QUILTER CHEVIOT

RESPONSIBLE INVESTMENT

Engagement Policy

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.

SPECIALISTS IN INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited, 3 May 2024

QUILTER CHEVIOT

Introduction

As a responsible investor Quilter Cheviot is committed to its role as a steward of clients' assets to protect and enhance long-term returns. This encompasses our engagement with investee companies by considering environmental, social and governance (ESG) factors which could impact shareholder returns.

Quilter Cheviot aims to meet the challenges of a dynamic market environment to deliver the investment performance that provides its clients with the outcomes they require to meet their financial aspirations.

We are committed to using our resources to encourage companies and funds to improve their management of ESG issues.

We review this policy annually. This policy was updated in April 2024.

Our engagement approach

By engagement, we mean speaking directly to companies (including investment trusts) and funds about the issues that concern us and understanding their general approach to material ESG issues. This can be at board, executive or manager level. Engagements can be reactive or proactive.

For engagements around general meetings, we use an external proxy advisor (ISS) as a benchmark for recommendations. However, we will not necessarily follow ISS' recommendations. Where there is a recommendation to vote against or abstain, we will engage with the company in question where possible. Where we disagree with ISS, this is reviewed by the Voting Panel, which comprises the Chief Investment Strategist, Chief Investment Officer, Head of Equity/Fund Research, and the Head of Responsible Investment.

Where engagement topics are proactively set by the responsible investment team (potentially outside of AGM activity), we use numerous data providers to identify engagement targets and track the success of these efforts over time. Any thematic engagement proposal is approved by our internal Engagement Panel made up of the same members as the Voting Panel.

Any engagement or decision-making about voting includes the relevant Quilter Cheviot investment research analyst. Our central teams of equity and fund analysts provide a dedicated investment research resource with no conflicting commitments. The research teams monitor investee companies and funds on an ongoing basis and regularly meet company management. It is imperative that ESG considerations sit within the investment decision-making process and are not outside it.

Voting

Company shares usually carry voting rights. Exercising these rights enables shareholders to express their views and engage with companies to support the creation of wealth, benefitting shareholders and the wider economy. As a responsible investor, we will use voting rights (where appropriate) to further the economic interests of our clients and have established a set of voting principles which guide how we vote. Discretionary clients' holdings held in our nominee name will be voted in accordance with Quilter Cheviot's decision, as the voting of holdings reflects our investment thesis. Voting is the end point of the engagement process and we may vote against management at general meetings where we feel sufficient progress has not been delivered.

We vote on global equity and investment trust positions*. This includes the monitored equity lists, the monitored investment trust list, our AIM portfolio service, MPS Building Blocks, funds managed by Quilter Cheviot** and where we own more than 0.2% or £2 million of a holding in the UK. This represents around 95% of the assets we hold which have voting rights. Voting is undertaken alongside engagement. The extent of the engagement will be dependent on the materiality of our holding.

For more information on our voting process, please refer to the Quilter Cheviot Voting Policy.

*As far as reasonably possible given the local regulations regarding share voting. Other infrequent instances of non-vote placement may include where Crest Depository Interests (CDIs), ADRs or GDRs are held. Ability to vote on these holdings differs on a case by case basis.

**Climate Assets Balanced Fund and Climate Assets Growth Fund; Quilter Cheviot Global Income and Growth Fund for Charities; Quilter Investors Ethical Fund; Libero Balanced.

Types of engagements and how they are prioritised

We undertake our own engagement with the responsible investment team working alongside the relevant analyst. We will also participate in collaborative engagements with other investors. Quilter Cheviot's engagement activity falls into three buckets:

- **Reactive** – where we will initiate engagements in reaction to a controversy or to an AGM/SGM resolution.
- **Proactive** – where we have conducted analysis on a specific topic and look to engagement with the worst performers. This may include thematic engagement.
- **Business as usual** – where no immediate concerns are identified but is part of a regular catch-up process.

