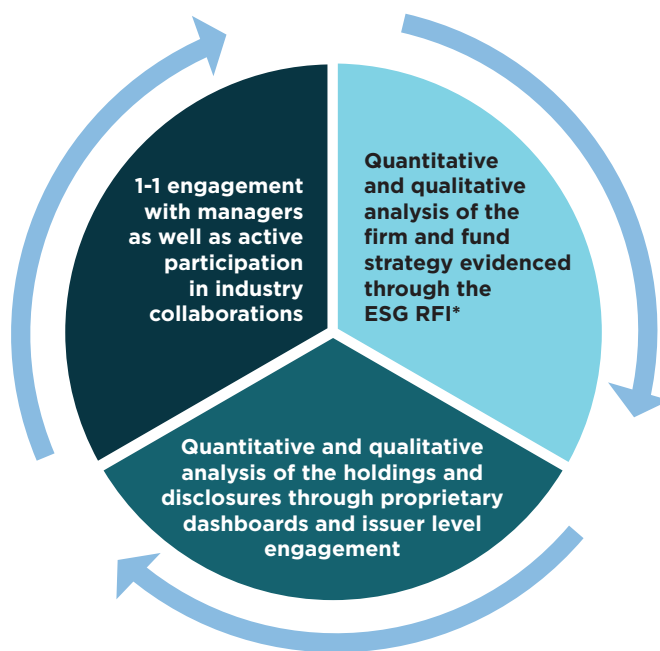


# Integrating environmental, social and governance (ESG) factors into fund selection

This applies to centrally monitored holdings only. Your Investment Manager has the flexibility, within a controlled framework, to tailor your portfolio with regard to asset allocation and security selection, in order to accommodate your investment requirements.

As a responsible investor, Quilter Cheviot evaluates third-party managers' approaches to responsible investment at a firm, strategy, and holdings level. This is incorporated into our research process.



Within our proprietary fund responsible investment framework, we evaluate the 350+ centrally monitored third-party funds and investment trusts quantitatively and qualitatively. As outcomes from this process, we assign the following ratings to funds:

- Within our responsible investment framework, we categorise funds as either Aware or Engaged (A/E). For funds to be classified as Dedicated they must first be classified as Engaged and there must be appropriate alignment to the UN Sustainable Development Goals as outlined in our approach to sustainable investment.
- Each fund has its own fund ESG rating which is a proprietary rating derived from our qualitative and quantitative assessment.
- Investment trusts are RAG (Red, Amber, Green) rated<sup>1</sup> on three factors: board composition, board effectiveness and responsible investment disclosures through our ongoing investment trust engagement programme.

\* Request for Information

<sup>1</sup> [qc-investment-trust-engagement-report-phase-2.pdf](#)

## Quantitative and qualitative analysis of the firm and fund strategy evidenced through the ESG RFI

We seek to combine data gathered directly from third-party managers via our annual ESG Request for Information (ESG RFI), together with a comprehensive range of ESG data metrics at the holdings level for funds invested in listed securities including sovereign debt, or scorecards aligned with Sustainability Accounting Standards Board (SASB) disclosure standards for funds investing in unlisted securities.

Our proprietary fund dashboards have been designed and built to score centrally monitored third-party funds from a responsible investment perspective. The dashboards are designed to:

- Evidence the RI categorisation of funds and the proprietary ESG fund rating
- Identify funds and holdings for engagement

Through the analysis of this information, we make an initial quantitative assessment of a fund based on:

- The firm's approach to responsible investment
- The manager's approach to ESG integration / responsible investment as part of the investment strategy
- The fund's holdings or disclosures

The combination of this top-down and bottom-up approach allows us to determine the extent to which a fund displays responsible investment credentials. This is then either evidenced or challenged through the ongoing engagement with the fund.



This fund assessment process seeks to improve the consistency and depth of responsible investment related assessments using a data-driven baseline view of funds complemented by qualitative insight.

The scoring methodology has been developed to differentiate between asset classes given the data considerations for listed versus unlisted securities within the holdings and disclosures element of the quantitative analysis.

It is important to note that we do not set absolute standards or targets for either direct or indirect holdings, recognising that one-size does not fit all. Companies and funds vary widely in their approach to responsible investment, and material issues differ across sectors and geographies. Scoring at the holdings level reflects this, with each fund assessed within its peer group i.e. asset class and region where applicable.

Within the holdings' scorecards we capture some metrics solely for validation or specific engagement purposes. We have placed higher weightings to certain metrics reflecting their importance in our assessment of each fund.

