	-	(100,000)	(100,000)
Total contributions by and distributions to owners	-	1,392	(100,000)	(98,608)
<b>Balance at 31 December 2019</b>	<b>25</b>	<b>15,339</b>	<b>263,496</b>	<b>278,860</b>

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2020	25	15,339	263,496	278,860
Total comprehensive income for the financial year	-	-	159,399	159,399
Equity-settled share based payment transactions	-	1,544	-	1,544
Dividends	-	-	(150,000)	(150,000)
Total contributions by and distributions to owners	-	1,544	(150,000)	(148,456)
<b>Balance at 31 December 2020</b>	<b>25</b>	<b>16,883</b>	<b>272,895</b>	<b>289,803</b>

# Walter Scott & Partners Limited

## Notes to the financial statements for the year ended 31 December 2020

### 1 Accounting policies

#### 1.1 Basis of preparation and statement of compliance with FRS 101

The Company is a private company incorporated and domiciled in the UK and registered in Scotland. The registered address is given on page 1.

These financial statements were prepared in accordance with FRS 101.

The Company's ultimate parent undertaking, The Bank of New York Mellon Corporation includes the Company in its consolidated financial statements. The consolidated financial statements of The Bank of New York Mellon Corporation are prepared in accordance with U.S. Generally Accepted Accounting Principles, which are *equivalent* to Adopted IFRS. The Bank of New York Mellon Corporation's consolidated financial statements are available at <https://www.bnymellon.com/us/en/investor-relations/regulatory-filings.html>. Accordingly the Company is a *qualifying entity* for the purpose of FRS 101 disclosure exemptions.

Therefore, in preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Statement of Cash Flows and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosure in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of compensation of Key Management Personnel; and
- Disclosures in respect of financial instruments.

As the consolidated financial statements of The Bank of New York Mellon Corporation include equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share-Based Payments* in respect of Group settled share-based payments.
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 *Financial Instrument Disclosures*; and

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.18.

The financial statements are presented as rounded to the nearest thousand pounds.

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 1 Accounting policies continued

#### 1.2 Changes in accounting policies

The Company has applied IFRS 16 from 1 January 2019.

#### **IFRS 16 *Leases***

IFRS 16 replaces IAS 17 *Leases* and introduces a single on-balance sheet accounting model for lessees. Lessor accounting remains similar to previous accounting policies.

#### **Lessee**

Lessees recognise a right of use ("ROU") asset and a corresponding lease liability representing its obligation to make lease payments. The asset is depreciated over the lease term, and the financial liability measured at amortised cost using the effective interest method.

As a result of recognising operating leases on balance sheet, assets increased by £4.4m and increased financial liabilities by the same amount with no effect on net assets or opening profit and loss account. The Company's incremental borrowing rate ("IBR") applied to determine the lease liability was 2.09%

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.



# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 1 Accounting policies continued

#### 1.2 Changes in accounting policies continued

##### Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's IBR as at 1 January 2019. ROU assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied a single discount rate to a portfolio of leases with similar characteristics; and
- adjusted the ROU assets by the amount of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* onerous contract provision immediately before the date of initial application, and subsequently then on impairment going forward.

For leases that were classified as finance leases under IAS 17, the carrying amount of the ROU asset and the lease liability at 1 January 2019 are determined as at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

#### 1.3 Measurement convention

These financial statements are prepared on the historical cost basis except that financial instruments classified as fair value through profit or loss are stated at their fair value.

#### 1.4 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 13. In addition, the Directors' Report on pages 14 to 20 includes the Company's objectives, policies and processes for managing its capital; its financial risk management objective; and its exposures to credit and liquidity risk.

The Company has adequate liquidity and capital. The Directors perform an annual going concern review that considers, under a stress test scenario, the Company's ability to meet its financial obligations as they fall due, for a period of at least eighteen months after the date that the financial statements are signed. As a consequence, the Directors believe that the Company can manage its business risks successfully.

