QUILTER CHEVIOT

# Responsible Investment Quarterly

*Quarter 4, 2025*

Approver: Quilter Cheviot, January 2026.

QUILTER CHEVIOT

# Contents

# Welcome

*The last three months of the year were focused on collaborative and thematic engagements. In Q4, we continued our participation in the 30% Club's 'Fix the Exec' working group, initiating the second phase of a long-term engagement cycle. Following on from our work in Q3, we began engaging with companies falling short of gender diversity expectations at the executive level, to better understand how companies are addressing this underrepresentation. We continued our Science Based Targets initiative (SBTi) Slow to Start campaign, the first thematic engagement outlined in our Climate Action Plan. These discussions are focused on our most financially and emissions-material companies about the potential for setting SBTi validated targets.*

*In 2025 we took some time to explore the power of proxy voting and ask ourselves - why do we vote? We analysed our historic voting records and found that many proxy contests are closer than you think with a important number of them falling within a +/- 5% threshold of either passing or prompting a formal management response.  This is important for even smaller and medium sized investors, particularly those with a centralised voting process and unified decision-making who can amplify their impact significantly and ultimately demonstrating that every vote counts. Our findings have been published in this thematic report.*

*ESG integration remains a vital part of our stewardship process. Data is an important element of this process, and we continued the development of Climate Alignment Tests which will be incorporated into our ESG integration systems, assessing holdings for their decarbonisation strategies and climate risk management. Around 55% of our holdings are in third-party funds and significant time has been spent on capturing useful data at a firm, strategy and holdings level for incorporation into our proprietary dashboards. We use this information to inform our engagement with funds, as well as evidence their responsible investment categorisation.*

*As part of our commitment to human rights, we are investor signatories of a letter requesting that the UK Government give parliamentary time to discussing the introduction of Human Rights Due Diligence legislation in the upcoming session.*

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# Our latest research and insights

## Read the latest from us in the news this quarter

RESPONSIBLE INVESTMENT

# Greening algorithms:

## Artificial Intelligence and emissions

**The world is set to exceed the target global temperature increase of 1.5°C above pre-industrial levels outlined in the 2015 Paris Climate Agreement. In this context, the acceleration of artificial intelligence (AI) use and ensuing data centre growth has raised further concerns over climate action. Over 100 countries (plus the European Union) have committed to achieving net zero emissions. Understanding the implications of AI proliferation is essential.**

**Greening algorithms:**
**Artificial Intelligence and emissions**

**Click here for the full insight**

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RESPONSIBLE INVESTMENT

# European defence: a growth story without the IT factor

**European defence companies could boast a compound annual growth rate (CAGR) of up to 11% for the period covering 2024-2035, a level of growth high-flying information technology (IT) stocks would be proud of. The double-digit forecast is based on a major increase in European defence spending and represents a sharp turnaround for the sector. The decades following the ending of the Cold War saw successive European governments significantly underinvest in their respective military capabilities. Not anymore. Defence spending in Europe is on the rise.**

**European defence: a growth story without the IT factor**

**Click here for the full insight**

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# Spotlight - Responsible Investment

**Author**

**Ben Mirchandani**

Intern

*As I embark on my second rotation within Quilter Cheviot, I am thrilled to be joining the Responsible Investment team and the opportunities it will present to dive deeper into an area of great interest for me.*

My role will focus mainly on enhancing our ESG RFI (Request for Information) process with the third-party funds we invest in. There is a particular focus on automating the communication with the fund managers, helping to improve our analysis of their Environmental, Social and Governance (ESG) strategies. It is through these strategies that we can hold both ourselves, and the funds we invest in, accountable for creating long-term value whilst addressing global challenges.

I am also excited to engage directly with the fund managers and discuss their approach to ESG integration, screening and stewardship whilst also looking to contribute to projects such as the ESG integration dashboards and thematic engagements. These will strengthen our ability to monitor and influence positive change.

Joining this team is an incredible opportunity to help bring responsible investment to the forefront of decision-making and ensure that factors like stewardship and ESG screening remain central to our approach.

# Spotlight
# AI power Podcast

The RI Team joined the latest Research Insights podcast to discuss powering the AI boom and how a modern data centre can operate sustainably.


**Exaflops, PUEs and BYOP - deconstructing the modern AI-data centre**

Click here for the full insight

**Ben Barringer**
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Equity Research Analyst

# Voting highlights

### Environmental voting activity by numbers:

**1x vote in favour of reporting on plastic use** (shareholder proposal)
We supported this request filed at Proctor and Gamble as shareholders would benefit from additional information on how large users of single use plastics are tackling harder to recycle plastics that are often the largest cause of plastic waste pollution.
*Company voted on: Procter and Gamble*

### Social voting activity by numbers:

**2x votes in favour of reporting on risk assessments** (shareholder proposal)
We supported two shareholder resolutions filed at Microsoft relating to reporting on risk assessments, specifically reporting on risks relating to operating in countries with significant human rights concerns. Given the recent controversies in this area, shareholders would benefit from additional transparency in this area.
*Company voted on: Microsoft (x2)*

### Governance voting activity by numbers:

**2x votes against electing / re-electing directors** (management item)
We voted against the re-election of directors owing to board independence concerns, presence of multi class voting structures, and where the board had failed to adequately address prior year's low say-on-pay vote result.
*Companies voted on: Bioventix, PRS REIT*

**3x votes against management on compensated related resolutions** (management item)
We voted against resolutions where companies failed to disclose adequate performance metrics linked to the long-term components of executive pay, or where discretionary awards and misaligned pay-for-performance structures were present.
*Companies voted on: Palo Alto, Seeing Machines (x2)*

# Voting activity

**Over the fourth quarter of 2025, we voted at:**

**60**

**COMPANY MEETINGS**

**Over the quarter we voted on:**

**684**

**RESOLUTIONS**

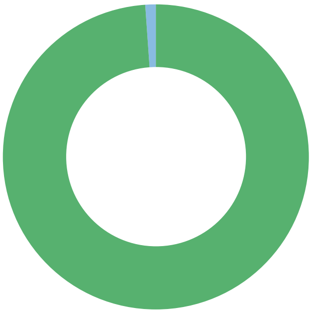
**for X 10** **resolutions where we did not support management (this includes shareholder proposals).**

**We enabled clients to instruct votes at 7 meetings.**

It is important to note that on a number of occasions having engaged with the relevant company we did not follow ISS' recommendations.

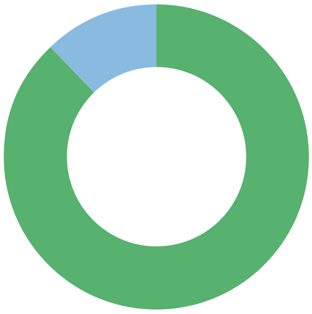
# Voting activity

### Management resolutions voted on in Q4 2025
(excluding shareholder proposals)



- With management recommendation
  **99%**
- Against management recommendation
  **1%**

### Meetings with votes against management in Q4 2025
(including shareholder proposals)

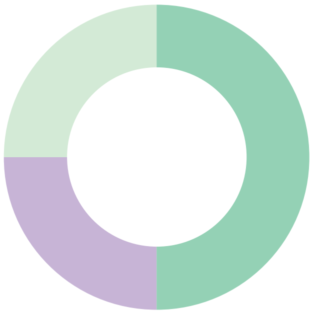


- With management recommendation
  **88%**
- Against management recommendation
  **12%**

### Management resolutions voted against by topic in Q4 2025
(excluding shareholder proposals)

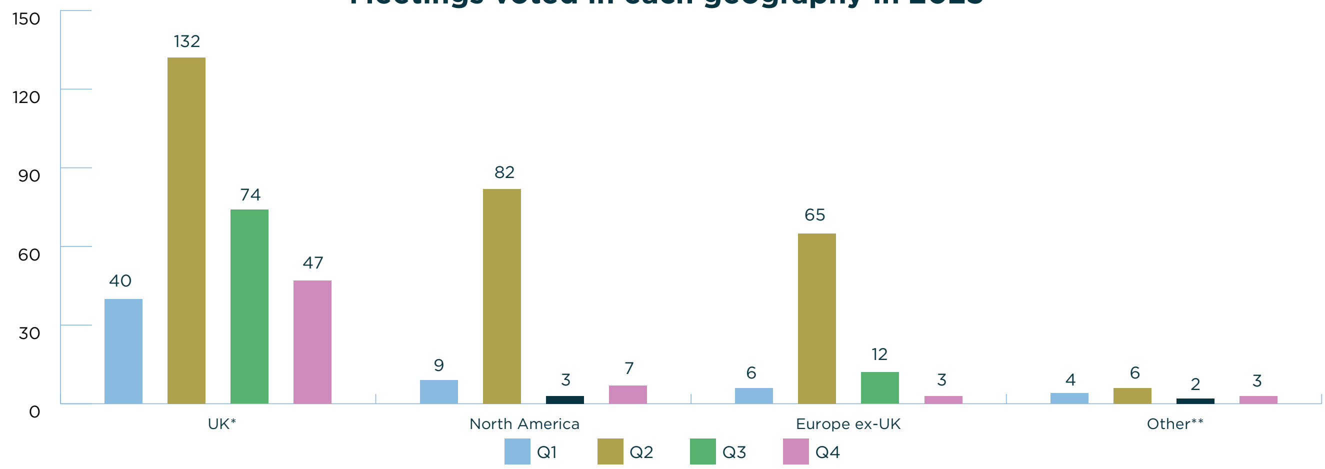
- Remuneration **50%**
- Board related **33%**
- Audit and accounts **17%**

### Shareholder proposals supported in Q4 2025



- Social and ethical matters **50%**
- Board related **25%**
- Environmental matters **25%**

### Meetings voted in each geography in 2025




* Includes the Crown Dependencies of Jersey and Guernsey
** Australia & New Zealand, Asia ex-Japan, Latin America, Japan

# Engagement activity

*Here, we outline examples of our engagement in the fourth quarter of 2025.  In line with the Shareholder Rights Directive II (SRD II) disclosure regulations, we have included the name of the company, investment trust or fund in most cases. In some cases, we will not, as this would be unhelpful in the long-term to the ongoing engagement process.*

Our three mega themes of Climate Change, Human Rights and Natural Capital inform our engagement activity. Underpinning our stewardship approach is our Governance engagement activity through which we hold the companies and funds we invest in, to account.

When we engage we do so with a specific objective, and are outcome oriented. The outcome will take a number of different forms including:

- A change in, or validation of the responsible investment categorisation of the holding
- For investment trusts, a change in, or validation of the RAG rating which assesses board composition, board effectiveness and responsible investment disclosures
- A voting decision
- Addition or removal from a model strategy
- A change in analyst's recommendation

**Environment:** climate change and natural capital

**Social:** human rights

**Governance:** engagement activity across our holdings

# Climate change

## (SBTi) Slow to Start

**Objective:** Our Science Based Targets initiative (SBTi) Slow to Start engagement series stems from our Climate Action Plan (CAP), targeting the most financially and emissions-material companies in our centrally monitored equities which have not set a SBTi-validated target and a sector-relevant SBTi pathway is available. The purpose of our discussions is to identify key barriers which deter companies from seeking SBTi validation, as this is an important metric Quilter Cheviot utilises to gauge climate risk management within its investments.

