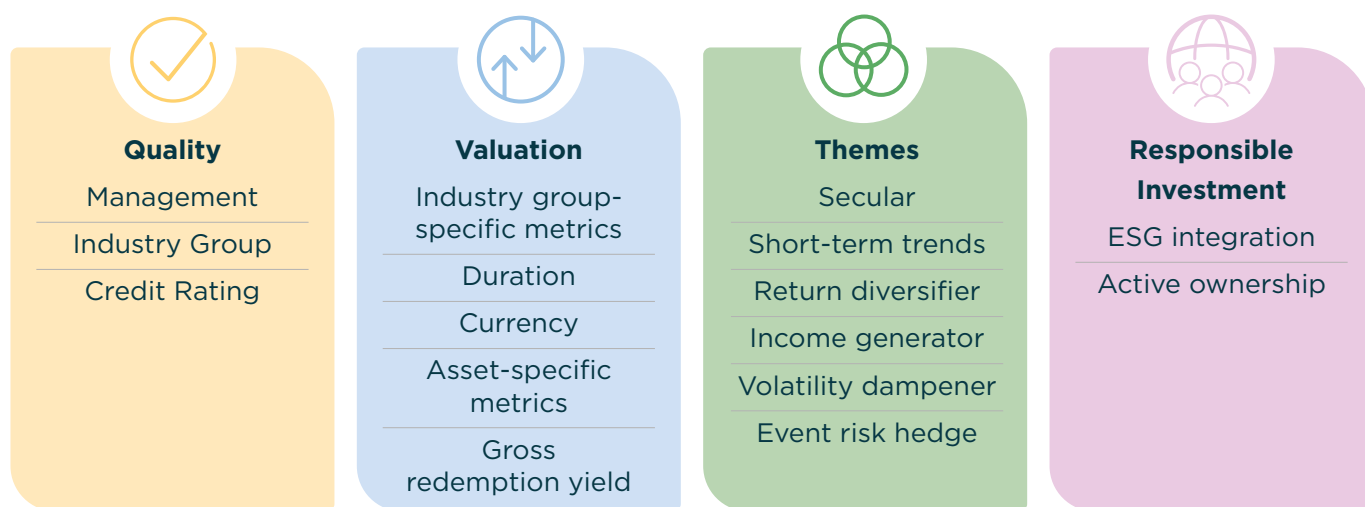


# ESG integration and equities

*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.*

**Quilter Cheviot invests directly in equities primarily in the UK, North American, and European markets. As part of our research process, we consider environmental, social and governance (ESG) factors. Responsible investment sits alongside the other three fundamental pillars of our equity selection process: quality, valuation and themes.**



**The equity research team has primary responsibility for integrating ESG considerations into the analysis process. However our overall approach to this is multi faceted.**

There are three key elements to integrating ESG factors into equity research:



## Qualitative analysis identifying challenges and opportunities

We firmly believe that to integrate ESG into our investment decision making it cannot be outsourced to an external provider or even to another internal team. The analyst is responsible for assessing a company on all the relevant metrics including ESG ones. The qualitative process aims to identify the material challenges and opportunities that a company faces from an ESG perspective. These will vary according to the industry group, the geography, and the company itself. We believe this needs to be looked at in a holistic sense as there is no perfect company – all will have challenges from an ESG perspective to different degrees. Some will have more obvious ESG opportunities, depending on the industry group or activity in which they operate. While this may be an attractive proposition, just because a company scores well on an ESG basis is not enough for us to invest.

Part of the analyst's role is to understand the company's current positioning but also where the company's ambitions lie. This is not something you can discern from data alone. There must be engagement with the management and board. The fundamentals of quality, valuations and themes cannot be overridden by a good ESG story.

### **Quantitative data overlay**

Where we invest directly in equities, the responsible investment team has worked with the equity analysts to develop ESG dashboards for our equity holdings. We use the Sustainability Accounting Standards Board (SASB) framework to identify material issues to track on the dashboards. These incorporate data from Sustainalytics and ISS, Ethical Screening along with previous engagements and outcomes (as well as those that are ongoing). Examples of material ESG metrics include statistics on board diversity, pension and remuneration arrangements, data from the Transition Pathway Initiative, company disclosures and other publicly available data that enables us to identify priorities and materiality as well as thematic areas to focus on. This is in conjunction with the ongoing work being undertaken by the equity research team to identify and consider other ESG factors within their investment thesis.

### **Active ownership through voting and engagement**

As a responsible investor, Quilter Cheviot is committed to its role as a steward of clients' assets to protect and enhance long-term returns.

As part of our ongoing engagement with companies, we seek to link executive remuneration with responsible business metrics. This is a nascent area and is not always easy for companies to successfully integrate into remuneration. However, we believe this will become the norm and we view it as a catalyst for change within the corporate world. The focus on behaviours and corporate culture should be linked to pay to pave the way for better outcomes.

### **How this works**

The equity analysts consider the material ESG factors which are most relevant to their industry group, as industry groups have different challenges and concerns. This is a work in progress and will continually evolve. A one-size-fits-all approach does not work for industries which are diverse in nature and face different material issues. Our equity analysts may implement ratings specific to their industry group to progress peer group comparisons as well as hone their thinking. Regular team meetings combined with the investment committee structure in place at Quilter Cheviot mean that equity recommendations are challenged on ESG issues to ensure all material ESG risks have been considered.

Our view is that considering ESG factors is part of the investment case and therefore it should not be separated from this with a company rating. Additionally, there is a strong argument that it is more important to focus on the journey than the rating provided by an external data source. As part of our process, we consider how responsive companies are to engaging with us and how they improve over time. Engagements are often multi-year events, and a simple number will not always reflect the true picture.

The engagement process is not just about change, but also about information gathering which is an important input into our ESG integration framework. We have developed a materiality framework on a industry group-specific basis using multiple data sources, not just ratings from a single ESG data provider.

We do not exclude specific activities through this approach. The only firm-wide exclusion currently in place is controversial weapons which includes anti-personnel landmines and cluster munitions. Specific strategies and funds have their own policy. Additionally, clients can determine their own preferences on a bespoke basis.

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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Approver: Quilter Cheviot Limited, 30 April 2024