In response to COVID-19, management has performed an assessment to determine whether there are any material uncertainties arising due to the pandemic that could cast significant doubt on the ability of the Company to continue as a going concern. No significant issues have been noted. In reaching this conclusion, management considered:

- The financial impact of the uncertainty on the Company's balance sheet and capital position. The Company is adequately capitalised and had sufficient headroom above regulatory capital requirements as at year end;
- Liquidity position based on current and projected cash resources and regulatory requirements. The Company currently has sufficient liquidity above regulatory requirement which is designed to test short-term resilience to liquidity disruptions;

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 1 Accounting policies continued

#### 1.4 Going concern continued

- Capital and liquidity stress tests on reasonably plausible scenarios. In addition, an extreme revenue scenario assuming zero revenue for a period of 12 months from the date of signing the financial statements was considered by management;
- Stress test scenarios such as significant reduction in revenue over time; and
- The Company's operational resilience with respect to the impact of the pandemic on existing processes and key stakeholders such as its people, clients, suppliers, and existing information technology systems and infrastructure.

Based on the above assessment of the Company's financial position, COVID-19 impact, liquidity and capital, the directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future (for a period of at least twelve months after the date the financial statements are signed). Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### 1.5 Related party transactions

As the Company is a wholly owned indirect subsidiary of the ultimate parent company, The Bank of New York Mellon Corporation, it has taken advantage of the exemption contained in IAS 24 and has therefore not disclosed transactions or balances with entities which form part of the Group.

#### 1.6 Turnover

Revenue, which is stated net of value added tax, comprises management fees, performance fees, net management fees receivable from Group undertakings and other income and is accrued over the period for which these services are provided.

Management fees are fees paid for the management of investment portfolios. These are recognised as services provided and are calculated on various formulae linked to the value of portfolios at invoicing dates. Performance fees are fees paid on the investment performance in current and previous periods. Revenue is recognised for the element of management fees linked to performance when such fees in respect of each calendar year are receivable in accordance with management agreements.

Income and expenses are presented on a net basis only when permitted under FRS 101, or for gains and losses arising from a group of similar transactions.

Revenue is based on terms specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. Revenue is recognised when, or as, a performance obligation is satisfied by transferring control of a good or service to a customer.

A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognised by measuring the Company's progress in satisfying the performance obligation in a manner that reflects the transfer of goods and services to the customer. Revenue from a performance obligation satisfied at a point in time is recognised at the point in time the customer obtains control of the promised good or service.

The amount of revenue recognised reflects the consideration the Company expects to be entitled to in exchange for the promised goods and services. Taxes assessed by a governmental authority that are both imposed on, and concurrent with, a specific revenue producing transaction, are collected from a customer and are excluded from revenue.

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 1 Accounting policies continued

#### 1.7 Interest receivable and interest payable

Interest receivable/payable and similar expenses/income include foreign exchange gains/losses that are recognised in the statement of profit and loss and other comprehensive income (see foreign exchange currency accounting policy).

Interest income and interest expense are recognised in the statement of profit and loss and other comprehensive income as accrued, using the effective interest method.

#### 1.8 Long term incentive plan

The Company has in place a long term incentive plan for its employees. Long term incentive awards are delivered in the form of BNY Mellon Corporation Restricted Stock and units in the BNY Mellon Long Term Global Equity Fund. Employees are generally prevented from selling or transferring restricted stock for a four year period (the vesting period) and generally the shares and units are forfeited if employment is terminated. The units held in the BNY Mellon Long Term Global Equity Fund are treated as deferred cash. Generally, the amounts payable to employees under the plan are required under IAS 19 to be deferred and recognised over the vesting period of four years from the award date onwards. However, for the employees who meet the qualifying conditions for good leavers as set out in the plan document, the recognition of cost is immediate or spread over the period when they become unconditionally entitled to the awards. The long term incentive liability and the assets held to hedge against variability in that plan are both designated as fair value through the Statement of profit and loss and other comprehensive income reflecting the fair value as at balance sheet date. The difference between the book cost and the fair value of both the liability and the asset is marked to market through the Statement of profit and loss and other comprehensive income, and is included within the total long term incentive costs (see note 4 staff numbers and costs).

Under IAS 1.69 the element of the awards that is due within 12 months of the balance sheet date will be presented as a current liability.

#### 1.9 Share-based payment transactions

Restricted Stock Units (RSUs) and options in The Bank of New York Mellon Corporation (the Company's ultimate parent) shares issued under long term incentive plans are equity settled. When the Company's parent grants rights to its equity instruments to the Company's employees and recharges the Company, such recharges are recognised as a liability with a corresponding debit to equity.

