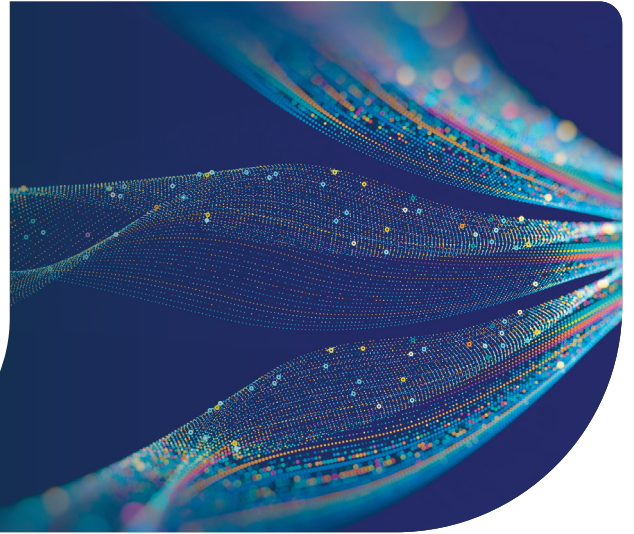




RESPONSIBLE INVESTMENT

It's good to talk: how engagement validates company data



Setting the bar high: driving better standards in a risky world

Recently reading an article by Gillian Tett written in the Financial Times, I was reminded of the 1986 Challenger space shuttle disaster and NASA's response to the incident. In January 1986, the Challenger space shuttle disintegrated shortly after launch, killing all seven astronauts on board. The cause was not a single catastrophic failure, but a culture of complacency. Engineers had long warned about the vulnerability of the shuttle's engine seals in cold weather, but because previous launches had succeeded despite similar conditions, those warnings were downplayed. Over time, small deviations from safety standards were normalised, a phenomenon sociologist Diane Vaughan termed the "normalisation of deviance"¹. Tett was writing in the context of American business. She warned that when companies and markets begin to accept small rule-bending as routine, trust - the foundation of capitalism - begins to erode. This erosion is rarely sudden. It happens incrementally, as minor lapses go unchallenged and become the new norm.

This tragedy, and the subsequent NASA report titled 'The Cost of Silence'², revealed how groupthink and the erosion of standards can lead to disaster. The report's recommendations: "never use past success to redefine acceptable performance," "prevent groupthink," and "keep safety programmes independent" are as relevant to corporate governance and investment as they are to aerospace engineering.

In the world of responsible investment, these lessons resonate deeply. Importantly, the same patterns can plague businesses and financial markets. Corporate scandals and failures rarely happen because one person suddenly decides to "go rogue." More often, standards slip little by little: a minor compliance lapse is ignored, a questionable payment is tolerated, safety checks are rushed, until one day, there's a major incident. When companies begin to rationalise away ESG risks or silence dissenting voices, they risk not only reputational damage, but also long-term value destruction. As investors, we have a responsibility to set high expectations and hold companies to account, not just to protect capital, but to ensure that the businesses we invest in are resilient and future fit.

By setting clear expectations when engaging with companies on ESG risks, we can help prevent the slow drift into mediocrity or misconduct. It's not about perfection, no company is flawless, but about a commitment to continuous improvement and transparency.

¹ 'Trump and the normalisation of deviance,' Gillian Tett, Financial Times (February 2026)

² 'The cost of silence: Normalisation of deviance,' NASA (March 2014)

Defining a higher bar - our 'Engaged' investment universe

At Quilter Cheviot, we operationalise this philosophy through the work we do to define our 'Engaged' investment universe - a curated list of companies that meet elevated ESG standards and are suitable for inclusion in portfolios aligned with higher sustainability preferences.

This process is underpinned by a robust ESG integration framework that combines quantitative data with qualitative judgement and active ownership. Our approach rests on three pillars:

- 1 ESG dashboards built on the Sustainability Accounting Standards Board (SASB) framework, tailored to each industry.
- 2 Core metrics applied across all companies, including climate targets, governance assessments, CEO pay alignment, and board diversity.
- 3 Regular engagement with companies to contextualise data, clarify concerns, and set expectations for improvement.

The dashboards flag both consistent underperformers and leaders within industry peer groups. Where signals are mixed or unclear, we engage directly with companies to understand the story behind the data. This ensures that inclusion in the Engaged universe is not based solely on scores, but on a holistic view of ESG performance and trajectory.

Importantly, we do not set arbitrary thresholds or quotas. Each company is assessed on its own merits, with the understanding that ESG risks and opportunities vary by sector and geography. This flexibility allows us to apply high standards without being rigid or formulaic.