<sup>2</sup> Sustainable Finance Disclosure Regulation (SFDR) in the EU and Sustainability Disclosure Requirements (SDR) in the UK

Assessment level	Assessment element	Equity Fixed income Multi-asset Property (REITs) % allocation	Alternatives: Private equity Infrastructure % allocation	Alternatives: Absolute return Hedge funds Commodities Property (non-REIT/hybrid) % allocation
<b>Firm</b>	ESG RFI	20	20	20
<b>Strategy</b>	ESG RFI	40	30	40
	Regulatory label	10	10	10
	Investment trust RAG	n/a	10	n/a
<b>Holdings and disclosures</b>	ESG metrics	30	n/a	n/a
	Disclosures	n/a	30	30

## ESG RFI - firm and strategy

All centrally monitored third-party funds receive our annual ESG RFI which gathers data at both the firm level and the individual strategy. The scoring allocation for the ESG RFI response will vary depending on the asset class as shown above. Each question falls into one of these four ESG pillars:

<p><b>Oversight and implementation (25%)</b></p> <p>The robustness of the fund manager's responsible investment governance framework i.e. how responsibilities, oversight, and incentives are embedded within the organisations and fund-level strategy.</p>	<p><b>ESG integration in the investment process (25%)</b></p> <p>Evidence that responsible investment is a core component of the fund's process. The strongest funds treat ESG factors as integral as to how investments are selected and monitored.</p> <p>Demonstrate that ESG considerations actively shape portfolio construction and risk management.</p>	<p><b>Stewardship and engagement (25%)</b></p> <p>How effectively a fund manager uses influence as an investor to drive positive ESG outcomes. We are looking for evidence that stewardship is not a passive obligation but a strategic tool for managing risk and creating long-term value.</p>	<p><b>Transparency and reporting (25%)</b></p> <p>How clearly and comprehensively a fund manager communicates its ESG approach, activities, and outcomes.</p> <p>Strong reporting demonstrates that ESG integration is not just a claim but a measurable, verifiable practice.</p>
--	--	--	--

Scoring for the RFI responses is calculated based on Y/N questions, with a binary 1/0 score, and multiple-choice questions, with scaled scoring between 1-0. Each question is weighted based on the importance assigned to it, and each category is equally weighted at 25%. We additionally include free text questions which do not contribute to the overall score.

**For example, for equity funds where the ESG RFI is 60% of the overall dashboard score:**

Fund name	Pillar A Oversight and implementation (25%)	Pillar B integration in investment processes (25%)	Pillar C Stewardship and engagement (25%)	Pillar D Transparency and reporting (25%)	Total RFI score (shown as 60% of the total score)
<b>Fund 1</b>	11.97	22.31	14.83	12.34	36.87
<b>Fund 2</b>	25.00	22.31	25.00	19.54	55.11
<b>Fund 3</b>	25.00	22.31	25.00	25.00	58.38

## Thematic scorecards - holdings and disclosures

For funds with listed securities, we have created four scorecards aligned with our mega-themes: Climate, Human Rights, Natural Capital, and Governance. We have mapped individual metrics to each security within a portfolio and aggregated this at the portfolio level. To give an example, the climate scorecard includes metrics related to greenhouse gas (GHG) emissions, implied temperature rise bands, transition technologies, and fossil fuel exposure, for example, for listed securities. Across the full climate scorecard, we track over 70+ metrics to give a comprehensive overview of how a fund is performing against a range of climate issues. Additionally, we can drill down further into these metrics to show underlying data at the security level. Individual metric scores are aggregated at the scorecard level and each of the four scorecards are assigned an equal weighting of 7.5% for a total score at the holdings level of 30%. This allows for easy identification of where future engagement with each fund should be directed.

For unlisted securities (private equity, infrastructure, absolute return, hedge funds, commodities and property), we use a mixture of public disclosures and engagement given the lack of consistent data availability across these asset classes. The same scoring methodology applies across the four elements. Additionally, we have a separate scorecard for sovereigns and some of the metrics we consider include financed emissions across Scopes 1, 2 and 3 as well as weighted average carbon intensity and green bonds.