The grant date fair value of share based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards.

RSUs are measured based on grant date fair value of the shares of The Bank of New York Mellon Corporation. Options are measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted.

Vesting conditions are not factored into the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately for good leavers. Certain of our share based payment awards vest when the employee retires. For

# **Walter Scott & Partners Limited**

## **Notes to the financial statements - continued** for the year ended 31 December 2020

### **1 Accounting policies continued**

#### **1.9 Share-based payment transactions continued**

grants of share based payments with this feature, the award is fully expensed by the first date that the employee is eligible to retire. If an employee voluntarily leaves the Company before the awards are fully vested, then the shares in relation to the employee are forfeited, with a credit to the statement of profit and loss and other comprehensive income and a debit to equity. Where an employee has transferred between different Companies within the BNY Mellon Group, current and future years' amortisation of all types of share based payments issued in prior years will be charged to the new company from the year of transfer. The expense is recognised from the date of grant as the objective is to retain employees and is forward looking.

#### **1.10 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of profit and loss and other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

#### **1.11 Foreign currency**

The Company's functional currency is £ sterling. The Company's presentational currency is also £ sterling. Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency ruling at that date. Any resulting exchange differences are reported net in the statement of profit and loss and other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Any resulting exchange differences are reported net in the statement of profit and loss and other comprehensive income within interest receivable or payable as appropriate.

#### **1.12 Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of current liabilities.

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 1 Accounting policies continued

#### 1.13 Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

#### 1.14 Non-derivative financial instruments - classification and measurement

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings and trade and other creditors.

Financial assets are measured at amortised cost if meeting both of the following conditions and are not designated as at Fair Value Through Profit and Loss ("FVTPL"):

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are measured at Fair Value Through Other Comprehensive Income ("FVOCI") only if meeting both of the following conditions:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at initial application, the business model assessment is based on facts and circumstances at that date. Also, IFRS 9 permits new elective designations at FVTPL or FVOCI to be made on the date of initial application depending on the facts and circumstances at that date.

A financial liability is initially recognised at fair value and in the case of loans and borrowings and trade and other creditors, net of directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised cost or FVTPL. Trade and other creditors are measured at amortised cost using the effective interest rate method.

#### Business model assessment

Certain financial assets, for example, deposits with central banks and financial institutions, will always be held for collection of contractual cash flows as the nature of the asset means that it cannot be sold. For other financial assets, the Company makes an assessment of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. Information that is considered includes:

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 1 Accounting policies continued

#### 1.14 Non-derivative financial instruments - classification and measurement continued

- the stated policies and objectives for the portfolio;
- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated; and
- the frequency and volume of historical and expected sales.

The Company generally does not hold assets for trading.

#### Assessment of whether cash flows are solely payments of principal and interest

'Principal' for these purposes is defined as the fair value of the financial asset at initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains contractual terms that would change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

#### 1.15 Impairment of financial assets (including trade and other debtors)

Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Company generally recognises loss allowances at an amount equal to 12-month Expected Credit Losses ("ECL") (Stage 1, the portion of ECL that results from default events that are possible within 12 months after the reporting date) unless there has been significant increase in credit risk since origination of the instrument, in which case ECLs are recognised on a lifetime loss basis (Stage 2). Exposures that are in default are regarded as credit impaired (Stage 3) and are also measured on a lifetime expected credit loss basis.

#### Measurement of ECL

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- Financial assets that are credit-impaired at the reporting date – the difference between the gross carrying amount

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 1 Accounting policies continued

#### 1.15 Impairment of financial assets (including trade and other debtors) continued

and the present value of estimated future cash flows; and

- Financial guarantee contracts – the expected payments to reimburse the holder less any amounts that the Company expects to recover.

The Company maintains an allowance for doubtful accounts for the estimated non-collection of accounts receivable. Receivables are presumed uncollectable 180 days after invoice issue date unless there are known customer - specific reasons for the delay in settlement.

#### 1.16 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

When parts of a class of tangible fixed assets have different useful lives, they are accounted for as separate classes of tangible fixed assets.

