QUILTER CHEVIOT

RESPONSIBLE INVESTMENT

Responsible Investment at Quilter Cheviot

This applies to centrally monitored holdings only. Your Investment Manager has the flexibility, within a controlled framework, to tailor your portfolio with regard to asset allocation and security selection, in order to accommodate your investment requirements.

Responsible Investment

As a responsible investor Quilter Cheviot is committed to its role as a steward of clients' assets in order to protect and enhance long-term returns. This encompasses our engagement with investee companies, through proxy voting and face-to-face dialogue, as well as taking into account environmental, social and governance (ESG) factors which could impact shareholder returns.

Our firmwide approach to Responsible Investment

At Quilter Cheviot and across Quilter, we have adopted the Investment Association's responsible investment framework. The points below summarise our three main approaches to responsible investment.

Stewardship

> *"The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."*
>
> **Financial Reporting Council**

Stewardship involves engaging with companies to discuss ESG issues to improve their handling and disclosure of such issues. This may be carried out individually or in collaboration with other investors. It includes voting, either in person or by proxy, which involves formally expressing approval or disapproval through voting on resolutions. Additionally, we facilitate client-instructed voting, therefore our clients have the ability to exercise their own stewardship.

Approver: Quilter Cheviot Limited 2 May 2024

ESG Screening

> *Excluding entire sectors, activities, companies or countries from a fund or portfolio based on ESG criteria, moral or ethical views, or religious beliefs.”*
>
> **Quilter**

At Quilter Cheviot we have a firm-wide restriction on investing directly in cluster munitions and anti-personnel landmines. We also monitor any potential indirect exposure to this on an ongoing basis. Clients can also express their own preferences through screening on a bespoke basis within our Discretionary Portfolio Service.

ESG Integration

> *The systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions.”*
>
> **UN Principles for Responsible Investment**

It is not about excluding certain activities but it is understanding the ESG related challenges and opportunities. It is about risk mitigation. The approach depending on the asset class. ESG considerations are a component within the investment process - it is not the overriding consideration. At Quilter Cheviot this is integrated into the investment process and our research teams are responsible for incorporating this into their ongoing analysis of investments.

Active Ownership and ESG integration – for all discretionary clients
We vote and engage with companies and fund managers on environmental, social and governance (ESG) matters. Integrating ESG considerations into our investment process can have direct and indirect positive outcomes on the investments we make on behalf of our clients.

We take a more targeted approach for clients that want their portfolios to reflect their specific interests or preferences.

Sustainable Investment – The Climate Assets Funds* and Strategy
Investing in the growth markets of sustainability and environmental technologies, with a strong underpinning of ethical values. The strategy is fossil fuel free and invests in global equities, fixed interest and alternative investments. Five positive investment themes are at the heart of the stock selection: low carbon energy, food, health, resource management and water.

A Funds-Based Approach – Positive Change
A pragmatic approach that combines funds that invest with a sustainability focus or for impact, with funds managed by leading responsible investment practitioners. Meaningful engagement by fund houses with company management is prioritised over formal exclusions on the basis that engagement can encourage change where it is needed most.

A Direct Equity Approach – DPS Focused**
The strategies harness Quilter Cheviot’s research and responsible investment process, as well as data from external providers, to implement ESG factor screening on a positive and negative basis. This ensures more emphasis is placed on ESG risks beyond the firm-wide approach to active ownership and ESG integration which forms the basis of the Aware categorisation.

Ethical And Values Oriented Investment – Client Specific
This is incorporated on an individual client basis, informed by their specific ethical preferences and values. These will vary from client to client and will focus on industry groups, industries or individual companies.

* Climate Assets Balanced Fund and Climate Assets Growth Fund

** For UK, North American and European equity holdings

Examples of engagement in 2023

Third-party manager – Asia equity – engagement on Asia Cement

Objective

Asia Cement was flagged in a report for its exceptionally high contribution to portfolio emissions.

