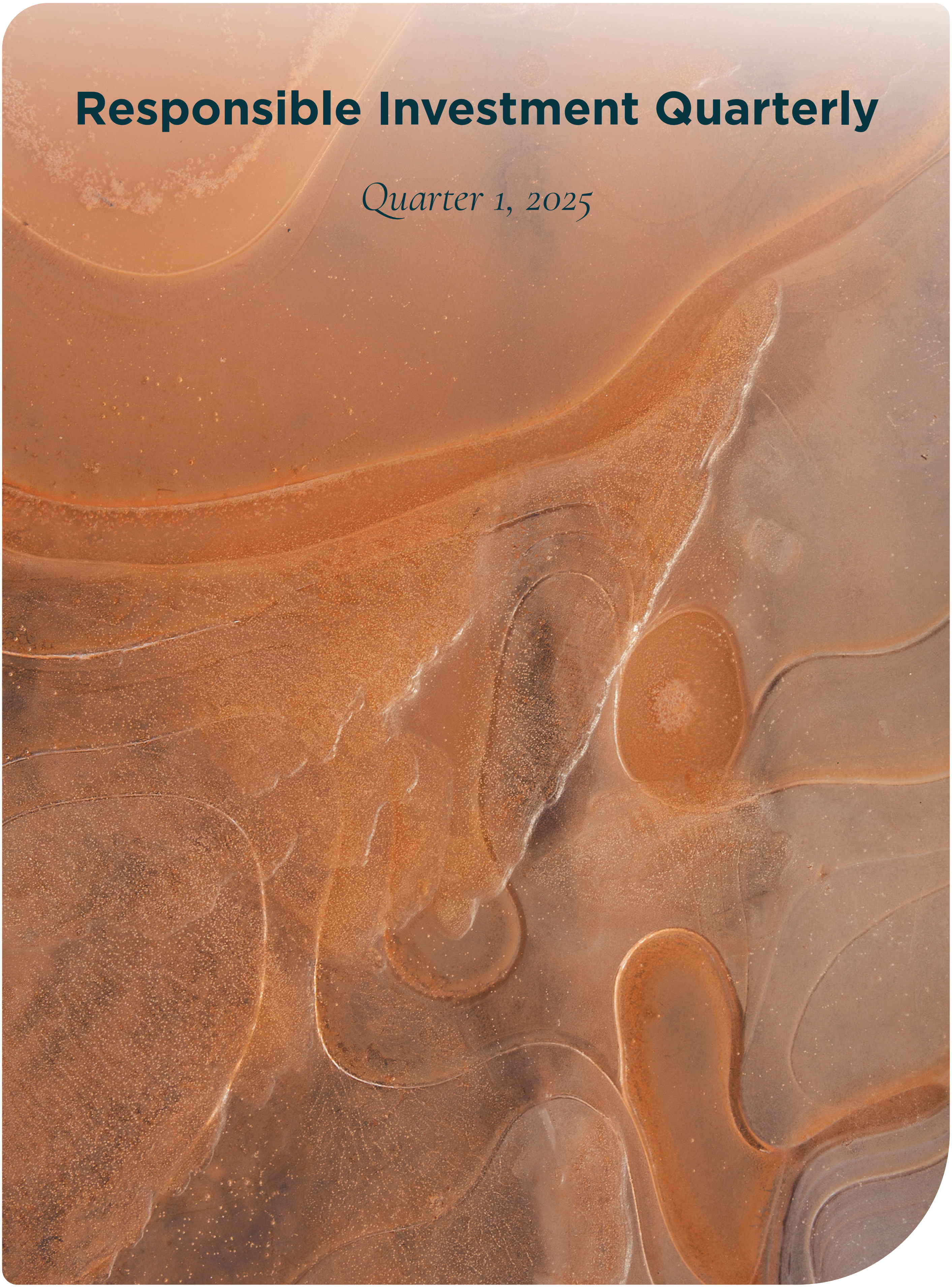
QUILTER CHEVIOT

Responsible Investment Quarterly

Quarter 1, 2025



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QUILTER CHEVIOT

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Welcome

During the first quarter of the year, we focused on regulatory reporting in the form of TCFD ***(Taskforce for Climate-related Financial Disclosures)*** *reports, as well as delivering the 2024 Stewardship Code report which is a requisite of Quilter's signatory status.*

We also completed our thematic engagement on stewardship practices at index tracker providers and launched our engagement on artificial intelligence and emissions, meeting with ASML and Infineon.