Depreciation is charged to the statement of profit and loss and other comprehensive income on a straight-line basis over the estimated useful lives of each class of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- |   |                 |
|---|-----------------|
| • Freehold land and buildings             | 40 years        |
| • Fixtures and fittings and refurbishment | 4-10 years      |
| • Computer equipment                      | 2-4 years       |
| • Works of art                            | Indefinite life |

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

#### 1.17 Intangible assets

Intangible assets that are internally generated or acquired by the Company are stated at cost less accumulated amortisation and accumulated impairment losses.

##### *Amortisation*

Amortisation is charged to the statement of profit and loss and other comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. The estimated useful lives are as follows:

- |   |         |
|---|---------|
| • Computer software, internally generated | 5 years |
|---|---------|

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 1 Accounting policies continued

#### 1.18 Accounting estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions about future conditions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Management believes that the Company's critical accounting policies for which judgement is necessarily applied are those which relate to the valuation of financial instruments, deferred tax assets, provisions and impairment of intangible assets. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the notes in the financial statements.

### 2 Revenue from contracts with customers

#### *Nature of services and revenue recognition*

Fee revenue is primarily variable, based on levels of assets under management ("AUM") and the level of client-driven transactions, as specified in fee schedules.

Investment management fees are dependent on the overall level and mix of AUM. The management fees, expressed in basis points, are charged for managing those assets. Management fees are typically subject to fee schedules based on the overall level of assets managed and products in which those assets are invested.

Investment management fee revenue also includes transactional and account-based fees. These fees are recognised when the services have been complete. Clients are generally billed for services performed on a monthly or quarterly basis.

Performance fees are generally calculated as a percentage of the applicable portfolio's performance in excess of a benchmark index or peer group's performance. Performance fees are recognised at the end of the measurement period when they are determinable.

The Directors have taken advantage of the provisions of Schedule 1 paragraph 68 (5) of the Companies Act 2006 SI 2008 No.410, as in their opinion it would be seriously prejudicial to the interests of the Company to disclose a geographical analysis of turnover.



## Walter Scott & Partners Limited

### Notes to the financial statements - continued for the year ended 31 December 2020

#### 2 Revenue from contracts with customers continued

##### *Nature of services and revenue recognition continued*

##### **Contract balances**

The Company's customers are billed based on fee schedules that are agreed upon in each customer contract. The receivables from customers were £49.1m at 1 January 2020 and £60.3m at 31 December 2020. Receivables from customers are included in debtors on the balance sheet.

##### **Contract costs**

Contract costs represent either costs which are capitalised relating to incremental costs for obtaining contracts, or costs incurred for fulfilling contract obligations when they relate directly to an existing contract or specified anticipated contract, generate or enhance resources that will be used to fulfil performance obligations and are recoverable. The Company had £nil contract costs as at 31 December 2020 (2019: £nil).

##### **Unsatisfied performance obligations**

The Company does not have any unsatisfied performance obligations other than those subject to a practical expedient election under IFRS 15. The practical expedient applies to (i) contracts with an original expected length of one year or less, and (ii) contracts for which the Company recognises revenue at the amount to which the Company has the right to invoice for services performed.

##### **Revenue by activity**

	2020	2019
	£000	£000
Management fees	252,665	232,911
Performance	43,128	22,856
Total turnover	295,793	255,767

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 3 Expenses and auditor's remuneration

Profit before taxation is stated after charging:

	2020	2019
	£000	£000
Depreciation of tangible fixed assets	612	637
Amortisation	150	354
Depreciation of right of use assets	500	482

Auditor's remuneration:

	2020*	2019
	£000	£000
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of these financial statements pursuant to legislation	69	46
Other services pursuant to legislation	171	163
	<u>240</u>	<u>209</u>

\* Includes additional fees expensed in 2020 to reflect agreed cost increases with the auditors.

### 4 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year was 162 (2019: 155), of which 4 were Directors (2019: 4).