Engagement in practice

Our engagement process is not about box-ticking - it's about meaningful dialogue that drives information flow and, sometimes, change. Companies flagged for potential downgrades of performance are given the opportunity to respond, explain, and - where necessary - improve.

Recent engagements with companies such as Medtronic, SAP, Micron, and LVMH, illustrate this in action. Each was recently identified as being on the borderline of our Engaged universe due to concerns ranging from governance and board diversity to climate disclosure and supply chain oversight.

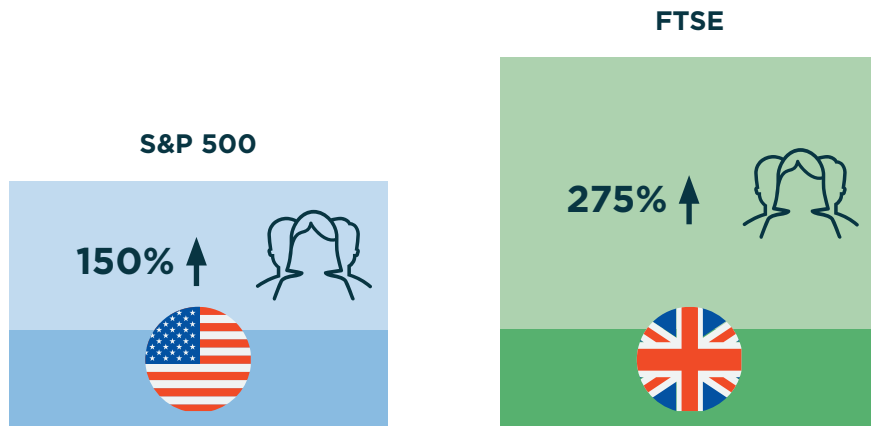
- Medtronic was flagged for low board diversity and governance structure concerns. Through engagement, the company acknowledged the issues and outlined steps to improve, including enhancing board independence and addressing product safety incidents.
- SAP faced scrutiny over past bribery allegations and a drop in board gender diversity. The company responded by quadrupling its compliance team and committing to align with EU diversity directives.
- Micron's high carbon intensity and low climate disclosure score raised red flags. However, engagement revealed credible efforts to reduce emissions, expand renewable energy use, and improve transparency.
- LVMH was questioned on data points related to human rights and governance concerns. The company demonstrated significant improvements in supply chain due diligence and board composition, justifying its continued inclusion.

In each case, the outcome was not determined by the presence of issues alone, but by the company's willingness and ability to address them.

This reflects our belief that engagement, not divestment, is often the most effective tool for raising standards.

The power of expectations

Investor expectations matter and shareholder pressure has driven tangible change.



From 2016 to 2019, targeted voting policies by major asset managers contributed to a **150% increase** in the number of women on S&P 500 boards. In the UK, similar efforts contributed to women holding **45% of FTSE 100 board seats** by 2025, up from just 12% in 2011.

These outcomes were not the result of regulatory action. They were achieved because investors set clear standards and used their influence to enforce them. This is the essence of stewardship: using ownership rights to promote better governance, resilience, and long-term value creation.

High standards in times of upheaval

Some argue that during periods of economic uncertainty, ESG considerations should take a back seat to financial fundamentals. We disagree. In fact, times of upheaval are when high standards matter most.

Research during the COVID-19 crisis showed that companies with strong ESG profiles were more resilient, experiencing smaller drawdowns and faster recoveries³. This is not surprising. Companies that manage short, medium and (importantly) long term ESG risks well are often better governed, more forward-looking, and more trusted by stakeholders. They are more likely to anticipate and adapt to shocks, whether environmental, social, or economic.

Moreover, crises test corporate integrity. Under pressure, some companies may be tempted to cut corners or deprioritise sustainability. Those that maintain their standards and are held to them by engaged investors can emerge stronger.

Conclusion: the value of vigilance

The Challenger disaster was a tragedy born of 'group think' and lowered expectations. In the world of investment, the cost of silence may not be as immediate or visible, but it is no less real. When investors fail to monitor and challenge companies on ESG risks, they risk enabling the very behaviours that lead to long-term value destruction.

At Quilter Cheviot, we choose a different path. Through rigorous analysis, active engagement, and a commitment to high standards, we aim to build portfolios that are not only financially robust but also aligned with the values and expectations of our clients.

Setting the bar high is not about being punitive or idealistic. It's about recognising that standards shape behaviour, and that behaviour shapes outcomes. By refusing to accept the normalisation of deviance, we can help companies stay on course and ensure that our investments are built to last.

³ 'MSCI indexes during the coronavirus crisis,' MSCI (April 2020)



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