The demand for responsible investment educational content, particularly from our charity clients, remained high, which is positive. This quarter, we focused on meeting this demand by producing bespoke client reports and educational materials, as well as attending client meetings alongside investment managers.

A highlight of the quarter was filming our first RI Reels episode of the year, which focused on Quilter's operational emissions. Looking ahead to Q2, we are gearing up for a critical part of the stewardship calendar - proxy season!

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Our latest research and insights

Read the latest from us in the news this quarter

RESPONSIBLE INVESTMENT

Slipping through the net

third party managers and net zero ambitions

Across Quilter, we have identified three thematic engagement priorities. This is part of our climate change theme.

Climate Change is the defining issue of our time and we are at a pivotal moment. From shifting weather patterns that threaten food production, to rising sea levels that increase the risk of catastrophic flooding, the impacts of climate change are global in scope and unprecedented in scale. Without drastic action today, adapting to these impacts in the future will be more difficult and costly.

SDG Alignment

> *We are the first generation to feel the effect of climate change and the last generation who can do something about it."*
>
> Barack Obama, Former US President

Introduction

The growing impacts of climate change on the global economy are increasingly unavoidable, whether it is the insurance sector reeling from unrelenting natural disaster damages[1], or the emerging fragility of our cities to harmful heatwaves[2], floods[3], and storm damage[4]. Both governments and corporations are shifting course to try to limit climate change, as the landmark Paris Agreement reaches its ten-year anniversary in 2025. We have seen the strengthening of the politicised anti-ESG movement since Donald Trump's return to office, and a corresponding rise in corporate kowtowing affecting particularly US-based asset managers. Following a number of withdrawals from both the Climate Action 100+ collaborative engagement programme and the Net Zero Asset Managers' initiative (NZAM), NZAM organisers have announced a pause and review of the initiative's fitness-for-purpose. Despite this, we consider global frameworks like NZAM to be critical in holding institutions to account for their actions (or, in this case, inaction). Financial services businesses have a special responsibility to protect the long-term value of clients' investments - particularly in the face of systemic threats like climate change. In line with our own expectations for asset managers, setting net zero targets in line with global efforts to decarbonise is a key priority for Quilter Cheviot in 2025.

Author

Margaret Schmitt
Responsible Investment Analyst

Slipping through the net

Click here for the full insight

1 In California, see **Bloomberg** and **San Francisco Chronicle**. In Florida, see **Newsweek** and **Scientific American**. Broad coverage of insurance sector withdrawing due to climate change-driven events, see **New York Times**.
2 **Summer in the City: Climate Science Reveals the Impacts of Heat | Department of Energy**, **Asian region reels from heat and floods as WMO warns of climate change effects**
3 **Climate change 'most likely explanation' for torrential rain | The Guardian**, **In Parts of New York City, a Vexing Mix of Stormwater and Sewage Have Made Flooding the 'New Normal' - Inside Climate News**
4 **Fifth storm in less than a month bears down on the Philippines | Floods News | Al Jazeera**

US approach to Ukraine changes the ESG conversation for defence once more

Author

Gemma Woodward

Head of Responsible Investment

It is very difficult to pick and choose the defence industry exposure you're comfortable with.

Russia's invasion of Ukraine over three years ago profoundly changed the conversation around the ESG characteristics of defence stocks. With the UK publicly backing Ukraine against the unprovoked attack, British defence companies quickly became a necessary cog in the arming of an ally and deterring the threat of Russian forces.