### FERGUSON - Environment

It was clear in both reviewing its disclosures and our discussions that the company is not positioning itself to make meaningful commitments to decarbonise. Its current targets in place are weak, almost entirely 'optics' rather than substance. Its Scope 1 emissions target is on an intensity basis, and its Scope 2 target allows for the use of a Virtual Power Purchase Agreement (VPPA) and Renewable Energy Certificates (RECs). This masks the continued growth (or lack of decline) of emissions. The company has no Scope 3 targets, and its sales-orientated targets lack critical context to make them meaningful.

Our conversations indicated the company is evaluating options to decarbonise its operational emissions (especially Scope 1), especially from its transportation fleet. It is working on 'right-sizing' its fleet and is exploring alternative low-carbon fuels (including battery options). The company is very wary of committing to do anything to address its Scope 3 supply chain emissions. However, it has introduced greater supplier management systems – including the creation of a separate Sustainable Solutions team, tasked with educating across customer groups about lower-carbon solutions and available tax rebates to incentivise consumer choice for these options.

Outcome: Despite describing the SBTi standards as a 'north star' in their climate approach, it was clear in our discussions that the company does not feel comfortable setting strong decarbonisation targets. We noted their qualms about potential methodology changes, including the new SBTi Corporate Net Zero standard and the proposed Scope 2 accounting changes from the Greenhouse Gas (GHG) Protocol. It described its board as 'pragmatic,' noting a reticence from the board to set targets which cannot be achieved during its tenure. This obviously undermines the role of a board – which is to advise on longer-term company strategy, to which climate is a well-acknowledged risk for a company retailing heating, ventilation, and air-conditioning (HVAC) solutions. This is disappointing and certainly places the company more in the laggard category in terms of climate strategy.

### LEGAL & GENERAL - Environment

Our engagement with the company's group climate team served primarily to clarify its array of climate commitments and targets, to understand whether these are comprehensive across all the group's companies. L&G confirmed its range of targets appears complex because of its membership in and the applicability of multiple third-party climate frameworks which include SBTi, Net Zero Asset Owners Alliance (NZAOA) and the Net Zero Asset Managers Initiative (NZAM). The majority of its existing targets are covered by those it received SBTi validation for in 2021. The only parts of the Group's business not covered by these are targets for its less-material Scope 3 emissions (categories 1-12,14).

The team we spoke with made clear that the company remains wholeheartedly committed to its 'climate-responsible' approach and is a fervent supporter of the initiatives it has become a firm advocate of. However, the group's Climate Director emphasised that the company's support does not guarantee its adherence to these standards in future. During the consultation and piloting work with SBTi, the company made clear it has reservations about some of the terms and requirements included in this guidance. It is generally felt that SBTi is at risk of prioritising scientific rigour over practical achievability in its standards.

**Outcome:** L&G to date has a robust reputation as a stalwart supporter and early endorser of climate frameworks and decarbonisation commitments, including the SBTi. Its targets and thorough climate strategy across all of the group's businesses can attest to this, and the relevance to its core business (insurance) remains paramount. However, its lukewarm reception of SBTi's latest guidance specific to financial institutions attests to a degree of wariness which has set in amongst even the SBTi's most keen advocates. As with other early movers in climate, the true test of whether it will continue to participate in SBTi validation will only become clear nearer to the expiry of its 2030 near-term targets.

# Natural capital

## Disposable disclosures: Consumer goods and single use plastics

**Objective**: Our thematic engagement on plastics aims to assess corporate plans to manage product packaging's lifecycle and reduce plastic pollution, while also targeting a better understanding of how companies are navigating the increasingly complex legal and political landscape. Using the Brand Audit Report from NGO, Break Free From Plastic (BFFP), we identified top global corporates whose packaging ends up as pollution. BFFP's 250 brand audits in 41 countries collected 537,719 pieces of plastic waste, documenting around 7,000 brands from 4,000 parent companies. The engagement focused on the top five consumer goods companies (Coca-Cola Company, Nestlé, Unilever, PepsiCo, and Mondelez) which by way of separate analysis correlates with the largest users of single-use plastics by volume in our investment universe. The engagement aimed to understand how our investee companies with significant plastics exposure are addressing key risks and opportunities – including the company's plastics strategy across different geographies, its use of recycled plastics, reusable packaging formats, the impacts of packaging regulations as well as emerging health and liability risks related to plastics.

### COCA COLA EUROPACIFIC PARTNERS - Environment

This engagement provided a nuanced understanding of CCEP's approach to plastic packaging sustainability. The company has demonstrated leadership in several areas, including recycled content, packaging innovation, and regulatory alignment. Given the strict regulatory approach and established recycling practices in many of the countries of operation, CCEP's plastic strategy has required dynamism – but it has often been proactive in moving ahead of legislation. Challenges remain in achieving consistency across geographies (particularly in Asia Pacific markets), scaling reusable formats, and managing cost pressures. In committing to using high levels of recycled content, the company is using a more expensive material relative to virgin plastic. CCEP expects the price of recycled resin to come down as collection systems improve. Similar to peers, the company does not appear alarmed about liability or disruption related to microplastics and chemicals of concern. As medical evidence mounts on the potential health impacts of exposure to these materials, there is a concern that this risk may be underestimated. This however seems to be an industry wide issue which we will monitor.

**Outcome:** Based on the discussion, we validated the responsible investment categorisation of the holding. We expect CCEP to maintain momentum toward its 2030 goals, but will continue to monitor progress, particularly in underperforming regions.

## Making a Splash

**Objective**: This was a joint engagement between the Responsible and Sustainable Investment teams. One of the Sustainable Opportunities' five positive investment themes is Water. As part of our sustainable investment strategy, we have engaged with water related companies held in our portfolio to understand how they are addressing these issues, in managing their own risks and, crucially, in innovating for their customers. This thematic engagement reflects our belief that proactive water stewardship is fundamental to building a sustainable and investable future.

### SABESP (CIA COMPANHIA DE SANEAMENTO BÁSICO DO ESTADO DE SÃO PAULO) - Environment

The aim was to evaluate how this São Paulo-based water utility is managing water scarcity risks, expanding essential services, and balancing regulatory obligations with water stewardship responsibilities. We also sought to understand the company's progress toward universal water and sewage access.

SABESP, serving 371 municipalities in São Paulo, has nearly universal water supply and high sewage coverage, but about a quarter of its customers still lack treated sewage services. Expanding access ("universalisation") remains its primary goal due to the significant social impact. Mandated by national law to reach 99% coverage by 2029, well ahead of Brazil's 2033 target, SABESP underwent partial privatisation to fund this ambitious programme. The company faces notable execution challenges, such as shortages of engineers and tunnelling equipment, yet interim milestones for 2025 are being met, with São Paulo leading nationwide progress in water infrastructure expansion.

SABESP addressed water scarcity risk by detailing actions taken since the 2014–2015 drought, including a Water Supply Master Plan focused on resilience. Key measures include interconnecting reservoirs for flexible transfers, adding backup sources, and advancing indirect potable reuse by treating and returning wastewater to reservoirs. Night-time pressure reduction in the network has helped cut leakage, though a regulatory requirement for constant full pressure temporarily increased losses; this has now been relaxed due to the dry conditions in 2025. SABESP also uses over a century of meteorological data and weather intelligence systems to anticipate rainfall variability. While overall annual rainfall has not changed much, precipitation is now more erratic due to climate change. The company prepares increased tariff charges for droughts and is piloting projects to inject highly treated effluent directly into reservoirs to enhance drought resilience. SABESP participates in regional watershed initiatives, although Brazil does not mandate tracking of emerging pollutants at the catchment level. The company monitors water quality according to national standards, is aware of issues like PFAS and microplastics, and is monitoring global developments for potential future regulations. Understandably, the company admits that these topics fall behind universalisation goals in order of priority.

SABESP faces the challenge of balancing rapid service expansion with improving operational efficiency, as about 30% of water is lost through leaks in its ageing network. While most investment currently targets expanding sewage services to achieve universal coverage by 2029, around 20% of capital is dedicated to water reliability and reducing losses, such as building new reservoirs and upgrading infrastructure. The company has introduced a "Report a Leak" app and AI verification to speed up repairs and is replacing 4.4 million water meters with smart versions to enable earlier leak detection. Although regulatory incentives still focus on expansion, future policy cycles (from 2030) will prioritise loss reduction, and SABESP is preparing now to improve long-term efficiency and resource management once access targets are met.

**Outcome:** Our engagement with SABESP confirms the company's robust efforts to balances its critical social mission with environmental risk management and investor interests. SABESP demonstrated a commitment to water stewardship and infrastructure resilience: it is investing aggressively to expand sewage treatment and access, while also implementing innovative measures to address climate variability and network inefficiencies. The company openly discusses challenges (from engineering bottlenecks to leakages) and its plans to overcome them. In terms of governance and long-term outlook, SABESP's alignment with regulatory goals and its improved operating framework post-privatisation suggest that it is well-positioned to deliver both public value and shareholder value over time.

This engagement validated our current view of the company and there is no change to the RI categorisation as a result of this engagement. We will continue to monitor SABESP's progress, particularly the execution of its capital projects and the trend in water loss metrics and we have reinforced our expectation that the company maintain momentum on efficiency improvements once the universal access targets are within reach.

## VEOLIA ENVIRONNEMENT - Environment

In this meeting, held with Veolia's UK Industrial Water Lead, we explored the company's approach to water scarcity, pollution control, and innovative solutions for clients. Veolia is a global environmental water services company - its water technology revenues rose from €1.5 billion in 2019 to nearly €5 billion at the end of March 2024 - and in several geographies plays an important role in municipal and industrial water management. Our objective was to assess the robustness of Veolia's strategy in addressing rising water stress and regulatory challenges while delivering long-term value for investors.

Veolia emphasised increasing pressure on water resources, with – for example - seven regions in England projected to face severe stress by 2030. Climate change and stricter water usage limits are already affecting clients, driving demand for circular solutions such as on-site recycling and efficiency measures. Technologies like desalination and wastewater reuse are becoming more viable as traditional sources are constrained and external pressures rise. Veolia estimates a €2.5 trillion global opportunity for ecological transformation, with €600 billion focused on water regeneration.

A core product theme is technological solutions for water efficiency and quality. Veolia is deploying digital monitoring such as Automated Meter Readers (AMRs) – smart meters that track water flow in real time – to help clients identify leaks and inefficiencies. Better data and control over distribution can significantly reduce water loss and consumption. The company also discussed its expertise in industrial wastewater treatment. Different industries (from pharmaceuticals to agriculture) produce very different effluents, often unsuited to conventional municipal treatment. Veolia's engineers specialise in designing tailored, on-premises treatment systems (for example, using advanced membranes and bioprocesses) that allow wastewater to be purified and reused on-site, minimizing discharge and freshwater use. Ensuring these systems remain effective under variable conditions is critical. The company's broad suite of water technologies – including membrane filtration, reverse osmosis, and digital process control – positions it well to serve businesses in water-stressed areas that are now being forced to think in more circular terms.

