

RESPONSIBLE INVESTMENT

Stewardship priorities 2024

SPECIALISTS IN INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited 8 May 2024.

Stewardship is a central pillar of Quilter Cheviot’s responsible investment approach. 2024 will be a critical year in driving forward our engagement priorities, whether that is holding high emitting companies to their interim decarbonisation targets or understanding how UK companies will begin to implement new recommendations on gender balanced boards. Below we outline our priorities for the year ahead and a review of our 2023 activities.

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.

Our approach

Our stewardship process is comprised of two main approaches: engagement and voting. 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 environmental, social and governance (ESG) issues. This can be at board, executive or manager level. Engagements can be reactive or proactive. 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 proposals are approved by our internal Engagement Panel.

Voting is the formal expression of approval or disapproval related to items proposed by management and shareholders at general meetings. We vote on our global equity and investment trust positions¹ – this includes the monitored equity lists, the monitored issue investment trust list, our AIM portfolio service, MPS Building Blocks, funds managed by Quilter Cheviot², and where we own more than 0.2% or £2 million of a holding in the UK. This represents around 95% assets we hold that have voting rights. Voting is undertaken alongside engagement.

Many of our interactions with companies are related to governance issues and typically take place surrounding the general meetings. While most general meeting agenda items still relate to governance topics, we are increasingly seeing items on social and environmental issues put forward by shareholders.

In addition to more reactive activities, Quilter Cheviot has three broad thematic priorities that help to drive our approach to stewardship: climate change, human rights, and natural capital. Topics within these categories have been identified for several reasons, including:

Size: This relates to the 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.

For more detail on our approach to stewardship or details of engagement and voting activities please visit [Stewardship | Quilter Cheviot](#).



¹ As far as reasonably possible given the local regulations regarding share voting.

² Climate Assets Balanced Fund and Climate Assets Growth Fund; Quilter Cheviot Global Income and Growth Fund for Charities; Quilter Investors Ethical Fund; Libero Balanced

Our thematic engagement priorities



Climate change

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



Human rights

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



Natural capital

Through our stewardship process we commit to engage with 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.

Engagement priorities 2024³

³ These descriptions represent prospective engagement designs, and may be adjusted as necessary.

Climate change

Climate transition plans (Phase 2)

We continue to engage with high emitting companies on the quality of their transition plans and related disclosures. We continue to monitor the top ten largest emitters and have included ten companies as part of this engagement campaign. Around 85% of Quilter Cheviot's attributed financed emissions⁴ from centrally monitored discretionary direct equities is associated with ten companies. Our engagement will cover varied industry groups including industrial gases, cement manufacture and utilities, but unsurprisingly most conversations will be held with oil & gas majors and diversified miners. We aim to undertake a targeted campaign in this format on a c/24-month basis.

Objectives

- Assess the quality of climate transition plans among high emitters.
- Encourage alignment and disclosure towards the goal of net zero emissions by 2050.

Targets

- High emitters amongst investee holdings, with materiality of holding a key consideration.

The firmwide approach to Net Zero - third-party managers

Around 60% of the assets we manage on behalf of our clients are invested in third-party funds therefore evaluating and understanding how these managers are implementing climate-related plans is critical to our own climate approach. We will continue to engage with the third-party managers within our centrally monitored universe with Net Zero Asset Management Initiative (NZAM) targets where we have our largest holdings. During the first quarter of 2024, we will publish a report that outlines the conclusions drawn from this first phase of our engagement program.

Objectives

- Assess how different managers are approaching Net Zero targets.
- Evaluating the chosen methodologies and the process behind selecting the size of committed NZAM aligned assets.

Targets

- Third-party managers that do not have a NZAM targets in place, with materiality of the holding being a key consideration.
- Third-party managers where we invest in index-trackers to understand how they manage climate and other ESG related risks within these types of products.

⁴ Assessed by measuring a company's Scope 1 and 2 emissions weighted by level of ownership. Known as 'emissions exposure'.

Human rights

Health and safety

A critical aspect of safeguarding rights is safe working conditions. The International Labour Organisation (ILO) estimates that there are 2.3 million work-related fatalities every year, corresponding to 6,000 deaths every single day. We will be launching an engagement with material holdings in sectors most exposed to risks around hazardous working conditions to discuss management and mitigate processes in the area.

Objectives

- Explore measures companies have in place to address risks of hazardous working environments.
- Ensure companies has appropriate policies and practices in this area.
- Ensure companies have a robust standard of reporting incidents.

Targets

- Companies with material holdings in sectors heavily exposed to these risks, including the construction sector.