Indeed, in April 2024, HM Treasury and the Investment Association declared that "investing in good, high-quality, well-run defence companies is compatible with ESG considerations as long-term sustainable investment is about helping all sectors and all companies in the economy succeed".

This, naturally, caused some consternation as armaments had historically been one of the five 'sin' stocks alongside alcohol, gambling, tobacco and pornography. However, it was evident the conversation was beginning to change.

While the debate on whether armaments have a place in a responsible or sustainable investment strategy had begun following the Russian invasion of Ukraine in early 2022, the dial has been turned up somewhat since Donald Trump returned to the White House. Since his election, it has become clear that the 'America First' message applies to military action, and thus the safeguarding of European territories will not be guaranteed by the US.

Clearly, in recent weeks, things have escalated somewhat and the future of US military support in Ukraine has been thrown into question much more quickly than anticipated. Trump and Ukrainian President Volodymyr Zelenskyy's ill-fated Oval Office meeting has woken Europe up to the fact that the responsibility of defending Ukraine is going to fall on their shoulders.

The UK government has already reacted by increasing defence spending from 2.3% of GDP, to 2.5% (increasing the budget by £5-6bn per annum). There is pressure for it to go further, and the public is certainly on board. According to YouGov, two-thirds of Britons (65%) are in favour of increasing defence spending at the expense of overseas aid. This compares with just 20% of Britons opposing the policy.

From our own conversations, we are now seeing investors who have previously eschewed holdings in the defence industry wanting to invest in companies which are providing arms to governments and regimes they approve of. But, for an investor who believes that the UK government should be well placed to protect its citizens as well as play a role globally to protect others, this is an incredibly difficult position to navigate.

One thought for some investors is to continue to exclude non-UK listed defence players but permit investment in companies such as BAE Systems. However, in 2024, just under 50% of BAE's revenue and 45% of sales came from the US. The UK accounted for roughly 26-27% of revenue and sales. In an environment where the US is calling into question its support for Ukraine, for some investors this will be seen as a red flag. Drill down even further and there will be a list of countries with regimes deemed unpalatable by responsible or sustainable investors where the likes of BAE Systems have exported arms to.

Given the global nature of the defence industry, it is very difficult to pick and choose the exposure you are comfortable with. It reminds me of a situation many years ago when clients wanted to exclude any defence manufacturers that sold arms to terrorists. There were two issues with this; first, the definition of a terrorist can be debated at great lengths – for years Nelson Mandela was categorised as one by the South African government; and second, defence companies do not tend to sell arms directly to proscribed organisations, a third-party is usually involved in the transaction.

Many investment firms have exclusions regarding controversial weapons such as cluster munitions and anti-personnel landmines as these are subject to international laws, and also are often used against civilian populations. Therefore, this type of exclusion is relatively easy to implement.

But can you invest in the defence industry and only give arms to the ‘good guys’? Given the global nature of companies and the difference of opinion on what constitutes ‘good’, this looks increasingly hard to accomplish.

War and conflict are inherently tragic events with consequences for all involved parties. Thus, when it comes to defence companies this will always be a grey area for investors. These companies may have become more compatible with ESG considerations for responsible and sustainable investors in recent years, but this is unlikely to ever be enough to allow them to be considered fully sustainable companies.

Indexing active ownership: How index trackers deliver stewardship

Author

Greg Kearney
Senior Responsible Investment Analyst

Introduction

Passive investment vehicles are not typically associated with active ownership. Implementing effective stewardship in index tracker funds presents a unique set of challenges. Unlike active funds, where managers can selectively buy and sell based on company performance and engagement outcomes, most index trackers are bound by replicating the composition of specific indices. This inherent limitation restricts the ability to divest from underperforming or non-compliant companies, making it harder to apply traditional stewardship techniques. However, the stewardship activities of large fund managers who typically hold material percentages of most publicly listed companies play an important role in addressing broad systemic risks, like climate change and market standards in shareholder rights, that cannot be adequately managed through portfolio diversification.