The aggregate payroll costs of these persons were as follows:

	2020	2019
	£000	£000
Salaries and wages	65,008	48,062
Long term incentive costs (see note 21)	9,783	7,047
Share based payments (see note 22)	1,544	1,392
Social security costs	7,663	6,843
Contributions to defined contribution plan	1,039	1,056
Other staff costs	(784)	155
	<u>84,253</u>	<u>64,555</u>

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 5 Directors' remuneration

	2020	2019
	£000	£000
Directors' emoluments	21,094	15,261
Amounts receivable under long term incentive schemes	2,369	3,952
Company contributions to money purchase pension plans	25	54
	<u>23,488</u>	<u>19,267</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £10,188,460 (2019: £8,690,369), and Company pension contributions of £10,000 (2019: £10,000) were made to a money purchase scheme on their behalf. During the year, the highest paid director received shares under a long term incentive scheme.

The Independent directors are paid a fee for their services. They receive no other form of compensation. During 2020, fees paid and payable to Mr Hammond-Chambers were £46,181 and £23,333 for Mr Potter.

The Non-Independent Directors, being employees of BNY Mellon, receive no fees from the Company.

	Number of Directors	
	2020	2019
Retirement benefits are accruing to the following number of directors under:		
Defined contribution schemes	4	4
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	<u>4</u>	<u>4</u>

### 6 Other interest receivable and similar income

	2020	2019
	£000	£000
Interest receivable from short term deposits	702	1,452
Total interest receivable and similar income	<u>702</u>	<u>1,452</u>

### 7 Interest payable and similar expenses

	2020	2019
	£000	£000
Net foreign exchange loss	3,928	391
Interest payable on short term overdrafts (see note 13)	268	906
Total other interest payable and similar charges	<u>4,196</u>	<u>1,297</u>

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 8 Taxation

#### *Recognised in the profit and loss account and other comprehensive income*

	2020		2019	
	£000	£000	£000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	37,040		47,152	
Adjustments in respect of prior periods	429		26	
Total current tax		37,469		47,178
<i>Deferred tax (see note 17)</i>				
Origination and reversal of temporary differences	(144)		(560)	
Movement in tax rate	(591)		59	
Adjustment in respect of prior period	(106)		45	
Total deferred tax		(841)		(456)
Tax on profit on ordinary activities		36,628		46,722

#### *Reconciliation of effective tax rate*

	2020	2019
	£000	£000
Total comprehensive income for the financial year for the year	159,399	204,166
Total tax expense	36,628	46,722
Profit excluding taxation	196,027	250,888
Tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	37,245	47,669
Share based payments	(220)	(99)
Non-deductible expenses	33	188
Impact of changes in tax rate	(591)	59
Other - items not subject to tax	(162)	(1,167)
Adjustments in respect of prior years	323	72
Total tax expense	36,628	46,722

#### *Factors that may affect current and total tax charge*

The UK corporation tax rate for 2020 of 19% (2019: 19%) as per Finance Act 2020 received Royal Assent on 22 July 2020. UK deferred tax balances as at 31 December 2020 have been calculated with respect to the enacted rate at the balance sheet date of 19% (2019: 17%). In the 3 March 2021 Budget, it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date, the deferred tax asset would have increased by £1,818,162.

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 9 Tangible fixed assets

	Building* £000	Right of Use: Leasehold building £000	Fixtures, fittings and art work £000	Computer equipment £000	Total £000
<b>Cost</b>					
At 1 January 2020	4,770	4,431	2,826	806	12,833
Additions	-	-	18	87	105
At 31 December 2020	4,770	4,431	2,844	893	12,938
<b>Depreciation and impairment</b>					
At 1 January 2020	1,037	482	937	668	3,124
Depreciation	353	500	160	99	1,112
At 31 December 2020	1,390	982	1,097	767	4,236
<b>Net book value</b>					
At 31 December 2020	3,380	3,449	1,747	126	8,702
At 31 December 2019	3,733	3,949	1,889	138	9,709

\*This includes capitalised refurbishment costs.

#### Right-of-use assets

The company leases an office building in Edinburgh. The non-cancellable period of the lease is for 24 years to 2027. The lease payments are mostly static, with incremental increases at stated years within the terms of the lease.