In considering how to prioritise engagement, we consider the following factors:

- Norms and incident-based.
- Risk-based.
- Thematic priorities.

Our thematic priorities are:

Climate change - Climate Change is the defining issue of our time and we are at a defining moment. From shifting weather patterns that threaten food production, to rising sea levels that increase the risk of catastrophic flooding, the impacts of climate change are global in scope and unprecedented in scale. Without drastic action today, adapting to these impacts in the future will be more difficult and costly[1].

Through our stewardship process, we commit to engage companies and funds to understand their decarbonisation plans with the aim to encourage alignment with net zero pathways and disclosure against globally recognised standards (such as the Science Based Target Initiative).

UN Sustainable Development Goal (SDG) Alignment:

- 7 - Affordable and Clean Energy
- 13 - Climate Action
- 15 - Life on Land

Human rights - Human rights are rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. Everyone is entitled to these rights, without discrimination[2].

Through our stewardship process, we commit to engage companies and funds to better understand or improve performance on issues such as decent work and pay, human rights in the supply chain, health and safety, and diversity and inclusion.

SDG Alignment:

- 5 - Gender Equality
- 8 - Decent Work and Economic Growth
- 10 - Reduced Inequalities
- 16 - Peace, Justice & Strong institutions

Natural capital - Natural capital can be defined as the stock of renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits and ecosystem services to society[3]. The purpose is to understand the impact that companies have on the natural world including water, reforestation/deforestation and biodiversity.

Through our stewardship process, we commit to engage companies operating, and funds investing in high impact sectors to better understand how they are managing and mitigating risks related to deforestation, water usage and biodiversity. We commit to engage to improve company and fund performance where they are not meeting the standards we expect.

SDG Alignment:

6 - Clean Water and Sanitation

12 - Responsible Consumption and Production

14 - Life Below Water

15 – Life on Land

[1] **https://www.un.org/en/global-issues/climate-change**
[2] United Nations
[3] Task-Force on Nature-related Financial Disclosures

Identifying engagements

The Quilter Cheviot responsible investment team identifies areas of specific focus within the three broad groups mentioned above. These are then agreed by the Engagement Panel (which includes representatives of the research and executive teams). We publish our Stewardship Priorities annually. Any outcomes as well as further engagement details are disclosed quarterly on our website.

In addition to historic proprietary research, we use multiple external data sources to identify engagement targets and inform our dialogue. For much of this data, there will be a focus on granular underlying information (e.g. scope 1, 2 and 3 carbon emissions) rather than using ESG ratings. We also use third-party publicly available information from other organisations such as CDP. More details about the external providers we employ are provided in the table below.

External data provider	Purpose
Institutional Shareholder Services (ISS)	**To assist with our active ownership agenda as well as an additional ESG data source** Voting platform - we use ISS to inform our decision making. Recommendations are made based on the agreed voting policy. We do not always vote in line with ISS' recommendations. Governance risk-oriented data -focused on board structure, compensation, shareholder rights and audit & risk oversight. Informs decision making for governance engagements and is an input into the equity ESG dashboards.
MSCI	**To provide data for ESG integration and for engagement** Climate solutions - directly reported and modelled GHG emissions data and corporate climate performance information (including scenario alignment and disclosure against external frameworks) for use in our ESG integration activity as well as Task Force for Climate-related Financial Disclosure (TCFD) reporting. Prior to 2024 we used ISS for climate-related data.
Sustainalytics	**To provide data for ESG integration and for engagement** Equities: we use the ESG data as an input into the ESG dashboards, as well as the high-level information provided in the company reports, as well as the carbon risk rating. This also includes exposure to specific product involvement areas and controversies, as well as sustainable product areas. Companies that breach the UN Global Compact are also highlighted. Funds: this feeds into the Style Analytics tool to provide the research team with more granular detail regarding ESG factors and underlying holdings.
Ethical Screening	**To screen on a negative and positive basis in line with the client policy as well an additional ESG data source** Screening tool - employed at a portfolio level as well as an additional data source for the research teams to identify areas of exclusion as well as positive screening. SDG alignment - this is used for the Climate Assets strategy which identifies holdings and their alignment to the UN Sustainable Development Goals.
CDP	**To provide data for ESG integration and for engagement** Equities: incorporating metrics from CDP's global disclosure system into the dashboards as well as providing data for engagements.
RepRisk	**To provide data for ESG integration and for engagement** We use this to identify and assess material ESG risks within our holdings.
Other publicly available data	**To provide data for ESG integration** The equity ESG dashboards use data from multiple sources including publicly available data from NGOs and other entities; we also use these data points to inform our engagements.