We have delved into the various stewardship strategies employed by fund managers handling our index-fund and exchange traded fund (ETF) investments. When fund houses discuss their responsible investment approaches, they often describe methods typically tailored for active strategies. Our interest lies in understanding how these practices are translated to indexed products. Given their passive nature, certain aspects of stewardship, such as divestment escalation, face limitations. However, the rise in index-based products with sustainability-specific weightings and mechanical divestment for underperformers, informed through stewardship activities as well as ESG ratings, is noteworthy. Our evaluation of index stewardship is based on key criteria such as resourcing, consistency of approach, voting alignment, and systemic focus. Outlined below are the key findings from our engagements as well as the qualitative assessment of stewardship approaches. Most of the fund managers engaged were majority equity index product providers although many had some fixed income exposure, and a few were active in passive commodity trackers. We have anonymised the assessment as this is an ongoing dialogue that is best approached through direct engagement.

Resourcing

Of the four criteria assessed, this measure had the least dispersion.

- Six of the eight fund managers received tops marks for stewardship resourcing related to passive products and it was rare to see dedicated resources fall below twenty employees. This is a positive signal as most managers, all of which are of a significant size, have prioritised the execution of stewardship activities. The normative application of engagement and voting is well entrenched, and best practice is often defined by the content of their approach rather than the level of activity.
- Firms that received a better assessment rating often had more specialised teams, with analysts separated by thematic, sector and geographic expertise. In our view this structure improves the effectiveness of the approach, with local market and industry experts having better access and higher quality dialogue.
- One manager included a policy focus within the stewardship function, where the thematic area of interest was systemic in nature and better served by industry and regulatory engagement activities.
- One firm, despite having resources dedicated to stewardship, did not appear to apply their activities thoroughly for passive products and engagement was an ad hoc function of individual fund manager requests.
- One provider with a significant commodity ETF focus received the low rating as it did not have clear dedicated resources but prioritised applying appropriate ethical certification regimes. Given the asset class and limited levers for engagement or escalation, this approach is reasonable.

Stewardship consistency

Most firms where we have passive exposure also manage active funds. It is important to understand how firm-wide stewardship processes translate into index trackers. In policies describing firm wide approaches to stewardship, it can be difficult to distinguish any variation between the two but in practice there is often a gap. This can be owing to the natural limitation of escalation actions for indexed strategies, but descriptions of broad firm approaches can also ignore a lack of dedicated passive stewardship resource, an issuer level engagement process, stewardship driven by individual funds (rather than the firm as a whole) and a strategic focus on enabling and encouraging clients to take voting decisions.

One of the main trends that emerged from our engagement is the differing approaches taken by US and European based investment managers. Three of the US managers engaged received the lowest rating for consistency. A common thread was the lack of firm level direction when it came to engaging issuers. The political backlash against 'ESG' strategies in the US has created a fragmented stewardship landscape. Some US managers take different engagement approaches for difference strategies, with main plain vanilla funds focusing on purely governance topics, only moving outside of these issues where the strategy has a thematic focus (sometimes conducted by a separate teams). One manager reiterated they "are not an ESG shop" and see the ESG Research function as an ad hoc resource supporting the investment team driven requests. The hesitancy to implement a firm wide engagement strategy is well represented (and discussed further below) by a push among US managers to implement direct (or pass through) voting solutions. At one US firm, this has even been extended to an opt-in sustainability engagement service.

Conversely, most of the large European based managers (often without large US client bases) admitted that they were not seeing significant demand for direct voting or opt-in engagement and were not targeting solutions in these areas. At the three firms engaged, there was a high degree of consistency applied to the stewardship process across passive and active mandates. Engagement is typically prioritised and executed at an issuer level across all portfolios. Stewardship teams had sector, geographic and thematic expertise that was applied across strategies and asset classes. In our opinion, this 'house view' on stewardship creates clearer signalling of company expectations and ESG risks as well as potentially better engagement outcomes.