### For example, unlisted and listed thematic scorecards covering the four key themes

Fund name	Climate (7.5%)	Social (7.5%)	Natural Capital (7.5%)	Governance (7.5%)	Weighted scorecard total %
Fund 1	4.4%	4.5%	2.7%	4.4%	16.0%
Fund 2	3.1%	4.5%	3.6%	3.7%	14.9%
Fund 3	4.0%	1.3%	4.5%	2.5%	12.3%

## Regulatory labels

The SFDR (Sustainable Finance Disclosure Regulation) in the EU and the SDR (Sustainability Disclosure Requirements) in the UK provide structured frameworks for assessing sustainability:

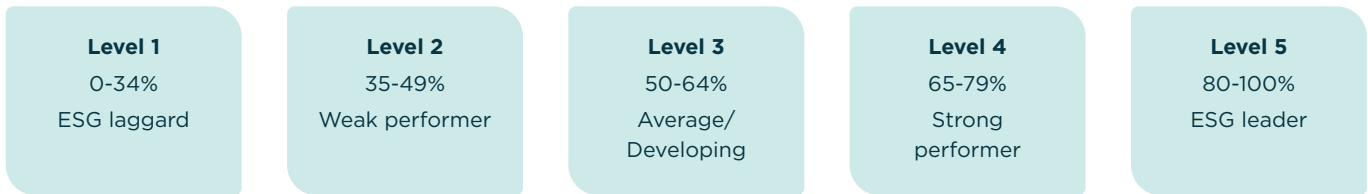
- SFDR categorises funds into Articles 6, 8, and 9 based on their sustainability objectives and disclosures.
- SDR introduces four labels (Focus, Improver, Impact, Mixed Goals) with clear criteria, as well as funds that fall under the Naming and Marketing Rules. Within the SDR framework, a CFD (Consumer-Facing Disclosure) denotes the mandatory consumer-facing disclosure that firms must provide to retail investors.

By including these labels into the fund dashboard scoring framework rewards third-party managers that meet baseline regulatory standards for sustainable investing, demonstrate operational readiness to manage ESG risks and disclosures, and align with investor expectations for credible, transparent sustainability strategies. The labels will be scored as follows (% contribution to overall dashboard score):

- SDR CFD – 5%
- SDR Label – 10%
- SFDR article 8 – 5%
- SFDR article 9 – 10%

## Responsible investment categorisation

For each fund within the dashboards the total score is translated into a fixed 1-5 scale to ensure comparability of the dashboard output across all funds. This applies consistently across all asset classes with nuanced considerations for both public and private markets.



We use this 1-5 score to determine whether a fund should be classified as **Aware** or **Engaged**. The framework uses the 1-5 score as an anchor, supported by qualitative insights allowing for flexibility especially where data gaps exist.

A fund is classified as **Engaged** when:

- It scores 4 (Strong performer) or 5 (ESG leader), and
- It has no material weaknesses identified in any individual pillar, and
- It demonstrates stable or improving ESG practices year on year
- ESG risks are well understood and managed.

A fund is classified as **Aware** when:

- The dashboard score falls in the mid-range or below (<64%), where performance is acceptable but not robust
- One or more pillar scores are less than 10%
- There are structural gaps in the thematic scorecards (e.g. missing climate targets, limited asset level data, weak biodiversity disclosure)
- It should be noted that this category will include index tracker funds where there may be very limited evidence of responsible investment characteristics.

## Overall assessment

While quantitative data forms an important foundation of our analysis and contributor towards the scoring of funds, outputs may be overridden where the Fund Research and Responsible Investment teams' engagement with the underlying fund indicates a different conclusion. This ensures data-driven outcomes can be appropriately challenged based on insights gained through regular engagement with fund managers.

## Fund screening and monitoring

The funds and their underlying holdings are screened monthly for holdings which breach:

- United Nations Global Compact
- Quilter Cheviot's controversial weapons policy<sup>3</sup>

Whilst we have not set an exclusionary policy for our indirect holdings via third-party funds, we will then engage with funds on holdings which are identified through this process as part of our engagement on ESG-related risks and exposures.

<sup>3</sup> <https://www.quiltercheviot.com/4ac2c9/siteassets/documents/guides/qc-responsible-investment-controversial-weapons-policy.pdf>

Additionally, we screen funds on exposures to activities that:

- are excluded from specific mandates for both direct and indirect exposure
- are excluded solely on a direct basis to enable us to quantify indirect exposure
- we are tracking as part of our Climate Action Plan.

## **Qualitative analysis**

As a significant fund buyer in the UK market, Quilter Cheviot has a specialist fund research capability responsible for monitoring closed and open-ended funds. Funds are selected in accordance with Quilter Cheviot's investment strategy, involving both quantitative and qualitative analysis, with significant importance placed on meeting the individual fund managers and their teams.

Our qualitative analysis is focused on engagement with the third-party funds we invest in. This may be on a 1-1 basis or through collaborative forums such as Wealth Managers on Climate and the Institutional Investors Group on Climate Change (IIGCC) External Fund Manager Working Group. Engagements relating to responsible investment will be undertaken by the analysts in the Responsible Investment and Fund Research teams individually or together.