### 10 Intangible assets

	Computer software, internally generated £000	Total £000
<b>Cost or valuation</b>		
At 1 January 2020	3,457	3,457
Additions	16	16
At 31 December 2020	3,473	3,473
<b>Amortisation and impairment</b>		
At 1 January 2020	2,953	2,953
Amortisation	150	150
At 31 December 2020	3,103	3,103
<b>Net book value</b>		
At 31 December 2020	370	370
At 31 December 2019	504	504

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 11 Debtors

	2020	2019
	£000	£000
Trade debtors	4,088	3,484
Amounts owed by group companies	21,620	24,132
Other debtors	404	76,312
Prepayments and accrued income	57,239	46,434
Deferred tax asset (see note 17)	5,758	4,917
Corporate tax	749	-
	<u>89,858</u>	<u>155,279</u>
Due within one year	<u>89,858</u>	<u>155,279</u>

Debtors include prepayments and accrued income of £nil (2019: £nil) due after more than one year.

Deferred tax asset of £nil (2019: £nil) would be due after more than one year.

In 2014 Walter Scott made payments to the UK Tax Authority, Her Majesty's Revenue and Customs (HMRC) in relation to an overseas fund tax matter. The payments did not imply acceptance of liability but ensured that no further interest liability would accrue whilst the matter continued to be considered by HMRC. In 2019 HMRC found in favour of Walter Scott in relation to the LLC overseas funds. A receivable in relation to the refund of the payments totalling £74,230,895 and interest of £2,079,025 were reflected in the 2019 results.

Two provisions relating to the BVI overseas funds totalling £575,000 were recognised in 2019. See Note 23.

### 12 Current asset investment and other financial assets

	2020	2019
	£000	£000
<b>Current asset investments</b>		
Financial assets designated as fair value through profit or loss	<u>37,274</u>	<u>27,434</u>

Financial assets designated as fair value through statement of profit and loss and other comprehensive income represent investments backing the LTIP liability.

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 13 Cash and cash equivalents

	2020	2019
	£000	£000
Cash at bank and in hand	240,089	227,937

Cash at bank and in hand is presented gross of overdrafts in foreign currency of £nil (2019: £38.0m). Overdrafts in foreign currency accounts are with a UK regulated banking entity within the Group.

The Company is exposed to foreign exchange risk between the date of recognition and settlement of foreign currency income and expenses. Prior to November 2020, the Company maintained foreign currency cash balances to offset the net currency position. This activity resulted in foreign currency overdrafts.

### 14 Creditors: amounts falling due within one year

	2020	2019
	£000	£000
Bank loans and overdrafts	-	38,002
Obligations under finance leases (see note 16)	479	469
Amounts due to Group undertakings	4,319	3,367
Accruals and deferred income	58,907	50,730
Taxation and social security	6,439	32,733
Other creditors	58	55
Provisions	-	575
	70,202	125,931

### 15 Creditors: amounts falling due after more than one year

	2020	2019
	£000	£000
Obligations under finance leases (see note 16)	3,040	3,519
Accruals and deferred income	13,248	12,553
	16,288	16,072

Accruals and deferred income falling due after more than one year represent amounts payable to employees under the deferred cash plan. Refer to Note 21 for further detail.

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 16 Lease liabilities

#### Maturity analysis - contractual undiscounted cash flows

	2020	2019
	£000	£000
Expiring within one year	479	469
Expiring between one and five years	2,019	1,978
Expiring in more than five years	1,021	1,541
<b>Total undiscounted lease liabilities at 31 December</b>	<b>3,519</b>	<b>3,988</b>

The Company leases its offices in Edinburgh over a term of 24 years to 2027.

#### Amounts recognised in Statement of profit or loss and other comprehensive income

	2020	2019
	£000	£000
Interest on lease liabilities	77	83

### 17 Deferred tax assets and liabilities

#### *Recognised deferred tax assets and liabilities*

#### *Movement in deferred tax*

	1 January 2020 £000	Recognised in income £000	31 December 2020 £000
Tangible fixed assets	55	9	64
Share-based payments	754	(117)	637
Long-term incentive compensation in profit and loss account	4,107	950	5,057
	4,916	842	5,758

	1 January 2019 £000	Recognised in income £000	Recognised in equity £000	31 December 2019 £000
Tangible fixed assets	2	53	-	55
Share-based payments	908	(72)	(82)	754
Long-term incentive compensation in profit and loss account	3,632	475	-	4,107
	4,542	456	(82)	4,916



# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 18 Employee benefits

#### *Defined contribution plans*

Employees of the Company are eligible to join The Bank of New York Mellon Group Personal Pension scheme. The group personal pension scheme is funded by a monthly payment to a third party insurer and is a defined contribution scheme.