Voting alignment

As highlighted above, on the issue of voting, we witnessed another US-European divide. Enabling direct client voting is a key target for two out of the three large US firms. Direct (or pass through) voting solutions allow clients to either make direct voting decisions or stipulate a preferred voting alignment policy to be followed (e.g. sustainable, always support management etc). While this is often presented as a client centric approach, and we would advocate for the availability of specific client instructed voting, the enthusiasm for pushing mass adoption of the solution points to a perceived opportunity to avoid growing US political scrutiny. In our view, this is a technical solution to a political problem. Many of the items put forward at company AGMs involve topics that have be engaged upon and tracked by expert stewardship (and investment) professionals for a number of years, and while clients should always be able to vote directly, the wisdom of encouraging all clients to adopt policy directives like 'always support management', does not appear a sensible way to address nuanced governance and investment risks than can be managed through voting. At US managers it was also more likely that, rather than take a firm wide voting stance, individual portfolio managers had final say on voting, creating a higher chance of split opinions and a less coherent approach overall.

By contrast, all European managers implemented firm wide voting standards across indexed products, driven by stewardship teams. In all instances, these were consensus-based processes which involved voting panels with investment, legal and risk teams participating. All also implemented on-demand client voting but direct voting solutions were not a strategic focus. Firms often cited lack of demand, but in some cases, highlighted that stewardship and specifically voting is a key risk management tool in which a house view should be taken. Firms that did not receive the highest rating for vote alignment either did not have a firm wide view driven by the stewardship team, took a product specific approach, did not translate voting choices to passive strategies or relied very heavily on proxy service providers.

Systemic focus

Large index product providers are seen by some as 'universal owners' as they hold significant portions of public equity, debt and commodity markets. These portfolios face significant exposure to several systemic risks that cannot be managed through diversification, like erosion of shareholder rights, climate change and the degradation of natural capital. These issues could have material market wide costs which are not effectively addressed through traditional one-on-one company stewardship. Levers to address these systemic risks include contribution to collaborative engagement initiatives and policy level stewardship. This is a landscape where the US-European dispersion was still evident but less clear. Most (but not all) US managers have actively withdrawn from major collaborative initiatives, believing one-on-one climate engagements to be more effective (and providing relief from legal pressures in US). One US manager continues to value case-by-case participation in collaborative groups and frameworks – notably in emerging issues like natural capital.

By contrast, three out of four predominantly equity-based managers in Europe received middling scores with only one receiving the highest rating. Of those firms that did not receive a top rating, all were active participants in collaborative engagement initiatives but failed to convey a strong approach to integrating stewardship priorities into policy engagement efforts of a wholly separate global affairs function. The one manager that did receive top marks in this category (and, in fact, the highest ratings across the board), has a more integrated approach. Practices extended beyond direct company engagement and into looking to create a more supportive environment for stewardship goals through policy engagement. The stewardship team was divided by thematic responsibility, rather than sector or geography, some of which face regulatory or industry-wide challenges that are unlikely to be influenced by individual company engagement (e.g. anti-microbial resistance). In these instances, the stewardship analysts focused on work with regulators, standard setters and industry bodies.

Conclusion

Index fund managers often face challenges with limited leverage for escalation actions compared to their active counterparts. Positively, indexed product managers have allocated material resources to engagement and voting activities. However, exceptional stewardship practices, particularly for passive products, are marked by a clear and consistent approach to both engagement and voting. In our view, the firms that excel in this area are those with specialised teams, equipped with thematic, sector, and geographic expertise. This structure enhances the quality of dialogue and the overall effectiveness of stewardship activities. Adopting a firm-wide strategy that integrates both active and passive mandates ensures consistent messaging and a unified approach to managing ESG risks.