Responsible investment engagements are split across four areas of focus:

- The firmwide approach to responsible investment
- Manager and strategy approach to responsible investment
- Engagement on ESG-related risk and exposure – usually related to one of our thematic priorities of climate change, human rights, natural capital and governance
- The firmwide approach to net zero

We appreciate that the strategy and asset class will determine the responsible investment approach that a manager is able to implement as different asset classes present different ESG considerations.

## **Escalation**

Escalation may take several forms. At the simplest level it would be reviewing the fund ESG rating and RI categorisation to downgrade the relevant rating. If this resulted in downgrading a fund from being categorised as Engaged this would result in the fund being removed from the relevant model.

It may take the form of a change of recommendation or inclusion in a model. We have, and may do so in the future, refused to invest with managers whose rationale for not being a signatory to the UN Principles for Responsible Investment is insufficient.

For investment trusts we would reconsider our RAG rating as well as potentially vote against members of the board.

## **Additional factors**

### **Adoption of global and local codes or principles**

We consider whether a firm is signed up to the United Nations backed Principles for Responsible Investment (PRI) and UK Stewardship Code, where appropriate.

As an additional measure, in June 2021, we implemented a requirement that any new funds included in our portfolios must have UN PRI signatory status via their investment manager/adviser. If this is a fund managed by a recently established firm, we would agree a timeline for the firm to sign up to the UN backed PRI. In exceptional circumstances, new funds may be added to our investment universe which are not, and do not have an intention to become a signatory. However, this would be extremely rare and the rationale for not being a signatory would have to be linked explicitly to the specific strategy that the fund was invested in. Any fund being added to coverage in this instance would need to be agreed by the Chief Investment Officer.

For funds within the current centrally monitored investment universe, we have identified a small proportion which are not PRI signatories. We expect a number of these will attain signatory status in the near term. For those that remain, we will continue to engage with them on this subject to continually evaluate the rationale for not becoming a signatory. We accept that for a very limited number of specific strategies, there is no tangible benefit in attaining signatory status at this stage given the nature of the underlying investments.

### **Quality over quantity**

In line with best practice and in some jurisdictions, regulation, we expect managers to regularly publish details of their voting and engagement. In terms of the latter, we look for quality not quantity. Voting on thousands of resolutions at AGMs may be laudable but we are more interested in the thought process that goes into making these decisions. Often this quantum of voting may simply be the result of an automated voting system which does not lead to engagement with companies on key topics.

### Quilter Cheviot

Senator House  
85 Queen Victoria Street  
London EC4V 4AB

 +44 (0)207 150 4000

 [enquiries@quiltercheviot.com](mailto:enquiries@quiltercheviot.com)

 [quiltercheviot.com](http://quiltercheviot.com)

**This is a marketing communication and is not independent investment research. Financial Instruments referred to are not subject to a prohibition on dealing ahead of the dissemination of marketing communications. Any reference to any securities or instruments is not a recommendation and should not be regarded as a solicitation or an offer to buy or sell any securities or instruments mentioned in it. Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not recover what you invest. All images in this document are sourced from iStock.**

Quilter Cheviot and Quilter Cheviot Investment Management are trading names of Quilter Cheviot Limited, Quilter Cheviot International Limited and Quilter Cheviot Europe Limited. Quilter Cheviot International is a trading name of Quilter Cheviot International Limited.

Quilter Cheviot Limited is registered in England and Wales with number 01923571, registered office at Senator House, 85 Queen Victoria Street, London, EC4V 4AB. Quilter Cheviot Limited is a member of the London Stock Exchange, authorised and regulated by the UK Financial Conduct Authority and as an approved Financial Services Provider by the Financial Sector Conduct Authority in South Africa.

Quilter Cheviot International Limited is registered in Jersey with number 128676, registered office at 3rd Floor, Windward House, La Route de la Liberation, St Helier, JE1 1QJ, Jersey and is regulated by the Jersey Financial Services Commission and as an approved Financial Services Provider by the Financial Sector Conduct Authority in South Africa.

Quilter Cheviot International Limited has established a branch in the Dubai International Financial Centre (DIFC) with number 2084, registered office at 4th Floor, Office 415, Index Tower, Al Mustaqbal Street, DIFC, PO Box 122180, Dubai, UAE which is regulated by the Dubai Financial Services Authority. Promotions of financial information made by Quilter Cheviot DIFC may be carried out on behalf of its group entities.

Quilter Cheviot Europe Limited is regulated by the Central Bank of Ireland, and is registered in Ireland with number 643307, registered office at Hambleden House, 19-26 Lower Pembroke Street, Dublin D02 WV96.