Despite making up only 0.02% of the overall portfolio that was being reported on, the company accounted for nearly 10% of the portfolio's emissions exposure. Given the significance of this outlier, this figure was investigated by the Responsible Investment team (RI team) and prompted a follow-up call with the fund owning Asia Cement. The 10% figure (Contribution to Portfolio Emission Exposure) is a measure of the proportion of a company's emissions are 'owned' by the fund investing in them, based on the value of the fund's investment compared to the company's value. This figure is especially significant for Asia Cement, in part because of the low company valuation of $1 billion (average valuation of peers in comparison table was $182 billion), which determines the degree of 'ownership' the portfolio has of a company's emissions. This increased 'ownership' of Asia Cement increases the amount of its emissions the investment is linked to, producing higher-than-peer emissions exposure. A meeting was arranged between Quilter Cheviot and the manager to discuss its Asia Cement holding and our concerns about emission intensity. The manager acknowledged that Asia Cement has much higher emissions per tonne product than peers, but stated this is due to state-imposed cement content requirements in compliance with earthquake resilience regulations. As a result, the per tonne emissions footprint is approximately 25% greater than peers (e.g., Cemex, CRH). The fund managers are aware of the comparatively poor carbon performance of Asia Cement, but believe the company is generally trying to do the right thing in a challenging environment and has financial advantages over peers. Asia Cement provided an overview document summarising its environmental/ carbon targets and recent relevant progress. However, there remain a few yellow, if not red, flags in the progress against the targets described. Notably, the summary promotes planned reduction of coal use in the near-term (2025), but coal usage across different facilities appears to equate to no reduction.

Outcome

Although the manager was forthcoming in addressing some of our concerns, it is unclear whether Asia Cement is making sufficient strides to reduce its poor emissions performance. It is worth observing whether it retains its financial advantages given the somewhat turbulent economic conditions in China. In follow-ups with the fund managers, we will focus on whether they hold any similar positions, and what conditions would need to be met for them to sell those holdings. For example, whether carbon performance has any weight at all in certain heavy emitting sectors like cement.

American International Group

Objective

To discuss concerns related to executive compensation and the shareholder request for an independent board chair.

There has been a 238% increase in total CEO compensation since the previous year. There are concerns regarding the STI (short-term incentives) structure as discretionary payments have been made to the CEO over the past few years. The company considers the updated payment structure to better align with shareholders. While there has been a reduction in the base salary, there has been an increase in the long-term incentive opportunity and a special award of $50M. This payment is designed to retain the CEO and is subject to non-compete provisions. There are concerns that the combined CEO/chair role is contractually obliged. In this instance, we'd expect the company to mandate the board to elect a lead independent director. While we appreciate the board has appointed a lead independent director this is at the board's discretion.

Outcome

We supported the shareholder request for an independent board chair. While the company has a lead independent director in place, given the combined role of the CEO/chair is contractually guaranteed, shareholders could benefit from additional oversight. In the absence of a compelling rationale to significantly increase remuneration, we have voted against the item seeking approval for executive compensation.

Ocado

Objective

To raise concerns about diversity at the board and executive level, and the remuneration policy. In 2023 the company again failed to meet the 33% target for board gender diversity.

Ocado has five executive positions on the board (a relatively high number), which are all held by men. We have engaged with them prior to the 2021 and 2022 AGMs as well as through our gender diversity thematic engagement. In 2022 we informed the company of our intention to vote against the re-election of the chair if we did not see tangible change to the board's diversity. In 2022 we voted against the expansion of the company's 'Value Creation Plan' (part of the proposed remuneration policy). We had concerns that the potential pay-out from this newly proposed long-term component could be excessive; additionally, although there is a cap in place, it does not kick in until later in the plan. However just over 70% of shareholders approved the new remuneration policy and therefore it came into effect. Our concerns have not abated and therefore in 2023 we voted against the remuneration report (alongside just over 30% of shareholders) as well as the chair of the remuneration committee.

Outcome

We have been patient with the company, and we are disappointed that further progress has not been forthcoming to improve the board's diversity.

Overview of voting - 2023

479

COMPANY MEETINGS

In 2023 we voted at 479 company meetings and 7,741 resolutions For 293 resolutions we did not support management (this includes shareholder proposals). We enabled clients to instruct vote at 91 meetings.

Examples of votes against management:

75*x votes against electing / re-electing director (management item)

We have voted against the re-election of directors owing to board independence concerns, the presence of multi class voting structures and board diversity concerns. Notably, we placed an abstention vote on the re-election of the chair at BP's annual meeting as we had concerns over the weakening of its climate transition targets.