Emerging water pollutants, particularly PFAS (per- and polyfluoroalkyl substances), are an increasing concern due to their persistence in the environment and associated health risks. With regulations tightening across Europe and North America, Veolia has already commercialised a product suite to addressed PFAS removal, treating over 90 billion litres using proprietary technologies. PFAS remediation is complex given the variety of molecules, requiring tailored treatment combinations. Veolia's Water Technologies division is developing advanced solutions, such as activated carbon, ozonation, and innovative membranes, to tackle PFAS and other micropollutants, underscoring its aim to capture water quality and environmental protection opportunities.

Veolia also discussed opportunities in providing ultrapure water for industry. This refers to extremely high-grade water required for processes like semiconductor fabrication and pharmaceuticals, where even tiny impurities can disrupt production. Demand for ultrapure water is rising as these sectors expand (for instance, the growth of chip manufacturing driven by digitalisation and AI). Finally, we touched on the drivers of client demand for all these solutions. Regulatory trends (e.g. stricter discharge permits, water abstraction limits, and forthcoming PFAS rules) are reinforcing this shift, creating a favourable backdrop for Veolia's water services. The main challenge noted is the scale and pace of implementation required: although technologies exist and many have become more economical, adoption across industries must accelerate to meaningfully address water stress.

**Outcome:** The engagement reassured us that the company is aligning its strategy with critical global water challenges - from scarcity to pollution - and actively developing solutions to generate new business. Veolia is clear about investing in resilience and efficiency (e.g. leak detection, water reuse) and readiness for emerging issues like PFAS. These efforts support our view of Veolia as an important player in sustainable water management (particularly in Europe). There remain areas to monitor, including the execution risk in scaling up cutting-edge treatments (and ensuring energy efficiency in processes such as desalination), nevertheless, the company offers a credible long-term proposition in the water space. There is no change to the company's responsible investment categorisation based on our engagement.

## XYLEM - Environment

We engaged Xylem's Investor Relations and Sustainability teams to assess how Xylem, a water technology company, manages water-related risks and opportunities across its operations, supply chain, and product portfolio. Our focus was on the robustness of Xylem's sustainability strategy, water efficiency goals, and product portfolio development.

Xylem's direct water usage is modest, but the company has set and met ambitious sustainability goals. Its 2030 science-based targets, validated by the SBTi, aim for 30% reduction in greenhouse gas emissions and separately this is matched by an aim to reduce water intensity by 30% over the same time frame. Notably, Xylem achieved all its 2025 environmental goals ahead of schedule. At a site level, in 2024 16 out of 21 major facilities met all objectives for water, waste, and emissions reductions. The integration and use of products from the recently acquired Evoqua Water Technologies have further improved operational efficiency, with some sites now recycling more water than they withdraw. While Xylem's operations are not highly water-intensive, certain processes, such as resin regeneration, require significant water at specific sites. Facilities in water-stressed regions are carefully managed, and no critical supply risks have been identified to date.

Xylem's commitment to water stewardship extends to its supply chain. Key suppliers are required to disclose water use and emissions via the CDP Supply Chain programme and are evaluated using an internal "water impact score." However, smaller suppliers often face challenges with CDP disclosure, such as limited resources or concerns about reporting. In response, Xylem is exploring alternative platforms like EcoVadis, which offer more accessible and qualitative sustainability assessments, and is considering support to help suppliers improve their data. Achieving the 2025 target for over 38% of global spend suppliers to report emissions and water use will depend on overcoming these hurdles.

Innovation is fundamental to Xylem's contribution to water sustainability, especially for municipalities, utilities, and industrial clients. By 2024, Xylem had helped reduce over 3.5 billion cubic metres of non-revenue water since 2019, thanks to advanced leak detection, smart metering, and pressure management. The Xylem Vue digital platform enables real-time monitoring and has supported cities such as Monterrey and Mexico City in progressing towards water neutrality. The company is increasingly focussed on how their product suite can withstand more unpredictably weather patterns. In St. Petersburg, Florida, Xylem's Sensus smart meters maintained network connectivity during a hurricane, enabling rapid leak repairs when other communications failed, demonstrating resilience in extreme weather. The company continues to invest in integrated digital platforms and emergency readiness solutions to further enhance water management capabilities.

Xylem's hardware advances focus on energy efficiency and reducing lifecycle costs in water infrastructure. A redesigned dewatering pump product now uses a 74hp hybrid electric system in place of a 100hp diesel engine, cutting fuel use, emissions, and operating costs, particularly beneficial for utilities with ageing workforces and constrained budgets. Demand for water recycling and reuse systems is rising, especially among corporates in water-stressed regions. Xylem estimates 80-90% of wastewater can be cost-effectively recycled, with advanced solutions targeting the most challenging residuals. The company is also preparing for increased demand for products related to emerging contaminants like microplastics and PFAS, which face increasing regulation.

**Outcome:** Xylem demonstrates a robust approach to water stewardship, both internally and through its customer solutions. Early achievement of 2025 targets and the introduction of new 2030 goals, with a specific operational water target, is welcome. Strategic investments in resilience and efficiency, from supply chain initiatives to digital and hardware innovation, position Xylem well in addressing water-related risks and opportunities. While challenges remain, notably around supplier sustainability disclosure, no major concerns were raised regarding its commitment to sustainability, which remains core to its business model. Consequently, there was no change in our responsible investment categorisation for Xylem following this engagement.

# Human rights

## BRITISH AMERICAN TOBACCO - Social

**Objective**: As part of the 30% Club's Fix the Exec working group, we are engaging with companies that lag in gender diversity at the executive level. While board representation has improved, attention is now turning to executive management, where women hold only 32.7% of roles in the FTSE 100 and 27% in the FTSE 250. Building on the FTSE Women Leaders Review, we are encouraging companies to target 50% female representation on executive teams and meet the Parker Review's diversity objectives. To understand British American Tobacco's approach, we spoke with the Head of Business Communication, about its policies, training programmes, and mentoring initiatives aimed at improving gender diversity.

Female representation on BAT's executive management board is currently 7%, with one of 13 positions held by a woman. Until recently, women occupied two positions, but a senior executive officer has stepped down. The company remains committed to ensuring at least two of the four key board roles—CEO, CFO, chair, and SID (Senior Independent Director) —are held by women, two of which sit at the executive level. This ambition exceeds FCA listing requirements, which mandate only one of these positions on a comply-or-explain basis. A woman is scheduled to assume an executive role overseeing the Europe, Middle East and Africa (EMEA) region in the coming months, which will increase female representation to 15%.

The Nominations Committee oversees succession planning at the executive level, supported by external executive search firms, with preference given to those accredited under the Standard and Enhanced Code of Conduct (a voluntary code for executive search firms focused on enhancing gender diversity). The Committee requires initial candidate pools to be gender balanced. Internally, BAT is working to strengthen its leadership pipeline, acknowledging that progress is a long-term effort. Women currently represent 36.5% of senior leadership—the feeder group for executive roles—with a target of 40%. At the management grade below, female representation stands at 43.5%, with a goal of 45% by the end of 2025.

Recruitment remains challenging due to the nature of the tobacco industry, which limits early talent engagement initiatives such as school outreach. This constraint reduces the available talent pool and makes entry-level hiring more difficult. Anecdotally, the Head of Business Communication noted that male applicants outnumber female candidates for roles within his team, highlighting ongoing gender imbalance in interest.

The Head of Business Communication highlighted two key programmes aimed at advancing women into senior roles: the Women in Leadership Programme and the Truly Inclusive Leaders Programme. The former is a four-day course covering leadership skills, impact, and networking, with 1,239 women having completed it since 2013. The latter focuses on unconscious bias training and self-reflection. However, the company did not provide details on the effectiveness of these initiatives or feedback from past participants. Additionally, outreach activities to encourage STEM uptake among university students occur locally in countries such as Brazil and Bangladesh, but these efforts are not centrally mandated.

**Outcome:** The discussion provided useful high-level insights into BAT's gender diversity approach, though more granular evidence of actions taken would have been welcome. While programmes and initiatives exist, details on their effectiveness and direct impact on executive-level gender diversity remain unclear. It is positive that BAT plans to appoint a woman to the next executive role and has set ambitious targets for a gender-balanced leadership team; however, with current representation at just 7%, the extent to which these commitments will translate into meaningful progress is uncertain.

## PERSIMMON - Social

**Objective**: We engaged with Persimmon's Investor Relations Director and Head of Internal Audit to follow up on the company's approach to managing modern slavery risks. This engagement is conducted under the collaborative initiative 'Find it, Fix it, Prevent it.' Our aim was to assess progress since our last meeting and set expectations for continued improvement.

Persimmon outlined progress of its risk-based approach, focusing on two key areas: subcontracted labour on UK construction sites and sourcing of materials from higher-risk regions. Controls have been strengthened across both areas. All subcontractors must comply with Persimmon's Supplier Code of Principles, which prohibits unethical labour practices. The company verifies right-to-work documentation for all on-site workers, including agency staff. Since 2019, Persimmon has paid the Real Living Wage to direct employees and extended this to subcontracted site workers in 2024. This initiative is clearly communicated to contractors and backed by site audits.

On supply chain due diligence, Persimmon's group Procurement team requires major suppliers to accept clauses forbidding modern slavery. Where materials are sourced from overseas, suppliers must provide written assurances of ethical practices. In 2024, the company conducted enhanced checks on solar panels, electric vehicle chargers, and heat pumps, excluding bidders unable to demonstrate responsible sourcing. These steps align with peer practices, and Persimmon uses sector data such as the Global Slavery

Index to inform its assessments. The company confirmed that 99% of its supply chain by value is UK-based, with limited exposure to overseas sourcing. Nonetheless, it acknowledged the importance of maintaining oversight of international suppliers and is considering further steps, including independent audits and unannounced checks.

Training and awareness are central to Persimmon's strategy. All site and contract managers receive training on identifying forced labour. Office teams in procurement, commercial services, and HR complete tailored e-learning modules. In 2024, Persimmon launched a compulsory mobile training via its internal app 'The Persimmon Way', reaching over 16,000 site workers. The app also supports digital site sign-in and communication, improving visibility of working hours and enabling training delivery. Posters and flyers in multiple languages reinforce the anti-slavery message on site.

Whistleblowing mechanisms include a confidential hotline available 24/7 to employees, contractors, and suppliers. Reports are handled by Internal Audit and escalated to the Audit Committee. Persimmon has received a small number of serious concerns in recent years, including one involving agency workers living on site. In each case, the company acted swiftly, terminating contracts and notifying authorities. Persimmon recently benchmarked its whistleblowing procedures with the charity Protect and received constructive feedback.

Internally, Persimmon tracks key performance indicators such as training hours, audit results and reported concerns. The board's Sustainability Committee reviews these quarterly. The company does not currently publish detailed metrics, a point we highlighted. It indicated openness to increasing transparency in future statements. This would align with peers such as Barratt Developments, which publicly discloses supplier audit figures and training completion rates.