European managers frequently lead by example, implementing firm-wide voting standards through consensus-based processes that involve investment, legal, and risk teams. This comprehensive approach mitigates risks while aligning stewardship objectives with broader firm goals. The US-based landscape is more fragmented, influenced by political pressures, which contribute to inconsistencies in stewardship practices. The emphasis on direct client voting solutions indicates a strategic adaptation to these challenges. It remains to be seen whether this is a client centric approach or an abdication of responsibility.

Addressing systemic issues like climate change or the erosion of shareholder rights demands a proactive, collaborative approach. The firms that excel in this domain extend their stewardship efforts beyond direct engagements with companies to include active participation in collaborative initiatives, policy-level contributions and dialogue with regulators and industry bodies. This integrated strategy not only tackles regulatory challenges but also fosters an environment that supports and enhances systemic stewardship goals. These nominated 'universal owners' can and should have appropriate resourced, effective stewardship approaches to help maintain the health of the financial markets and societies in which they are embedded.

	Resourcing	Consistency	Voting Alignment	Systemic Focus
Investment Manager 1	Green	Green	Green	Amber
Investment Manager 2	Green	Red	Red	Red
Investment Manager 3	Green	Green	Amber	Amber
Investment Manager 4	Amber	Red	Red	Amber
Investment Manager 5	Green	Green	Green	Green
Investment Manager 6	Green	Red	Amber	Red
Investment Manager 7	Green	Amber	Amber	Red
Investment Manager 8	Red	Red	Red	Red

Key

- Green indicates a company satisfied the criteria clearly.
- Amber indicates the company satisfied the requirement but could improve relative to peers.
- Red indicates a company did not satisfy these criteria.

Voting highlights

From January to March, we voted at 59 company meetings, up from 51 during the same period last year. Most of our voting activity focused on board director elections. Notably, we voted against directors benefiting from a multi-class share structure (unequal voting rights) in cases where the company failed to provide a clear timeline for converting these shares to ordinary shares. While we appreciate the merit of preference shares in some instances, for example a founder led company in its infancy, we believe the benefits diminish over time and prefer a more egalitarian share structure.

We have summarised the key voting issues from the quarter below.

Governance voting activity by numbers:

6*x votes against electing / re-electing director (management item)
We voted against the re-election of directors owing to board independence concerns and the presence of multi class voting structures.
Companies voted on: Dolby Laboratories (x4), DSV, Image Scan Holdings

1x vote against accepting financial statements and reports (management item)
We voted against the financial statements and statutory reports at the Ground Rents Income Fund meeting because the auditors did not provide an opinion and highlighted significant uncertainties about the Group's and Company's ability to continue as a going concern. These uncertainties are due to building safety, leasehold reform, and potential funding needs.
Company voted on: Ground Rents Income Fund

1x vote against management on compensated related resolutions (management item)
We voted against remuneration policy as the Siemens Healthineers meeting, primarily due to the company increasing the potential maximum pay-out, without providing a compelling rationale to shareholders.
Company voted on: Siemens Healthineers

**Withheld and abstain votes have been included within votes against figures.*

Voting activity

Over the first quarter of 2025, we voted at:

59
COMPANY MEETINGS

Over the quarter we voted on:

695
RESOLUTIONS

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

VOTE 61 X

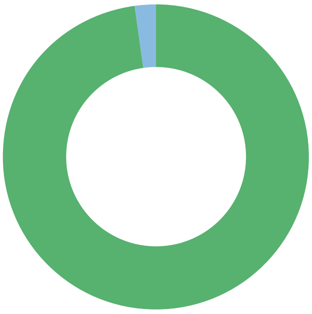
This quarter saw a high number of client instructed votes as **The Saba Saga** unfolded.