Natural capital

Deforestation linked commodities

Agricultural commodity production continues to drive global deforestation practices, replacing an average of 5.7 million hectares of forests every year. Policy makers are increasingly scrutinising these practices and the rapidly changing regulatory environment is best represented by a suite of policies being brought forward by the European Union to eliminate deforestation and forest degradation. We have been working as part of the 'Forest Champions' program run by the CDP (an NGO) to help identify companies within our monitored equities list that are most exposed to deforestation using CDP's repository of company reported data on deforestation linked commodity involvement. Using this work in combination with a recent report published by Ceres, which lists the top 53 companies most exposed to the upcoming EU regulation on deforestation, we cross referenced both pieces of work to select a short-list of companies for initial engagement. These are the companies where we have material holdings, are most exposed to deforestation linked commodities and have significant activities in Europe.

Objectives

- Understand how companies most exposed to deforestation linked commodity use are preparing for a changing regulatory environment.
- Understand companies processes and policies to minimise the risks associated with sourcing agricultural inputs related to deforestation.
- Identify gaps and encourage best practice.

Targets

- Companies where we have material holdings, which are most exposed to deforestation linked commodities and have significant activities in Europe.

Collectives

Fund engagement priorities

ESG risk and exposure

- We continue to work to enhance our ability to interrogate and analyse underlying holdings data within third-party funds. This enables us to identify holdings more easily that have higher ESG risk factors and then engage to understand how the risks are being managed and considered by the fund.

ESG RFI

We send our ESG (environmental, social and governance factors) Request for Information (ESG RFI) to our third-party managers annually. This ESG RFI asks for detail on the fund and firm level approaches to responsible investment.

It is critical that we engage with our third-party managers. To effectively do so, we consider:

- Responsible investment credentials and process
- Diversity within the firm
- Approach to climate action

The ESG RFI enables us to analyse the approach taken at a firm and manager level, as well as identify areas of focus for engagement including holdings with significant climate, human rights and natural capital related risks.

Year in review: engagement priorities 2023

Climate change: overview

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*.

SDG Alignment: 7 Affordable and Clean Energy, 13 Climate Action, 15 Life on Land

Thematic engagements

What does a good climate transition plan look like?

Phase 1 - 2021/22
Phase 2 - 2023/24

Third party managers and net zero ambitions

Phase 1 - 2023/24

Lifecycle of renewable energy infrastructure assets
2022/2023

Collaborations



Part of Climate Action 100+
2023 onwards



Part of the IIGCC Net Zero Engagement Initiative
2023 onwards

CDP SBTi Campaign
2022 onwards



Human rights: overview

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*

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

Thematic engagements

Defending data:

Cyber security and critical infrastructure

2023

Pulling the thread:

Labour standards in the apparel industry

2023

Clean bill of health?

Product safety and litigation risk in the pharmaceutical and healthcare industries

2023

Investing in diversity disclosure

2024

Collaborative engagements



Fix the Exec

2023 onwards

Modern Slavery collaborations:

- Find it, Fix it, Prevent it
2022 onwards
- Modern Slavery in the UK
2021 onwards

* United Nations

Natural capital: overview

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*. The purpose is to understand the impact that companies have on the natural world including water, deforestation and biodiversity.

SDG Alignment: 6 Clean Water and Sanitation, 12 Responsible Consumption and Production, 14 Life Below Water, 15 Life on Land.