**Outcome:** We noted the company's progress on building a more comprehensive modern slavery risk management approach over the past five years. We were encouraged by the company's progress on subcontractor oversight, training innovation, and responsiveness to stakeholder feedback since first engaging the company, validating our current responsible investment categorisation of the holding. We will continue to engage the company through this collaborative initiative and have set expectations that Persimmon will continue to strengthen transparency and supplier assurance. We will review the company's 2025 Modern Slavery Statement when published later in the year.

# Governance

**We always try to engage with companies where there are contentious issues, or votes against management are proposed by our proxy advisor. Not all companies are willing to interact with us. We have identified when this is the case. We use recommendations from our proxy advisor based on our voting policy to inform our voting decision-making. However, we do not always follow the proxy adviser's recommendations and have disclosed this in the engagements detailed below.**

## ANGLO AMERICAN - Governance

**Objective**: We took part in a shareholder consultation on the change to the remuneration policy being proposed as part of the special general meeting to approve the merger with Teck Resources.

Anglo American is undergoing major transformation, including a planned "merger of equals" with Teck Resources, following significant portfolio changes and restructuring. The current remuneration structure is seen as inadequate for retaining and motivating key executives during this period of uncertainty and transformation. An amendment to the remuneration policy is intended to ensure management is incentivised to deliver both the merger and ongoing strategic priorities. If the merger is completed, executives are guaranteed to receive at least 62.5% of their long-term incentive performance (LTIP) awards for the 2024 and 2025 time periods, even if performance targets are not fully met. This is higher than the minimum but not the maximum possible payout. If the merger happens and the calculated vesting is less than 62.5%, the difference will vest upon merger completion. If the merger does not happen, the awards vest according to the usual performance criteria. Anglo American wants to guarantee a substantial portion of executive LTIP awards if the merger with Teck completes, to ensure leadership stability and focus during a critical period. This is a one-off adjustment, not a permanent change.

**Outcome:** We communicated to the company that we are broadly comfortable with the proposed changes. While we appreciate this is not a typical clause, given our view that the merger is potentially highly accretive for the company, and that the management certainly deserve merit for having "engineered" the merger - we are willing to provide provisional support in this specific case.

## ASTRAZENECA - Governance

**Objective**: Through the Investor Forum we met the chair of AstraZeneca to discuss the company's decision to pursue a New York Stock Exchange (NYSE) listing alongside its London listing. The purpose was to understand the strategic rationale and implications for shareholders. This engagement was intended to gather information and clarify any concerns (e.g. effects on shareholder rights and market liquidity) to inform our voting decision on the listing proposal at the upcoming general meeting.

The chair outlined that AstraZeneca's move to directly list its shares on the NYSE is driven by the need to broaden its global investor base and improve share liquidity. Currently, US investors access AstraZeneca via American Depositary Receipts (ADRs), which the chair noted are an outdated mechanism limiting some investors. A direct NYSE listing will enable more investors, especially in the US (AstraZeneca's largest market), to invest more easily, supporting the company's growth ambitions.

The chair stressed that this step is not a move to relocate the company. AstraZeneca will remain headquartered and tax-resident in the UK, keeping its primary London listing. By maintaining its UK domicile and a "harmonised listing structure," the company avoids disrupting its European and UK stakeholder base while tapping US capital markets. We discussed technical details for UK shareholders, where holdings will be converted into depositary interests (DIs) on the UK share register to facilitate US trading, but shareholders will retain all rights as before. The chair indicated there should be minimal operational impact on investors.

The group also inquired whether external pressures (such as US government incentives to invest locally or UK market conditions) influenced this decision. The chair acknowledged a challenging UK environment for pharma (e.g. relative market size and medicine pricing pressures) but framed the listing move chiefly as a proactive strategic step rather than a reaction to political pressure. The company has committed significant investment in the U.S. (around $50 billion by 2030) to grow its business, and the NYSE listing is part of enabling that growth by accessing deeper capital pools. Proxy advisory firms have recommended support, with no major concerns raised.

**Outcome:** This engagement provided us with reassurance about AstraZeneca's plans and its detailed consideration of shareholder interests. As a result, we voted in favour of the company's proposal to list on the NYSE, supporting management's strategy to enhance global liquidity while retaining its UK foundation. On the basis of our engagement, we hold the view that there will be no adverse impact on shareholder rights, and our responsible investment view of the company remains the same. We will monitor the implementation, with trading in New York expected to begin in early 2026.

## BAILLIE GIFFORD US GROWTH TRUST (USA-LON) - Governance

**Objective**: To discuss the proposed merger with another investment trust.

Against the backdrop of activism by Saba who is a shareholder in both trusts (Baillie Gifford USA and Edinburgh Worldwide) the boards proposed merging the two trusts which are both managed by Baillie Gifford. There is reasonable overlap of holdings, and the merged trust would be managed by the Baillie Gifford USA team. However following the announcement, Saba has requisitioned a general meeting for Edinburgh Worldwide, and until that meeting is held the viability of the proposal is unknown.

**Outcome:** We will revisit this with the Baillie Gifford USA board following the outcome of the Edinburgh Worldwide meeting.

## DIAGEO - Governance

**Objective**: As part of an Investor Forum group discussion, we engaged the chair and Senior Independent Director (SID) at Diageo. The objective was to better understand Diageo's strategic direction and governance following recent leadership changes.

The chair outlined growth priorities, emphasising new opportunities in low- and no-alcohol beverages (where Diageo is already about four times larger than competitors) and ready-to-drink products, while still pursuing premiumisation (encouraging trade-up to premium brands) as a long-term strategy. He acknowledged that premiumisation remains the company's "north star," though macroeconomic pressures especially a slowdown in North America and changing consumer habits (e.g. younger generations drinking less, or the impact of new weight-loss drugs) are tempering near-term growth.

The chair candidly admitted that under the previous CEO, the board had been slow to respond to emerging challenges and too anchored to past successful practices. This experience has prompted a search for a new CEO who can bring a forward-looking perspective and be a visible, confident leader in guiding the company through a changing environment. In the interim, the current CFO has taken up the CEO role.

The company's capital allocation approach is now conservative: management conceded that leverage (debt levels) is above target and that they over-invested in capacity by extrapolating pandemic trends. They have accordingly tempered capital expenditures, slowed certain projects (such as a carbon-capture initiative, although Diageo is still aligned with the Science Based Targets initiative (SBTi) goals), and are exploring the sale of non-core assets to refocus on the balance sheet. Some plans are on hold until permanent leadership is in place. Despite recently shrinking the board from 11 to eight members, the chair does not intend large structural board changes. In fact, there is scope to increase the board again. Diageo aims to recruit new directors with current CEO experience and strong US market knowledge to bolster its expertise. The chair's self-stated style is "highly involved and transparent," fostering a closer board-management relationship and greater director accountability.

**Outcome:** Diageo's board recognises past shortcomings and looks to be taking appropriate steps to reposition the company. We validated our existing responsible investment categorisation of the holding, as the discussion confirmed our current assessment of Diageo's governance trajectory. We will continue to monitor Diageo's progress on refreshing leadership and executing the amended strategic direction.

## INTERMEDIATE CAPITAL - Governance

**Objective**: We participated in a shareholder remuneration consultation, coordinated by the chair of the Remuneration Committee and Head of Reward, to provide feedback on the company's draft remuneration policy, to be put forward at the 2026 AGM.

ICG will retain its current pay structure which investors, including Quilter Cheviot, previously supported. The single incentive plan covering both annual and long-term performance will continue using a unified scorecard (65% financial metrics, 35% strategic/operational) to determine variable outcomes.

The policy's alignment mechanisms remain in place. At least 70% of each executive director's annual award is deferred into equity. Deferred shares vest in tranches over 5 years, which is a longer vesting period than many peers use. ICG also caps the firm-wide bonus pool to 30% of five-year average pre-incentive cash profit, preventing excessive payouts regardless of performance

The main changes proposed related to pay increases. For the CEO, base salary would rise by 15%. The maximum variable pay would increase from 8× base salary to 10× base salary. In monetary terms, the CEO total compensation cap moves up from £6.75 million to £9.46 million per year. The pay cap had remained unchanged since 2014.

ICG's Remuneration Committee justifies the changes on several grounds. ICG's scale and performance have increased substantially with fee income tripling and market cap doubling in the last seven years, whereas the CEO pay maximum was frozen, losing c.33% of its real value to inflation. A recent external pay review confirmed ICG's executive pay was below peers in both private and listed markets. The new policy would bring pay roughly to peer-median levels.

**Outcome:** The remuneration proposal appears well-justified and balanced. It updates ICG's pay levels to be competitive globally (crucial for a FTSE 100 firm in a niche industry dominated by US players), yet it retains a conservative UK governance framework (caps expressed as multiples, extensive deferrals, shareholder consultation). The plan directly links the higher pay potential to continued strong performance and shareholder returns, which have been good. By aligning the CEO's maximum pay to peer median, ICG does not appear to be attempting to lead the market, but modernising pay-levels. We indicated broad support, pending analysis of the final policy. We also requested that an increase in shareholding requirements is considered to balance higher total reward. Our responsible investment categorisation remains stable.

## LEGAL & GENERAL - Governance

**Objective**: We took part in the company's remuneration consultation process to discuss Legal & General's proposed changes to the remuneration policy ahead of the 2026 Annual General Meeting. The meeting was held with the chair of the Remuneration Committee, Group Reward Director and Investor Relations. The purpose of the discussion was to outline our remuneration policy expectations and provide feedback on the proposal.

Legal & General outlined its intention to renew its remuneration policy, with limited changes to overall structure and quantum, but more material changes to long-term incentive (LTI) measures to better align with the group's strategic priorities. The company's strategy focuses on sustainable growth, a sharper focus on core businesses, and enhanced returns. The proposed changes include increasing the maximum LTI quantum for the CEO from 300% to 350% of salary, with the CFO's grant remaining at 250% for 2026. The annual bonus maximum will be set at 200% of salary for all executive directors, simplifying the policy.

The most significant change is the introduction of a 'strategic progress' metric within the LTI, accounting for 30% of the award and incorporating a 10% climate-related target. This replaces the previous standalone climate metric and is designed to ensure that management is rewarded for delivering on a broad range of quantitative key performance indicators (KPIs) across all business divisions, rather than a single metric. The Remuneration Committee will assess performance holistically, but the assessment will be underpinned by quantitative KPIs that have been disclosed to the market. Maximum vesting will require meeting or exceeding all key targets across the group and divisions. While the KPIs are publicly available the weighting of each component and how they contribute to the overall strategic award will be at the board's discretion. This is probably the most controversial element of the proposal, providing a larger degree of discretion. The board has committed to providing a detailed breakdown of how the decision made after the award is granted. The board believes this adds a degree of strategic flexibility and prevents a mechanistic outcome. Despite only making up 20% of overall LTI awards, there is a degree of uncertainty in how this element of pay will operate or be reported on until implemented.