We enabled clients to instruct votes at 61 meetings

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

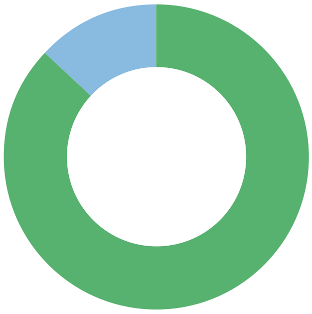
Voting activity

Management resolutions voted on in Q1 2025
(excluding shareholder proposals)



- With management recommendation **98%**
- Against management recommendation **2%**

Meetings with votes against management in Q1 2025
(including shareholder proposals)

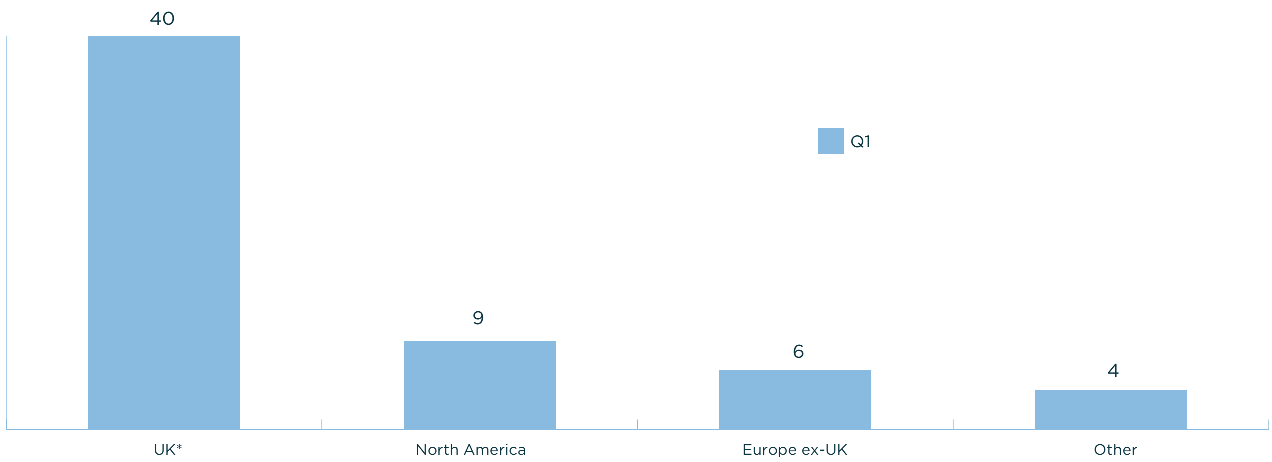


- With management recommendation **87%**
- Against management recommendation **13%**

Management resolutions voted against by topic in Q1 2025
(excluding shareholder proposals)

- Board related **70%**
- Remuneration **10%**
- Audit and accounts **10%**
- Other business **10%**

Meetings voted in each geography in 2025



* Includes the Crown Dependencies of Jersey and Guernsey

Engagement activity

Here, we outline examples of our engagement in the first 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

Greening algorithms: artificial intelligence and emissions

Objective: The rapid expansion of artificial intelligence (AI) and the pressing need for climate transition plans are two significant trends shaping the technology, software, semiconductor and data centre services industries today. Companies like Microsoft, Google, and Amazon are at the forefront of these developments, driving innovation while grappling with the challenges of sustainability. Activities at companies like AMSL, ASMI, TSMC, Infineon and Equinix also shape the wider AI ecosystem and its emissions profile, where advances in hardware technology are crucial for addressing AI's energy demands. Companies are also exploring AI-optimised cooling, and smarter data centre design and operations to limit AI's energy consumption. By understanding the interplay between technological advancements, regulatory landscapes, and energy demand dynamics, investors can better navigate the evolving landscape and capitalise on emerging opportunities. This is a nuanced landscape and despite highlighting the above tensions, AI's role in the climate transition is increasingly recognised as a critical driver of growth and innovation. AI has the potential to address climate challenges by optimising energy use, improving grid stability, and integrating renewable energy sources. Companies must balance the benefits of AI with current transition commitments. We aim to engage the above companies to better understand this topic and the management of the risks related to the emissions implications of AI service growth.