Other considerations when identifying material engagement targets include:

- **Size:** In terms of relative size of the position and the likely access/impact we will have. This will be viewed on a total exposure and percentage of equity issued basis.
- **Geography:** We will have more meaningful engagements in markets where we have expertise in legal processes and stewardship norms.
- **Research coverage:** Our research teams are embedded into our engagement process. We will have more meaningful engagement where knowledge and relationships are deeper.

Engagement examples

We think about engagement in terms of objectives and outcomes.
Below are examples of recent engagements:

BP - Environment

Objective: We engaged the company to discuss concerns related to recent adjustments to the climate transition strategy, including paring back of some decarbonisation targets. We also discussed a shareholder resolution to implement specific 2030 scope 3 targets.

In February BP announced a weakening of the climate transition plan agreed by shareholders at the 2022 AGM. The key adjustment is the reduction of a commitment to reduce oil and gas production by 40% by 2030 (new target is 25%). Consequently 2030 scope 3 emissions targets have also been materially reduced. We have engaged with the company on this point and while we acknowledge the company has ambitious targets relative to peers, this represents a significant divergence from the strategy agreed in 2022 and, we believe, should have been put forward for an advisory vote to shareholders. Therefore, we have decided to vote to abstain on the re-election of the chair of the board at the upcoming meeting. We are generally reluctant to use abstentions, but in this case, we feel it is appropriate as BP is still outperforming peers with the adjusted climate transition targets – but a formal expression of disapproval should be placed. Our proxy advisor also recommends voting against the proposal put forward by shareholders related to climate change targets. While not without merit, the proposal is too specific in its aims and timeline, which implies a potential constraint on the Board to implement its strategy.

Outcome: We voted to abstain on the re-election of the chair and voted against a shareholder resolution requiring specific 2030 target setting.

Cellnex Telecom - Governance

Objective: To engage the company on concerns related to the proposed remuneration policy.

The newly proposed remuneration policy includes a contentious maximum opportunity for the LTIP (long-term incentive plan) of 1,115% of salary. The new policy is different from the 2022 policy that received significant shareholder dissent. The 2023 policy addresses some of the concerns voiced on complexity but does little to address the high potential compensation opportunities. The newly proposed maximum LTIP (long-term incentive plan) is substantially larger than direct peer maximum opportunities or that of broader peer comparisons used in formulating the plan (such as financials and diversified miners). It is noted that to achieve this level of pay-out the targets are extremely stretching (including a c.120% TSR over a 3-year period and a relative TSR ranking underpin). We voted against the company's remuneration policy last year based on similar questions around complexity and quantum. We have engaged with the company and still have concerns around the level of maximum LTIP (long-term incentive plan) opportunity.

Outcome: We do not find the rationale for the new policy structure sufficiently compelling. We voted against this item.

Ocado – Governance Social

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.

CDP Non-Disclosure Campaign (Collaborative Engagement)

Objective: To join 288 (2023) investors from nearly 31 (2023) countries in urging companies with a significant environmental impact to disclose data through CDP, the global non-profit that runs the world's leading environmental disclosure system.

Over 1,590 (2023) of the world's highest impact companies will be engaged in this campaign. These companies cover over US$29 trillion (as of January 2024) in global market capitalisation and are estimated to collectively emit more than 4,200 (2023) mega tonnes (Mt) of carbon dioxide equivalent (CO_2e) annually.* The campaign aims to increase environmental disclosure among companies that have either never disclosed or stopped disclosing, through CDP. Transparent corporate disclosure is crucial to directing capital towards the transition to a net zero, nature-positive future. For us, the focus is on the companies that we hold within our centrally monitored equity universe.