Other changes include a revised bespoke peer group for relative total shareholder return (TSR). The company also proposes to increase the CEO's shareholding requirement to 350% of salary, in line with the increase in PSP quantum. Pension provision for Executive Directors will rise to 13% from 2026, matching the wider workforce.

**Outcome:** We are broadly supportive of the proposed changes, subject to further detail on the operation and disclosure of the strategic progress metric and climate integration. Concerns around the level of discretion applied to the strategic component of the LTI can, in our opinion, be mitigated by providing clear, quantitative targets and transparent reporting on performance outcomes. Our voting decision on the renewed policy will be contingent on the final iteration of the proposal put forward to shareholders once the consultation period has closed. The responsible investment categorisation remains unchanged.

## LSEG ESG - Governance

**Objective**: To discuss the methodology behind the provision of ESG related data.

We switched to LSEG ESG from another data provider in mid-2025. With any change in provider there are challenges regarding the data points that are provided. This was an opportunity to discuss these with LSEG ESG and to understand how a future policy change will impact the methodology behind data points. We made the decision to move to LSEG ESG as it has granular data which is our preference over subjective views from third-party data providers.

**Outcome:** We will be monitoring the delivery of the new policy and the methodology behind this. It is important to us that we have a clear understanding of how the data provider defines data and metrics.

## SCHIEHALLION FUND - Governance

**Objective**: We engaged with Schiehallion's Investor Relations team to address governance concerns about a proposed Class B share structure. The fund had called a Special General Meeting (SGM) in December 2025 to seek approval for issuing a new Class B share. We typically oppose multi-class share structures (preferring the principle of "one share, one vote"). Our objective was to understand why this structure was needed and how it would affect shareholders.

The company explained the (complex) rationale and legal context behind the Class B share proposal. Schiehallion's shareholder base initially had a high proportion of US investors (around 60%). To avoid being treated as a US domestic issuer, the fund already had a "voting cram-down" mechanism in place. This is essentially a safeguard that automatically reduces the voting power of US shareholders if their overall voting weight goes above a certain threshold. As the fund is looking to move listing category, UK listing rules for the main market require a simple one-share-one-vote capital structure, meaning the existing mechanism had to be adapted. The solution was to introduce a Class B share with no economic interest (no dividend or capital rights) but special voting rights that only activate if US investors' potential vote share exceeds 35% on director election related resolutions. In practical terms, this Class B share serves as an emergency valve to ensure US shareholders influence board elections beyond the 35% voting power threshold. This helps Schiehallion maintain its Foreign Private Issuer (FPI) status in the US (which reduces its regulatory burden) while complying with UK listing requirements. For UK and other non-US investors, the company assured us that rights would remain unchanged.

The discussion also covered the broader implications: moving to the main market's Closed-Ended Investment Funds category (away from its Specialist Funds category) would allow Schiehallion's shares to be included in indices and marketed to a wider range of investors (including retail investors), improving liquidity. If the proposal were rejected, the fund would likely remain on the specialist segment with the old voting constraints, miss out on these benefits, and incur wasted costs (having already spent on legal advice and preparations). We recognise our general concern about multi-tiered share classes setting a bad precedent, but in this case the structure is narrowly tailored to regulatory needs rather than designed to entrench management or disenfranchise investors.

**Outcome:** We are comfortable that the arrangement is a pragmatic solution that does not materially worsen the fund's governance compared to the status quo. It effectively formalises an existing safeguard in a way that permits a main market listing and broader investor access, without harming ordinary shareholders' interests. We voted to support the proposal at the general meeting. Despite our usual caution towards dual class share structures, this special measure was acceptable given its limited scope and clear purpose.

## TESLA - Governance

**Objective**: To discuss a several concerns related to executive remuneration prior to the 2025 AGM.

Our proxy advisor recommended voting against several remuneration-related proposals, including the approval of common stock issuance to the CEO and the ratification of executive officer compensation. The main concern is an exceptionally large, time-based equity grant with minimal justification and no performance conditions. While intended to retain the CEO (Elon Musk) for his track record and vision, the award, 12 tranches worth over $7 billion each, limits flexibility for future pay adjustments and may weaken incentives to meet all targets. Some metrics lack clarity, and there are no safeguards to ensure Tesla remains his priority, and finally the award poses a significant risk of shareholder dilution.

The proposed re-election of the Nominating and Corporate Governance Committee chair is controversial because the board recently amended its bylaws to significantly restrict shareholders' litigation rights, following changes in Texas corporate law. Under the new provision, shareholders, or shareholder groups, must hold at least 3% of outstanding shares to initiate or maintain a derivative lawsuit (a lawsuit where a shareholder sues on the company's behalf against directors or officers). While Texas law allows companies to adopt such restrictions, it does not require them. Tesla implemented this change unilaterally, without a shareholder vote. Although boards generally have authority to amend bylaws without shareholder approval, limiting litigation rights in this way, without seeking shareholder input, raises governance concerns. Derivative suits are an essential tool for holding directors accountable, and restricting access to them may weaken shareholder protections.

**Outcome:** In line with previous years, we voted against the contentious remuneration related proposals and against the Nominating and Corporate Governance Committee chair owing to the potential negative / reduction in shareholder protections resulting from the change in the company by-laws. We communicated our voting decisions with the company.

# Fund engagement

*We invest in funds managed by other investment firms. Below are some of the third-party fund engagements we have carried out over the last quarter. We will at times anonymise engagements where we feel it would be unhelpful to disclose names. We track the developments and outcomes over time. The engagements are split into four areas:*

1. The firmwide approach to responsible investment
2. Manager and strategy approach to responsible investment
3. Engagement on ESG risk and exposure
4. The firmwide approach to net zero

## ABERDEEN PROPERTY FUND

**Objective**: To engage with fund managers on the issue of ESG integration and to understand material ESG opportunities and risks facing the property sector. The focus was on the abrdn UK Real Estate and the abrdn UK Real Estate Share funds.

We engaged with Aberdeen on the back of the ESG RFI submission. We were keen to understand in depth ESG integration processes and policies at a portfolio level, and how specific metrics were considered during the investment decision making process as well as how this differed for direct property holdings versus listed. We were additionally provided with an overview of Aberdeen's firm level ESG and stewardship policies.

The UK Real Estate Fund, which invests directly in physical assets, benefits from greater control at the individual property level compared to equity funds. This enables a more hands-on and tailored approach to integrating ESG considerations. Each asset is assessed using 21 ESG indicators spanning environmental and climate factors, technology and infrastructure, demographics, and governance applied based on relevance to the specific property. Annual ESG objectives are embedded in the fund's strategic plan, guiding both asset management and acquisition decisions. During acquisitions, the fund employs a two-step ESG screening process. The initial phase involves a rapid assessment to determine bid viability, focusing on energy performance, energy performance certificate (EPC) ratings, and physical climate risks particularly flooding, a significant threat in the UK. Once approved by the investment committee, a detailed ESG due diligence process follows. This includes analysis of contaminated land, biodiversity, and water risks, supported by tools such as the World Wildlife Fund, the Integrated Biodiversity Assessment Tool, and the International Union for Conservation of Nature databases. The ESG lead highlighted that they have adopted Deepki, a digital platform that automates ESG data gathering across its portfolio, to address the longstanding inefficiencies in data collection experienced by the fund. They recognise that embodied carbon is a critical issue but flag the lack of consistent regulation and standards as a barrier to making progress in this area. One of the most persistent challenges remains tenant data transparency and consequently revised lease clauses have been included requiring ESG data sharing, helping to close a key gap in performance monitoring.

The fund manager for the UK Real Estate Share Fund highlighted that ESG has been evaluated and considered as part of decision making since the inception of the fund. He highlighted that whilst the fund does not have a label and with relatively few exclusions, ESG metrics are looked at in-depth through a risk lens. Given the average holding period of an investment is ten years with an objective to deliver risk adjusted returns, it is in their interest to embed strong risk management into their due diligence process. The manager focuses primarily on environmental factors as these are seen as most material and use a mixture of proprietary qualitative and quantitative scores to inform screening and decision-making processes. Examples of engagement with portfolio companies were given demonstrating a focus on EPC scores, energy disclosures, decarbonisation pathways, and physical climate risk. A number of climate metrics are considered including net zero targets, Scopes 1,2, and 3 emissions disclosure and targets emphasising that a net zero by 2050 target is considered a laggard in his view. The fund manager highlighted that there is nothing in the portfolio at present which scores poorly using the house score and that all ESG-related discussions are integrated holistically into general conversations with stocks as opposed to separate meetings unless it is a thematic deep dive into a specific issue.

**Outcome:** Overall, the discussion with both fund teams has provided confidence in the respective fund manager's approach to ESG integration across the portfolio and has demonstrated a sophisticated understanding of material ESG risks for both the listed real estate sector and physical property. We have concluded that the RI categorisation will remain Engaged for both the UK Real Estate Fund and the UK Real Estate Share Fund.

## ARTEMIS INCOME

**Objective**: To understand Artemis Income Fund's approach to ESG integration, engagement, and stewardship as well as the governance and transparency policies. The assessment will help to gauge whether the fund meets the threshold to be upgraded to Engaged within our responsible investment categorisation.

The Artemis Income Fund applies ESG through a risk management lens. By considering where companies sit in a value chain and how they interact with their respective stakeholders (for example society, government, customers) they can easily see what the drivers of cashflow are. ESG factors are baked into this process particularly where their impacts could have a negative impact on cash flow and. Over the years, the managers have become more rigorous and sophisticated in their approach but have stayed away from applying any formal framework or screens to prevent missing potential material issues. The fund manager highlighted that ESG analysis is more subjective than data driven and handled case by case with deeper due diligence undertaken if deemed material to the company or fund. Several examples were given demonstrating the impact of ESG considerations on investment decisions, for example:

- BBA Aviation: Sold due to GHG concerns despite strong fundamentals.
- Diageo: Raised concerns over Guinness marketing practices in Africa targeting young people.

The Income Fund has no exclusions, the lack of investments in industries such as defence are more related to high cash flow volatility which limits attractiveness for this fund. The managers are not philosophically opposed to any sector. The Artemis Income Exclusions Fund has the same offering but has exclusions linked to fossil fuels, gambling, tobacco, and defence which is currently capped at 20% of total revenue but there are plans to potentially reduce this to 10%.

Engagement is core to Artemis' investment proposition aiming for insight, change and thematic improvements. Engagement is preferred over exclusions where possible, and Artemis collaborates with other managers as part of industry initiatives and forums on specific companies such as Barclays and AstraZeneca. The Head of Sustainability gave an example of strong collaborative work with Barclays' transition plan and shareholder proposals, and as a result was invited to Barclays sustainability team's away day to give a presentation on the Artemis' approach.

Approximately 100 company meetings are held annually which are both insight and outcomes driven in their nature. The team highlighted that engagements are not done at the firm level but rather engagement opportunities are identified for each fund. Examples of engagements with Whitbread, EasyJet and Smiths Group were provided demonstrating engagement on material issues including human capital management, decarbonisation, and governance. Annual meetings also take place with the largest emitters in the portfolio. Voting is undertaken by the fund managers and not coordinated centrally, which is usual for a house like Artemis. ISS' proxy voting policy is used as a guide, but Artemis has opposed several remuneration proposals citing the need to ensure the UK remains competitive when it comes to board pay and talent retention.