Companies voted on: Alphabet (x2), Amazon.com (x3), Amundi, Anheuser-Busch InBev (x6), Berkshire Hathaway (x4), BP (x2),Chevron, Darktrace, Dechra Pharmaceuticals, Dolby Laboratories (x5), Exxon Mobil, HarbourVest Global Private Equity, Hermes (x3), Hipgnosis Songs Fund (x6), Jet2, LondonMetric Property, LVMH (x3), Meta (x5), MIGO Opportunities Trust, NIKE, Ocado (x2), Princess Private Equity (x2), Renishaw (x2), Ryanair (x2), Siemens Healthineers (x6), Stellantis, T-Mobile (x9), VINCI (x2)

71x votes against management on compensated related resolutions (management item)

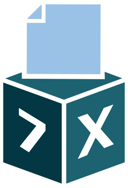
We voted against remuneration reports, polices and financial statements where the short and long-term incentive performance metrics were not sufficiently robust. Additionally in cases where the CEO's salary saw a significant increase without a compelling rationale provided by the company. We also placed against votes where fixed performance targets were lacking and special bonuses were awarded during the year. Excessive pay out concerns were raised with the companies.

Companies voted on: Alphabet (x3), Amazon.com, American Express Company, American International Group, Anheuser-Busch InBev, Bayer, Berkshire Hathaway (x2), Boohoo (x2), Capricorn Energy (x3), Cellnex, Dolby Laboratories, Ecolab, Eni, EssilorLuxottica, Frontier IP, GB Group, Ground Rents Income Fund, Haydale Graphene Industries, Hermes (x5), Intel Corporation, InterContinental Hotels (x2), IWG, Jet2, Kering, KION GROUP, L'Oreal, LondonMetric Property, LVMH (x6), Netflix, Ocado, Palo Alto (x2), Philip Morris, Prosus, Ryanair, Schneider Electric, Seeing Machines, St. James's Place, T-Mobile, Tencent (x9), Tesla, Boeing, UniCredit (x2), Unilever (x2), Walmart

* withheld and abstention votes have been included within votes against figures

Key votes on shareholder resolutions:

Governance



7x votes in favour of an independent board chair

Unlike the UK, in the US it is common for the CEO and chair roles to be combined – our concern here is focused on companies' performance and compensation practices being behind peers, and the view that the separation of these roles would be beneficial to shareholders, particularly in establishing independent oversight. We tend to support the request for an independent board chair where the board has not appointed a lead independent director, or where significant concerns have been raised and the lead independent director is not supporting effective board oversight.

Companies voted on: American International Group, Bank of America, Berkshire Hathaway, Colgate-Palmolive, Ecolab, Raytheon Technologies, Walgreens Boots Alliance

6x votes in favour of gender pay gap reporting

We supported proposals where shareholders would benefit from better transparency on median pay gap disclosure.

Companies voted on: Amazon.com, Apple, Boeing, Goldman Sachs, Marriott, NIKE

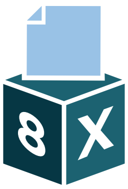
Social

5x votes in favour of conducting human rights risk assessment

Many of these resolutions were filed by shareholders for technology-based companies where there is a greater risk surrounding advertising policies and policies. We supported these requests where we consider additional information on how companies are managing and mitigating such risks would benefit shareholders.

Companies voted on: Alphabet (x2), Amazon.com (x2), Meta

Environmental



8x votes in favour of reporting on climate change/ GHG emission reduction targets

Where we felt the current disclosure level was lacking, we supported calls for additional disclosures on how companies are assessing and managing climate related risks. This will help us better understand how these companies are managing the transition to a lower carbon economy.

Companies voted on: Amazon.com, Berkshire Hathaway (x2), Exxon Mobil, Glencore, Raytheon Technologies, TotalEnergies (x2)

6x votes in favour of reporting on climate lobbying

We supported calls for additional information on how companies are managing their direct and indirect lobbying activities. Additionally, we believe shareholders would benefit from information on how companies plan to mitigate any risks from involvement in trade associations that do not support the company strategy.

Companies voted on: Alphabet, Amazon.com, Boeing, Caterpillar, Meta, Wells Fargo

To find out more about Responsible Investment at Quilter Cheviot and how we may be able to help you, please contact us using the details below.

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QUILTER CHEVIOT

SPECIALISTS IN INVESTMENT MANAGEMENT

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