The total pension cost for the Company in respect of the year to 31 December 2020 was £1.0m (2019: £1.1m). At the year-end, contributions of £nil were payable to the scheme and are included in creditors (2019: £nil).

### 19 Called up share capital

	2020	2019
	£000	£000
<i>Authorised, allotted, called up and fully paid</i>		
25,126 (2019: 25,126) Ordinary shares of £1 each	25	25

#### *Dividends*

The following dividends were recognised during the period:

	2020	2019
	£000	£000
£5,970 (2019: £3,979) per qualifying ordinary share	150,000	100,000

### 20 Financial instruments

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts are approximate to their fair value. This assumption is also applied to variable rate financial instruments. Short term debtors and creditors are excluded from financial assets and financial liabilities.

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 21 Long term incentive plan

Long term incentive awards are delivered in the form of BNY Mellon Corporation Restricted Stock (see Note 1 Accounting Policies) and units in a BNY Mellon Long Term Global Equity Fund managed by Walter Scott & Partners Limited. The units held in the BNY Mellon Global Equity Fund are treated as deferred cash. The amounts payable to employees under the plan are required under IAS19 to be deferred and recognised over the vesting period. Assets held against variability in that plan are designated as fair value through profit or loss.

	2020		2019	
	Number of units	2020	Number of units	2019
	000's	£000	000's	£000
Balance outstanding at 1 January	7,329	27,434	7,871	23,669
Additions	4,503	17,238	2,524	8,240
Disposals	(3,111)	(11,085)	(3,066)	(10,010)
Included in profit and loss	-	3,687	-	5,535
Balance outstanding at 31 December	8,721	37,274	7,329	27,434

### 22 Share based payments

#### Restricted share awards

	2020	2019
	Number of shares	Number of shares
Balance outstanding at 1 January	117,664	141,216
Awarded during the year	59,183	36,434
Vested in the year	(54,632)	(59,986)
Balance outstanding at 31 December	122,215	117,664

The price of restricted share outstanding at 31 December 2020 was \$42.44 (2019: \$50.33).

During 2020, £1,543,714 excluding National Insurance was charged to the Statement of profit and loss and other comprehensive income in respect of restricted share awards settled in equity (2019: £1,391,969).

As at 31 December 2020, £531,853 (2019: £9,649) of total unrecognised compensation costs related to non-vested restricted stock is expected to be recognised over the weighted average period of approximately 23 months (2019: 19 months). In 2020 38,742 shares with a combined value of £1,318,291 were awarded in respect of the 2019 incentive plan and 20,441 shares with a combined value of £556,713 were awarded in respect of a one-off special award.

# Walter Scott & Partners Limited

## Notes to the financial statements - continued for the year ended 31 December 2020

### 23 Provisions

	<b>Provisions</b> <b>£000</b>
At 1 January 2020	575
Released	(575)
At 31 December 2020	<u>-</u>

The operational loss provision carried forward from 31 December 2019 has been adjusted to reflect the settlement in full of the BVI funds contract settlement and related interest due to the UK tax authorities, HMRC.

### 24 Ultimate parent company and parent company of larger group

The immediate parent undertaking of the Company is BNY Mellon International Asset Management Holdings No.1 Limited, a company registered in England and Wales. BNY Mellon International Asset Management Holdings No.1 Limited's registered address is 160 Queen Victoria Street, London, EC4V 4LA. Copies of the accounts for BNY Mellon International Asset Management Holdings No.1 Limited can be obtained from 160 Queen Victoria Street, London, EC4V 4LA.

The largest and smallest Group in which the results of the Company are consolidated is that headed by The Bank of New York Mellon Corporation, incorporated in the United States of America.

The ultimate parent company as at 31 December 2020 was The Bank of New York Mellon Corporation, incorporated in the United States of America. The consolidated accounts of the ultimate parent company may be obtained from its registered address.

The Secretary  
The Bank of New York Mellon Corporation  
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New York, NY  
10286  
USA