A central sustainable investment team of four members supports fund managers with ESG-related analysis, research and engagement as required. ESG activities are decentralised and undertaken by fund managers as such ESG integration varies from fund to fund with no firm level policies or consistency applied across the firm.

The Artemis Income fund is not a labelled fund and does not have any ESG / sustainability objectives, but ESG is integrated as part of the investment process. Artemis publishes annual TCFD product level reports for all funds which includes details of the fund's carbon footprint (tonnes of $CO_2e$ per $1m invested) as well as exposure to carbon intensive sectors, climate scenario analysis for both transition and physical risk.

**Outcome:** Overall, this was a good insight into how ESG is considered, integrated, and managed by the Artemis Income fund managers. Additionally, it provided some insight into the central stewardship team however a further discussion with this team is required to understand their role and function. This engagement has reaffirmed the current investment categorisation of Aware.

## STEWARDSHIP PRACTICES INSIGHT ENGAGEMENT - Artemis Income

**Objective**: A deep dive engagement with the Artemis stewardship team on firmwide stewardship policies and practices to understand effectiveness of stewardship efforts.

We met with the co-heads of stewardship at Artemis Fund Management to understand in-depth their approach to stewardship and engagement. The discussion covered a range of topics including voting policy and approach, fund-level ESG integration, engagement examples with their holdings and escalation.

The team reaffirmed its commitment to stewardship and explained how sustainability is considered bottom up by fund managers as part of their investment research. Sustainability is considered through a risk lens and therefore the most material ESG issues are reviewed on the basis of financial materiality. An overview was provided of their proprietary engagement tracking and voting dashboard which helps categorise engagements and keep track of progress over time. The stewardship team is a support function that aids different strategies where required and efforts are ultimately fund manager led. As an active manager, Artemis stressed the importance of engaging with investee companies and having a discussion before taking any actions e.g. voting against a resolution or board members.

As long-term holders of companies, Artemis has developed strong relationships with its companies and can have access to senior management/board members to discuss issues as required. Regular engagements with boards on governance issues also take place e.g. board composition, long-term incentive plans and remuneration are key topics that they have been engaging on this year. Discussions on quantum have taken place within the context of global salaries and in particular pay packages arising from the US. Classified boards are a particularly concerning issue and as a result the team has engaged on this issue several times. Other stewardship activities take place through industry forums such as the Investor Forum who is a close collaborator. The team has strong ESG and stewardship expertise, which is used to support investment teams, but it is evident fund manager agreement is a prerequisite before any ESG issues are explored, additionally it should be viewed as material ESG risk for the portfolio holdings. It seems that this could lead to internal tensions and potential lack of influence from the ESG experts.

**Outcome:** Overall, the engagement provided us with a good insight into how the stewardship team operates and their key priorities. The engagement reaffirms the current categorisation of the Artemis Income Fund.

## ISHARES ENVIRONMENT & LOW CARBON TILT REAL ESTATE INDEX FUND

**Objective**: To engage with BlackRock iShares funds on the back of the ESG RFI submissions to gain clarity on responses for US and European domiciled funds and to understand strategy-level screening and integration.

We spoke with index and exchange-traded funds (ETF) specialists at Blackrock to understand in detail the responses provided for the iShares funds in our annual ESG RFI. The team clarified the clear distinction between how index equity funds work in comparison to active iShares and actively managed funds. The firm conducts stewardship via a benchmark offering where voting is used as the primary method. Engagements are prioritised based on material financial risk and financial returns. The firm has a climate decarbonisation programme which has $158bn assets within scope which focuses on engagement for financial returns and 1.5-degree alignment looking at the total value chain of emissions. Additionally, BlackRock seeks reporting for all emissions including material Scope 3 emissions from the companies they invest in for this product.

The team gave an overview of the low carbon tilt fund highlighting the screens that are in place, as well as the range of metrics that are taken into consideration including energy usage, green building certifications, carbon intensity reduction given the primary exposure is to leading property companies. Given the range of policies and approaches that are implemented across Blackrock across the product range, we had a discussion on the most useful way to frame the ESG RFI for the upcoming years to ensure it captures the information we require. We gained clarity on the scoring that was produced for the Environment and Low Carbon Tilt Real Estate Index und as well as the wider Blackrock iShares and index tracker funds.

**Outcome:** Overall, this was an insightful discussion into how the iShares Environment and Low Carbon Tilt Index Fund integrates and screens for ESG factors in comparison to non-ESG focused iShares funds. It provided clarity on the answers provided in the annual RFI process and guidance for how we can improve our question set for 2026. The RI categorisation for the fund remains Aware.

## JANUS HENDERSON GLOBAL PROPERTY EQUITIES

**Objective**: To deep dive into the fund's ESG integration practices following the submission of the annual ESG RFI.

We met with members of JHI's Global Property Equities' team who provided a comprehensive overview of Janus Henderson's firmwide ESG approach and policies followed by a deep dive into the Global Property Equities fund approach to ESG. It was highlighted that investment teams are responsible for integrating ESG analysis into their investment decision making process and are supported by a central ESG team whose expertise is leveraged when nuanced is required for analysis, engagement, or voting.

At the fund level, ESG factors are scored in tandem with the company's fundamentals. At the idea generation stage, the fund team highlighted that they seek to analyse ESG issues that could drive cash flows, valuation, cost of capital etc. Proprietary in-house ESG data tools are used and are supplemented by a qualitative layer to arrive at a quality adjusted valuation of each stock. The team provided a demonstration of the scorecard that is used and noted that E, S and G factors are weighed between 30-50%, 10-30% and 30%-50% respectively. It was highlighted that carbon emission intensity is calculated based on the portfolio size (kgCO2eq/m2) as opposed to MSCI's intensity per revenue basis as the team believes this is more accurate picture for the property sector. Additionally, during analysis REITs (Real Estate Investment Trusts) and the property companies they invest in are approached in the same way.

The team was very aware of the ESG data gaps and challenges that exist where physical risk and embodied carbon risks are concerned. Engagement is undertaken with companies who disclose physical risk at the asset level on issues such as insurance premiums, but it was noted that there are no comprehensive data providers who provide an aggregated picture at the portfolio level. An engagement example with one of the holdings impacted by the Valencia floods in 2024 was given where the company had flooding risk plans in place and thankfully faced no casualties or issues during that time. The fund's largest holding is a North American data centre company, and the team outlined the engagements it is undertaking with these companies on issues such as water cooling and energy intensity recognising the high level of carbon being emitted from this and similar holdings.

**Outcome:** Overall, the team gave a strong overview of how ESG integration is undertaken at the fund level. It provided confidence in the team's ability to integrate ESG factors into the investment decision making process and it is evident that they are considered and scored as part of the fundamental analysis and not as an add on. This engagement has validated the RI categorisation of the fund.

## NEUBERGER BERMAN PRIVATE EQUITY

**Objective**: To deep dive into Neuberger Berman Private Equity's (NBPE) ESG integration practices and policies on the back of the 2025 ESG RFI submission.

We met with members of the NBPE's sustainability team based in New York to understand how ESG is integrated across the dealmaking process from due diligence to general partner (GP) engagement throughout the lifecycle of investment holding periods. The fund has a clear process through which ESG assessments and analysis is used to understand financial materiality for each investment which is then reviewed during investment committee meetings. For direct investments, both financial materiality is considered as well as the lead sponsor's ESG integration processes to ensure they are robust, and this is complemented by an annual monitoring questionnaire which contains an ESG integration element for GPs to fill out.

The team went into detail showing the framework for assessing GPs which is broken down into firm, strategy and engagement pillars covering issues such as oversight, selection, measurement, ownership etc. resulting in a score from 1-4. This level of robustness was reassuring and provided a good insight into how each issue is considered.

The fund is involved in private markets initiatives that focus on ESG and sustainability but struggles to follow the Private Markets Development Roadmap to disclose GHG emissions at the fund level given is a limited partner (LP). The data received from GPs is not adequate to do so, although progress is being made. At the parent level, NB does publish an annual Task Force on Climate-related Financial Disclosures (TCFD) report and uses the Institutional Investors Group on Climate Change (IIGCC) framework for net zero alignment.

**Outcome:** Overall, it was a good insight into NBPE's ESG integration approach as a whole, starting with the due diligence process through to engagement with GPs. We will look to follow up with the team in 2026 to further understand how ESG factors are integrated into practice and case study examples have been requested. At present the responsible investment categorisation remains unchanged.

## PANTHEON INFRASTRUCTURE

**Objective**: To deep dive into the trust's ESG integration practices and policies and understand material ESG opportunities and risks facing the global infrastructure sector.

We met with the Global Head of Sustainability at Pantheon as part of our deep dive into the infrastructure funds we invest in to deepen our understanding of the company's firmwide ESG policies, as well as ESG integration at the fund level. Pantheon highlighted strong governance and oversight where sustainability and ESG risk is managed and reviewed at several executive levels including the Value Creation board, International Investment Committee, and the Sustainability Committee. The manager has rolled out four key pillars (transparency, integration, engagement, and strategy) which was first tested with the Pantheon Infrastructure (PINT) portfolio given its smaller size. As part of this, scorecards were developed for each asset, and the manager engages with underlying holdings on an annual basis which is a 20+ question set which is mapped to the UN Sustainable Development Goals (SDGs). The team stressed that these scorecards are mandatory for each investment, and it is unlikely for an investment to be approved if this is not completed.

To date in 2025, the team has undertaken 30 calls with underlying managers on the back of general partner engagements and received data and insight from 270 managers via surveys. In addition to this, climate scenario analysis is undertaken, but only 15% is related to physical risk, which we believe is a material risk particularly for infrastructure assets. There was discussion around the data challenge which has slowly improved from continent-level data to country level, but at this point in time granular physical risk analysis is a big undertaking for a portfolio spread across multiple geographies. The manager recognised that this is a key issue and noted that there is a lot more that could be done in this space.

Pantheon has been involved with several industry initiatives including the development of the Private Markets Decarbonization Roadmap (PMDR) which provides a framework for private equity assets to highlight asset decarbonisation. PMDR alignment has been completed for PINT, and whilst there are no associated timelines, asset-level progress is tracked year on year. It was noted that biodiversity-related risk still has a way to go with regards to availability of data and disclosures. Ten percent of the scorecard focuses on biodiversity, but they are unsure about the Taskforce for Nature-related Financial Disclosures (TNFD) as a voluntary disclosure framework but highlighted that making it a regulatory requirement would increase attention on these issues.

**Outcome:** Overall, this was a good insight into how ESG and sustainability is considered, integrated, and managed across Pantheon as an organisation and at the fund level. Based on the evidence provided on governance and oversight engagement and transparency, this engagement has led to a change in the responsible investment categorisation from Aware to Engaged.

## ROYAL LONDON ETHICAL BOND FUND

**Objective**: To assess and understand in-depth the ESG integration process and credentials for the RLAM Ethical Bond Fund.