Outcome: Climate change, deforestation and water security have become material issues to many industries and consistent, comparable data is key to addressing the associated risks and opportunities. We believe that increased corporate transparency on environmental impact is a key enabler to improve company performance and to create a more resilient economy. The campaign in 2022 saw 1,466 companies engaged to encourage transparency across climate change, forest and water use reporting. Quilter Cheviot was the lead engager for 9 entities.

*Source: **CDP_2023_Non_Disclosure_Report.pdf**

Law Debenture - Governance

Objective: This meeting was part of the broader investment trust thematic engagement.

The board meets six times a year where it discusses both the operational side of the business which currently accounts for 25% of the NAV, as well as the equity portfolio. The fund manager and the co-fund manager attend every board meeting to discuss the portfolio. Additionally, the head of ESG at the Investment adviser (manager) presents to the board at least once a year.

The annual report does a good job of disclosing the voting activities and includes some rationale examples for the votes. However, we would welcome the same level of granularity for the engagement activities. The annual report mentioned that the board reviews a set of quantitative ESG metrics, which are not disclosed. We mentioned that it would be useful to disclose which ESG metrics the manager is looking at and how they are being used.

The chair is agnostic to directors owning shares. The chair highlighted that if a director owned a very large position that is significant to their net worth, then he would have a conversation with them as he thinks that that could affect independence. The board currently meets UK diversity targets.

Outcome: We outlined to the board where improvements might be made in terms of responsible investment disclosure – specifically engagement examples and more information about the integration of ESG factors.

Sustainability risks and ESG integration

Sustainability risks are an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment. We consider sustainability risks when assessing investments. We refer to this as ESG integration and this is an ongoing process across all asset classes we invest in. Our analysts consider ESG factors within the research process. Examples of the issues we consider in our investment decisions are listed below:

Environmental:
A company's impact on the natural world.

- Climate change
- Biodiversity loss
- Resource scarcity (including water)
- Waste and pollution

Social:
The wellbeing and rights of people and communities.

- Human rights
- Labour standards
- Working conditions
- Data protection

Governance:
The standards for running a company.

- Bribery and corruption
- Executive remuneration
- Board structure
- Political contributions
- Board diversity

Reporting

As a signatory to the UN-backed Principles for Responsible Investment (PRI), we have made a commitment to transparency and recognise its importance in creating higher standards, not only for responsible investment practices but also for the wider financial market. We disclose (from June 2020 onwards) all the votes within our voting universe cast on behalf of discretionary clients. We have classified all votes that are enacted within our voting universe to be significant. We do not disclose client-instructed voting publicly. We disclose engagements with all companies and funds on a quarterly basis. In some (rare) cases, we may choose not to name the company or the fund in question if we believe publicity is likely to prove counterproductive to our engagement process. Undertaking potentially sensitive engagement in public may lead to a defensive reaction and entrench the views of company management. The reports are available on our website and also on request.

Collaboration

Through Quilter, and in its own right, Quilter Cheviot is a member of various initiatives and organisations. Listed below are the most relevant collaborations and memberships in regards to engagement:

- 30% Club (which looks to promote gender diversity within companies)
- UN backed Principles for Responsible Investment ('PRI')
- Institutional Investors Group on Climate Change (IIGCC)
- CDP (formerly Carbon Disclosure Project)
- The Investor Forum
- Nature Climate 100
- Climate Actionn 100+

As an example of collaborative engagement, we joined the UK Modern Slavery Collaboration using the UN-backed PRI collaboration platform in 2021.

We were among the first group of investors to become signatories to the revised Stewardship Code in 2021 and have retained signatory status in 2022 and 2023.