*Task-Force on Nature-related Financial Disclosures

Thematic engagements

**Managing the rising risk around
water scarcity**
2022

Collaborative engagements



Nature Action 100

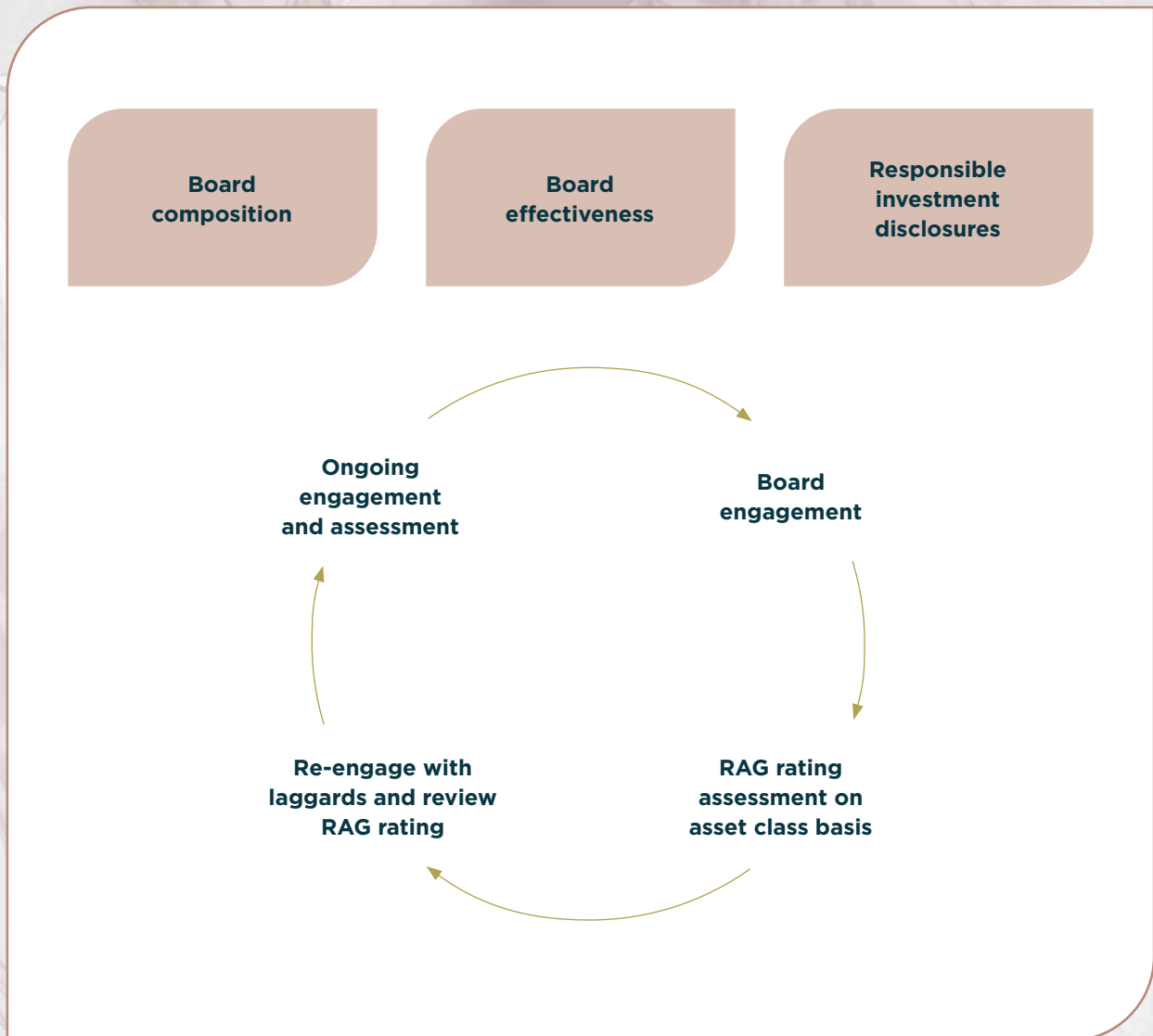
Nature Action 100
2023 onwards

Investment trusts: overview

The objective of this engagement is to improve the corporate governance practices and responsible investment disclosure in the investment trust sectors, primarily focusing on three factors. We started the engagement in mid-2022 and this is a long-term engagement for change. In Q3 of last year, we published a paper outlining the completion of the first phase of our investment trust thematic engagement and our expectations for investment trust boards. This first **investment trusts report** focused on equity investment trusts and this **RI Reel** provides a flavour of the content.

This is an ongoing engagement programme and we have established specific escalation plans including (depending on the issue):

- Voting against the chair
- Voting against adviser representatives



Collaborative activity

Climate Action 100+

In December 2023 Quilter Cheviot joined Climate Action 100+ as an investor participant. Climate Action 100+ is an investor led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Being an active participant in collaborative engagement initiatives is an important element of our overall stewardship agenda and we are pleased to be a member of the National Grid engagement working group.

Net Zero Engagement Initiative

The Net Zero Engagement Initiative aims to enable net zero portfolio alignment by supporting investor engagement and seeking the disclosures investors need from companies to determine if they are aligned with net zero. This engagement will therefore seek Net Zero Investment Framework (NZIF)-aligned transition plans from companies. We are part of the working groups for two target companies, Tesco and Siemens.

Nature Action 100

In 2023 Quilter Cheviot joined Nature Action 100. This is a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. The initiative engages companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030. Quilter Cheviot is part of the engagement working group for a global diversified mining company.

30% Club UK Investor Group: 'Fix the Exec'

Quilter Cheviot is a member of the UK investor branch of the 30% Club, a campaign to boost the number of women in board seats and executive leadership at listed companies in the UK. More specifically we are also member of the 'Fix the Exec' working group which will engage some of the worst performing listed companies in the UK in terms of women representation at executive and senior management level.



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