A meeting took place with a senior ESG credit analyst and investment director to learn in detail about RLAM's responsible investment approach as well as how ESG considerations are considered for the Ethical Bond Fund Strategy. An overview was provided of RLAM's central responsible investment approach including the new focus themes for 2026 which include climate, nature, people, and governance and also cover topics like just adaptation and just resilience. The 19 people team comprises subject matter experts across the different themes and focuses on engagement, governance, and research.

The Ethical Bond Fund team went into depth regarding the processes that are in place to integrate ESG analysis and screening into the investment decision making. The team highlighted the importance of avoiding easy stock selection choices which ultimately hinder diversification. Regarding the topic of defence, exclusions are in place for this fund, and Royal London is looking to update its firmwide defence policy to be more stringent given the current macro context.

Two key challenges were highlighted in relation to credit and stewardship: limited third party data coverage, and corporate bond idiosyncrasy and data quality. To mitigate these issues, the fund manager uses the expertise of the Royal London Responsible Investment team to undertake analysis to fill the missing data gaps. As well as focusing efforts on areas that are overlooked and ensure to take a bespoke approach by considering bond specifics when undertaking creditor-centric engagements. Several examples of ESG reviews and engagement examples were provided and talked through bringing their approach to life and demonstrating a strong focus on materiality and true value add. The team confirmed that engagements do take place during bond issuance, but the majority of research is on-going. A proprietary alignment conviction framework has been built to help monitor climate transition credentials over time from a climate perspective and assists with highlighting key areas of risk.

**Outcome:** Overall, the discussion provided a strong insight into how ESG is integrated, and factors are considered for the RLAM Ethical Bond Fund. The credit analyst provided strong examples and case studies which brought the frameworks and theories to life and provided reassurance of how stewardship is undertaken despite the challenges that bondholders can face. The responsible investment categorisation remains Engaged.

## STATE STREET US EQUITY INDEX FUND

**Objective**: To deep dive into State Street's firm level ESG and stewardship policies as well as ESG integration across their various products and strategies on the back of the responses submitted in QC's 2025 ESG RFI.

We met with State Street's head of EMEA stewardship operations and senior sustainability strategist to discuss State Street's firmwide approach to ESG and sustainability integration across its various divisions, products, and strategies. Their overarching sustainable business is split into six different focus areas: sustainable investing research, sustainable investing operations, sustainability stewardship service, sustainable investing strategy, asset stewardship, and fixed income. It was noted that unless a portfolio has a specific ESG mandate or component, ESG is not considered or integrated in investment decision making. Data is available for portfolio managers to use but it is typically not used for exclusions. For index funds that have an ESG mandate, screens and tilts are applied with stock exclusions and forward-looking metrics such as implied temperature rise are used. Different policies exist for different regions e.g. for all US funds, the global asset policy is applied, and sustainability is considered solely through a risk lens. This discussion helped clarify that ten out of 11 funds scored exactly the same across firm and strategy questions in the ESG RFI regardless of asset class. The US equity index fund however scored higher at the strategy level given it has an ESG screen and tilt overlay.

When prioritising and undertaking engagements, the size of absolute and relative holdings is considered, companies' long-term financial underperformance within their sector and outstanding topics from prior engagements. Companies are analysed using financial, governance and sustainability research, insights from engagements and company disclosures and utilising the expertise of their active fundamentals team. It is evident that State Street's ESG and stewardship approach is driven by the central sustainability functions rather than in collaboration with investment teams. There is also a key focus on client-led mandates to undertake ESG-related activity as a way to mitigate ESG-backlash implications.

**Outcome:** Overall, this was a good insight into how ESG and sustainability is considered, integrated, and managed across State Street as a whole and provided insight into the 2025 ESG RFI responses provided by the firm. Based on the evidence provided, this engagement reaffirmed our categorisation as Aware.

## TIME: PROPERTY LONG INCOME AND GROWTH

**Objective**: To engage regarding ESG integration and to understand their views on material ESG opportunities and risks facing the property sector.

We met with the fund manager to understand in detail how ESG integration is embedded at the portfolio level. The discussion covered a range of issues including governance processes, understanding how Alpha Real's ESG policies are translated to the fund level, screens and metrics used during the due-diligence process, as well as how the fund manager considers ESG risk and opportunity for direct properties the fund is invested in versus real estate investment trusts (REITs). It was noted that energy intensity and the energy performance certificate (EPC) are key metrics that are considered during the investment process, but unless there is a red flag, it does not have a significant effect on allocation decision-making. There was not much depth or insight into other key material issues such as physical climate risk and stress-testing of assets which we believe are crucial for the sector. The fund manager views the REIT sector to be ‘pretty good’ overall and therefore does not consider ESG risks as material when undertaking due diligence. There is also reasonably heavy reliance on third-party data with limited internal tools and systems at the portfolio level to conduct further analysis. We encouraged the fund manager to improve the fund’s annual ESG disclosures and reporting to ensure transparency for shareholders into their activities and appropriate management of ESG risk.

**Outcome:** Overall, the discussion was a helpful insight into how the fund manager considers and embeds ESG risk into the investment decision-making process. Whilst steps are being taken to embed ESG metrics into screening and due-diligence processes, the approach is limited with room for improvement across several areas. We encouraged stronger ESG disclosures, reporting, and transparency on an annual basis, engagement with management on material ESG risks, as well as further consideration to be given of social and governance factors given the hybrid direct and REIT-focused fund. The meeting reconfirmed the RI categorisation of the fund.

# Overview

Quilter Cheviot's discretionary investment management services are for anyone looking for highly personalised wealth management. Our services are for private clients, charities, trustees, and professional partners with straightforward or more complex financial needs.

When we refer to the universe of holdings covered by our responsible investment approach this is what is included.

| Activity | Universe |
|---|---|
| Voting[1] | Discretionary holdings within the global equity and investment trust monitored lists where we have voting rights.<br>Discretionary holdings in UK listed companies which are IM (investment manager) led ideas where we own more than 0.2% or £2 million of the market cap.<br>MPS (Managed Portfolio Service) Building Blocks<br>Sustainable Opportunities Balanced Fund and Sustainable Opportunities Growth Fund[2]<br>Quilter Cheviot Global Income and Growth Fund for Charities<br>Quilter Investors Ethical Fund<br>AIM Portfolio Service<br>Quilter Cheviot International Funds<br>Libero Balanced Fund |
| Engagement | Centrally monitored holdings<br>AIM Portfolio Service holdings<br>UK holdings where we own more than 0.2% or £2 million of the market cap (governance matters only) |
| ESG integration | Centrally monitored holdings |

Where clients wish to vote their holdings in a specific way, we will do so on a reasonable endeavours basis; this applies whether the investment is in the core universe or not, and also to overseas holdings.

As at 31 December 2024, Quilter Cheviot's Assets under Management (AuM) was £29.5 billion. Of this £27.3 billion (92%) are centrally monitored holdings. Of the remainder £0.2 billion is held within investment manager (IM), led ideas and a further £0.8 billion represents a long tail of legacy holdings, which is a consequence of the nature of the client base. In some cases, the position will only be held by one client[3].

We invest directly and indirectly:

| Asset class | Direct | Indirect |
|---|---|---|
| Equities | Predominantly UK, US and Europe | All geographies |
| Fixed income - sovereign | Predominantly in the UK | All geographies |
| Fixed income - corporate | Limited number of issuers | All geographies |
| Infrastructure | | Only via third-party funds |
| Property | Exposure to the sector through equity holdings | Third-party funds |
| Private equity | | Only via third-party funds |
| Alternative income, hedge funds and absolute return vehicles | | Only via third-party funds |
| Commodities | | Only via third-party funds |

1 As far as reasonably possible given the local regulations regarding share voting. Notably, we do not vote where it results in the blocking of trading positions. We also do not currentlyy vote on discretionary holdings (within the global equity and investment trust monitored lists) where we do not have the power of attorney in place. These markets being Switzerland, Sweden, Belgium, Norway. Other infrequent instances of non-vote placement may include Crest Depositary Interests (CDIs), ADRs or GDRs are held. Ability to vote on these holdings differs on a case-by-case basis.

2 Prior to 8 September 2025, these Funds were known as the Climate Assets Balanced Fund and the Climate Assets Growth Fund.

3 The data exclude client cash held across multiple currencies in client portfolios and does not include external platform managed assets which are not replicated on our in-house systems (£1.0 billion of the overall AuM), as well as £0.22 billion in externally held and administered positions in Quilter Cheviot managed funds.

# RI Reels

*Insights into Quilter Cheviot's approach to responsible investment, as well as topical issues.*

### SBTi engagement

Kirsty Ward is joined by Margaret Schmitt, Responsible Investment Analyst, to discuss our latest SBTi 'Slow to Start' engagement.

Watch time: 9 minutes

Watch vlog

### Proxy Voting in 2025

Kirsty Ward is joined by Greg Kearney, Senior Responsible Investment Analyst at Quilter Cheviot, to discuss 2025's proxy season.

Watch time: 6 minutes

Watch vlog

Source of images: iStock

# Responsible Investment at Quilter Cheviot

## Our solutions

**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. Teams are responsible for incorporating this into their ongoing analysis of investments.

**A Direct Equity Approach* – DPS Applied**

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. Positive screening relates to the process of only including companies that reach a certain performance threshold. Negative screening excludes companies involved in pre-defined activities or controversial practices. 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.

**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.

**Sustainable Investment – The Sustainable Opportunities Funds** and Strategy**

Through an actively managed multi-asset approach, these are suitable for clients who want to support the development of sustainable societies by focusing on investment opportunities in the areas of Clean Energy, Food, Health & Well-Being, Resource Efficiency, and Water. Ethical exclusions are also applied to avoid investments in controversial sectors.

**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.

**Client Preferences**

We have identified three client preference categories: Aware, Engaged and Dedicated. For existing clients, we have categorised these in accordance with their current investment strategy, however the adviser/ investment manager reviews this with the client regularly. For example, if the client already invests in Sustainable Opportunities Funds or strategy then this would be aligned to the Dedicated category; similarly, for Positive Change this would align to the Engaged category. The majority of clients will be aligned to the Aware category. The Aware category reflects the Quilter Cheviot firmwide approach to responsible investment which incorporates stewardship (voting and engagement) as well as integration of ESG considerations within the investment process.

* For UK, North American and European equity holdings

** Sustainable Opportunities Balanced Fund and Sustainable Opportunities Growth Fund.

# Glossary

*Welcome to our comprehensive responsible investment glossary. We're aware the investment world is full of specialised terminology, so hopefully you'll find the following key terms and concepts will enable you to navigate the world of Environmental, Social, and Governance (ESG) more easily.*

**Active ownership (Stewardship):** Investors actively use voting and engagement to influence the management of companies with respect to environmental, social or governance factors. Similar principles are also used by investors in other asset classes such as fixed income, private equity or property. This will also involve active participation in industry and peer group collaborative initiatives.

**Annual General Meeting (AGM):** An annual general meeting is a requirement for all publicly listed companies. This meeting, held annually, provides an opportunity for shareholders to vote on company decisions either in person or by proxy.