UK STEWARDSHIP CODE

We are reviewing other initiatives we may wish to become a member of, while being mindful that we do not want to be a passive member.

Escalation and companies

The information published by companies, particularly financial statements and reports & accounts are important sources of information to assist in monitoring investments, but we also use other sources including third-party environmental, social and governance research, financial research and information we obtain during engagement with a company. The desired outcome of engagement activity is to reduce risk and/or obtain greater long-term success for the company and our clients. Thus, achieving change and avoiding risks are factors we consider in reviewing holdings and the success of our activity.

Regular engagement with companies arises from one-to-one and group meetings with company executives, often following company results announcements. These meetings permit analysts and investment managers to assess the valuation of companies but are also used to question companies on strategy, governance, performance, and financial management. Depending on the topics of discussion, meetings are also held with company chairs, and chairs of remuneration committees. In specific instances we will request a meeting with the senior independent director (SID) if we believe this will be helpful.

Where possible, it is our preference to support the management of companies in which we have holdings. We will therefore evaluate the actions and strategies of companies constructively, particularly through meetings and other engagement with executive and non-executive directors of the board. However, where there is a threat to the value of the company, we will take steps to protect the value of our clients' investments.

We may consider taking one or more of the following actions:

- Engaging with members of the company board;
- Discussing or working with other shareholders on matters of mutual interest;
- Voting contrary to the management proposals at general meetings;
- Downgrading the investment recommendation;
- Selling the holding where we evaluate it is in the interests of our clients to do so;
- In extreme circumstances, we could request a general meeting.

In regards to engagement with the board, we often meet with the chair or the chair of the remuneration committee in the normal course of our stewardship activity. On occasion we have also spoken to the Senior Independent Director where there has been a particularly sensitive and difficult topic. We have found that multiple engagements are often required, and that patience and perseverance are helpful attributes.

Escalation and funds

Regular engagement with funds arises from one-to-one and group meetings with the fund management team. These meetings permit analysts and investment managers to assess the fund's investment strategy and understand the approach taken towards responsible investment. Engagement will also take place with the manager's responsible investment team to understand better the firm's capabilities. Where we have concerns regarding the fund's strategic direction or responsible investment credentials, we may consider:

- Downgrading the investment recommendation;
- Not investing in new funds that the manager may be launching;
- Selling the holding where we evaluate it is in the interests of our clients to do so.

Conflicts of Interest

Quilter Cheviot's conflicts of interest policy may be found at: https://www.quiltercheviot.com/siteassets/documents/important-information/os010171-qc-conflicts-of-interest-policy-uk.pdf

It is possible that actual or perceived conflicts of interest may arise in relation to the execution of our stewardship activity. Should a conflict of interest arise, which may influence us to not act fairly, independently, or objectively in the interests of our clients, we will follow the voting recommendations of our third-party proxy voting service provider.

Examples of possible conflicts include:

- There may be a situation where we are a shareholder in a company and also in a commercial relationship with that same company as a result of investing in one of their funds. As we have a separation between our equity and our fund research teams, which are also both independent functions, we believe that we can manage this conflict effectively given this separation.
- Quilter Cheviot is part of Quilter plc. There may be occasions where an interest to be voted is held in Quilter plc. In these cases, unless specifically directed by a client, we will follow the guidance given by our external proxy voting service provider with respect to voting.
- With respect to stewardship, it is possible that actual or perceived conflicts of interest may arise through the normal course of business in relation to the execution of our stewardship activity. For example, should a potential conflict of interest be identified when exercising proxy votes, which may influence us to not act fairly, independently or objectively in the interests of our customers, we will follow the voting recommendations of ISS, our third-party proxy voting service provider.
- Conflicts could occur between clients. Where this is the case, we will continue to act in the best interests of each client. Thus, for example, the equity share interests of different clients may be voted differently at the same meeting where it is in the interests of each to do so.
- Where an employee, any member of senior management or non-executive director of Quilter Cheviot is also a non-executive director of a company within our voting universe, we will apply the guidance of our external proxy voting service provider.

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