**American Depositary Receipts (ADRs):** An ADR is a negotiable certificate that evidences an ownership interest in American Depositary Shares. ADRs allow U.S. investors to invest in non-U.S. companies and give non-U.S. companies easier access to the U.S. capital markets.

*Source: US Securities and Exchange Commission*

**Carbon footprint:** The total amount of greenhouse gases (including carbon dioxide and methane) that are generated by our actions.

**Carbon pricing:** Operates by placing a fee on emitting and/or offering an incentive for emitting fewer carbon emissions. This may refer to the rate of a carbon tax, or the price of emissions permits.

Carbon pricing has emerged as a key policy mechanism to curb and mitigate the dangerous impacts of greenhouse gas pollution and drive investments towards cleaner, more efficient alternatives.

*Source: CDP*

**Circular economy:** The model of production and consumption which involves sharing, leasing, reusing, repairing, refurbishing, and recycling existing materials and products as long as possible. In this way, the life cycle of products is extended.

**Clawback (and malus):** Incentive plans should include provisions that allow the company, in specified circumstances, to ensure that a recipient:

- forfeits all or part of a bonus or long-term incentive award before it has vested and been paid – this is called 'malus' and/or
- pays back sums already paid – this is called 'clawback'

**Climate change:** This refers to a change in the state of the climate that can be identified (e.g. by using statistical tests) and that persists for an extended period, typically decades or longer. Climate change may be due to natural internal processes or external forcings such as changed of the solar cycles, volcanic eruptions, and persistent anthropogenic (environmental change caused or influenced by people directly or indirectly) changes in the composition of the atmosphere or in land use.

*This is one of the three Quilter responsible investment priorities.*

*Source: Intergovernmental Panel on Climate Change (IPCC)*

**COP:** An acronym for 'Conference of the Parties' that can be used to refer to the meetings of countries as part of the United Nations (UN) Framework Convention on Climate Change (UNFCCC).

**Disapplication of pre-emption rights:** Existing shareholders do not have first refusal on new shares and therefore their holdings will be diluted.

**Engagement:** Investors enter into purposeful dialogue with companies, funds, industry bodies, and governments to discuss environmental, social, and governance related issues in order to gain more information or to encourage and achieve change. This may be in collaboration with other investors.

**ESG (Environmental, Social, and Governance):** The risks and opportunities related to ESG issues.

**Environment** - relating to the environment. Examples include resource, water and land use, biodiversity, pollution, atmospheric emissions, climate change, and waste.

**Social** - relating to the relationship between companies and people, such as their employees, suppliers, customers, and communities. Examples of social issues of interest to investors include health and safety, labour standards, supply-chain management, and consumer protection.

**Governance** - relating to the governance of an organisation, also referred to as corporate governance. Examples include board composition, executive remuneration, internal controls, and balancing the interests of all stakeholders.

**ESG integration:** Analysing ESG data to better inform investment decisions.

**ESG screening:** Ethical and values-oriented investment based on client requirements is incorporated on an individual client basis within the Discretionary Portfolio Service. This is informed by their specific ethical preferences and values and will vary from client to client and will focus on sectors, industries, or individual companies.

**Executive director:** These are directors who act perform managerial duties within a business. They are held to account by the non-executive directors.

**Global Depositary Receipt (GDR):** A Global Depositary Receipt (GDR) is a negotiable certificate held in a country's local banks representing title to a certain number of foreign shares. Non-domestic companies wishing to list on the local exchange must offer GDRs.

Source: Morningstar

**Green bonds:** Differentiated from a regular bond by being "labelled" i.e., designated as "green" by the issuer or another entity, whereby a commitment is made to use the proceeds of green bonds (i.e., the principal) in a transparent manner, and exclusively to finance or refinance "green" projects, assets or business activities with an environmental benefit.

**Greenhouse gases (GHG):** Greenhouse gases (GHGs) are carbon dioxide, methane, nitrous oxide, and ozone. They account for a tiny fraction of the atmosphere, but they are a critical part of the overall atmosphere composition as they play a significant role in trapping the earth's heat and warming our planet. Since industrialisation, GHG concentrations have rocketed, warming the planet at unprecedented rates. The major cause of the increase in carbon emissions has been the use of fossil fuels in producing energy.

**Greenwashing:** Greenwashing describes misleading or unsubstantiated claims made by businesses including investment firms about the environmental performance of their products or activities.

**Human rights:** Human rights are the 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.

*This is one of the three Quilter responsible investment priorities.*

**Just transition:** Just transition is a framework to ensure the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically – be they countries, regions, industries, communities, workers, or consumers.

**Lead independent director:** The role of a lead independent director is to serve as an intermediary between the independent directors, chairman and chief executive officer. Where a company maintains a combined Chief Executive Officer (CEO)/chair position, a lead independent director can serve as an independent counterweight to an executive (non -independent) chair.

**Long-term incentive plan (LTIP):** A type of executive compensation that pays out usually in the form of shares company. The reward is linked to performance metrics and the pay-out will be calibrated in line with the achievement of these. The quantum of the pay-out is linked to multiples of salary.

**Natural capital:** Natural capital is stock of renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils, or minerals) that combine to yield a flow of benefits and ecosystem services to society.

*This is one of the three Quilter responsible investment priorities.*

**NEDs (Non-Executive Directors):** These are directors who act in advisory capacity only, however they should hold the executive directors to account. They are not employees of the company; however, they are paid a fee for their services.

**Net zero:** Achieved when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period. Where multiple greenhouse gases are involved, the quantification of net zero emissions depends on the climate metric chosen to compare emissions of different gases (such as global warming potential, global temperature change potential, and others, as well as the chosen time horizon).

Source: IPCC

**Over-boarded:** Where non-executive directors are deemed to have a potentially excessive number of non-executive positions and the concern is whether they have sufficient time to contribute to the board of a company.

**Paris Agreement on climate change:** The Paris Agreement was a global agreement to strengthen the global response to climate change. It was agreed in 2015 that the global temperature rise this century should be kept to well below 2°C above pre-industrial levels and ideally below 1.5°C.

**Power of Attorney:** An instrument used to bestow authority to act on someone's behalf.

**Pre-emption rights:** These give shareholders first refusal when a company is issuing shares.

**Premium listing:** This was previously known as a primary listing for the London Stock Exchange. A company with a premium listing is expected to meet the UK's highest standards of regulation and corporate governance.

**Principles of Responsible Investment (PRI):** The world's leading voluntary initiative on responsible investment. Launched in 2006 it now has thousands of investor signatories globally who commit to adopt six principles for responsible investment and report against these annually. Although voluntary and investor-led the PRI is supported by the United Nations.

**Proxy voting:** Where a shareholder delegates their voting rights to be exercised on their behalf. Often voting rights are delegated to investment managers who exercise votes on investors' behalf. Votes are used to express shareholder opinions to company management.

**Responsible investment:** A strategy and practice to incorporate ESG factors in investment decisions and active ownership.

*Source: PRI*

**Restricted share plan (RSUs):** Some companies (and indeed investors) prefer the use of these plans as opposed to LTIPs (see above). The idea is that this type of plan encourages long-term behaviours and does not have the same use of targets that you would see within an LTIP. Therefore, it is expected that companies which adopt such an approach award a lower amount than would be seen under an LTIP which has a variable structure dependent on performance outcomes.

**Share blocking:** This refers to a rule prohibiting shareowners from trading or loaning shares that they intend to vote for some period of time leading up to, and often following, the company meeting date.

**Short-term incentive plan (STIP):** A type of executive compensation schemed that seeks to align a proportion of overall executive pay with a company's short-term strategy. STI have a performance year of one year or less and are typically paid in cash but may also be paid in shares.

**SID (Senior Independent Director):** The SID position is taken by an independent NED. The SID often plays a critical role in ensuring communication channels are open between the board and shareholders.

**Stranded assets:** Stranded assets describe the assets on corporate balance sheets that could rapidly lose their value because of forced write-offs. An example of this would be fossil fuel reserves remain unburned.

**Stewardship:** The responsible allocation, management, and oversight of capital to create long-term value for investors and beneficiaries leading to sustainable benefits for the economy, the environment, and society.

*Source: Financial Reporting Council (FRC)*

**Sustainability focused investment:** Sustainability-focused investment is an investment approach that selects and includes investments on the basis they fulfil certain sustainability criteria and/ or deliver on specific and measurable sustainability outcomes. Investments are selected based upon the sustainable solutions that they provide, such as what a company produces or the services it delivers. Consideration is often also given to how the company or asset delivers those products and services. There are different methods for assessing the sustainability characteristics of an investment, many of which reference an established framework such as the UN Sustainable Development Goals.

**Task Force on Climate-related Financial Disclosures (TCFD):** The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information.

**Tender – bid waiver:** This is the right to waive the requirement to make a general offer under Rule 9 of the Takeover Code, resulting in a request to procure a good or service to take place without public bidding.

**The Shareholder Rights Directive II (SRD II):** Establishes rules promoting the exercise of shareholder rights at general meetings of companies with registered offices in the EU and the shares of which are admitted to trading on a regulated market in the EU .The 2017 revision (Directive (EU) 2017/828) aims to encourage long-term shareholder engagement to ensure that decisions are made for the long-term stability of a company and take into account environmental and social issues. A notable requirement within this is for asset managers to report on their voting activity and shareholder engagement on an annual basis.

Source: EU Directive

**Task Force on Nature-related Financial Disclosures (TNFD):** TNFD was formed to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature related risks. The ultimate aim is to support a shift in global financial flows away from nature-negative outcomes and towards nature-positive outcomes.

**Total shareholder return (TSR):** Is a measure of the performance of a company's shares; it combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage.

**UN Sustainable Development Goals (SDGs):** The 2030 Agenda for Sustainable Development adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 UN Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth - all while tackling climate change and working to preserve our oceans and forests.

*Source: United Nations*

**Voting Rights:** Shares in listed companies typically come with specific voting rights which can be exercised at the company's annual general meeting or extraordinary meetings. They can be used as a means of expressing the opinion of the shareholder about how the company is being managed. This is also referred to as proxy voting when voting rights are delegated, for example to investment managers who exercise voting rights on an investor's behalf.

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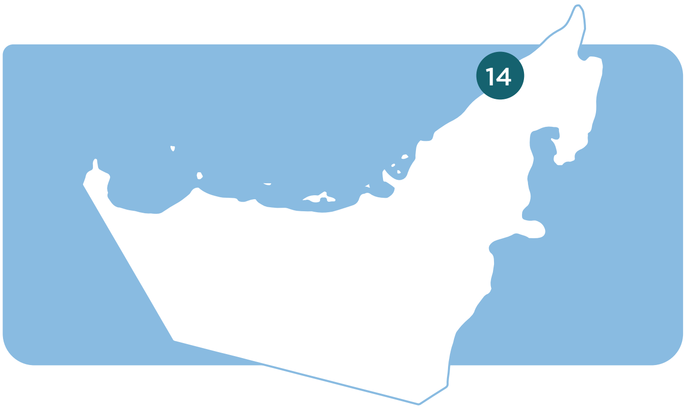


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