ASML Holdings - Environment

ASML is making notable improvements in semiconductor machine technology, particularly with its extreme ultraviolet (EUV) lithography systems, which are essential for high-performance chip production. Despite the higher energy demand of EUV compared to deep ultraviolet (DUV) systems, ASML has achieved impressive improvements in energy requirements since 2018, showcasing its commitment to improving product efficiency, ultimately minimising carbon impact.

ASML represents only one (albeit important) component of the AI service value chain, and not all chips are used for AI functions, but AI applications demand substantial computational power, and ASML's innovations are designed to meet these needs while also delivering increasingly energy-efficient solutions. The company's ambitious targets for achieving greenhouse gas neutrality for Scope 1 and 2 emissions by 2025 are proactive, utilising measures such as energy efficiency enhancements, electrification, and renewable energy agreements.

ASML's Scope 3 objectives for upstream emissions by 2030 highlights the focus on low carbon design and collaboration with suppliers, but the ambition of its longer term 2040 neutrality target, given a general upward five-year trend in Scope 3 emissions, does require accelerated action. The company's efforts to assist customers in meeting decarbonisation goals further demonstrate ASML's rounded strategy to address the emissions implications of growth.

Outcome: As AI applications scale, ASML's advancements should support sustainable progress in the industry. We maintain our responsible investment categorisation of the company and our positive view on emissions performance and ambition.

Infineon Technologies - Environment

Infineon considers the provision of market leading power supply units (a semiconductor which regulates different voltages) to AI and data centres and provision of AI edge hardware (AI applications taking place directly on devices rather than through cloud computing) as core parts of its business and expects revenue in this area to grow materially over the next two years. With regards to data centres, its new power supply units (PSU) allow data centres to better manage power efficiency and can reduce energy intensity during operations. The semiconductors and software used in AI edge solutions improve connectivity but are also often more energy efficient than AI computation that needs to take place remotely through the cloud. Operationally, the company has an ambitious target of becoming carbon neutral by the end of 2030. To meet these targets, the company will be upscaling its use of renewable energy sources both though power purchase agreements and also directly powered systems applied to company-owned buildings (e.g. solar panels).

As the company sees the growing demand for its products from data centres, it is also cognisant of challenges being reported from certain geographies. For example, in Ireland, the scaling of data centres is leading to concerns on excess energy consumption leading to insufficient quantities for households. The growing energy requirements of data centres, the pressures on local energy availability but also value chain carbon emissions commitments all play to the strengths of companies that can provide power efficiency solutions.

Outcome: We consider Infineon one of the more sustainable semiconductor producers in our monitored equity universe and this extends to the product suite it has available for solutions provided in the AI service value chain. We maintain our positive responsible investment categorisation on the company and will continue to monitor its progress towards becoming carbon neutral on our internal ESG dashboard.

Human rights

L'Oréal - Social

Objective: We followed-up on our initial engagement regarding reports of child labour used in jasmine farms in Egypt. We engaged the company to assess progress on the measures taken to mitigate the risks of child labour in the jasmine oil supply chain, an ingredient used in some of the company's perfume products.

An investigation into perfume supply chains by the BBC found jasmine used by Lancôme (owned by L'Oréal) was picked by minors. The presence of child labour was found in Egypt, a country that produces around half the world's supply of jasmine flowers. As part of the investigation the BBC has evidenced, at four separate harvesting locations, many workers on smallholder farms supplying jasmine oil factories were under the age of 15. Since our initial engagement, L'Oréal has expanded its work with 15 other national and international producers and purchasers of jasmine and jasmine derivative products. The project, known as 'Harvesting the Future' aims to promote child protection and decent working conditions in the jasmine sector in Egypt. This project is led by the Fair Labour Association (FLA). Since launching in summer 2024, the FLA has led stakeholders in drafting a Labor Code aimed at enhancing child protections, developed through tripartite dialogue among the Egyptian government, employer organizations, and workers' organisations. The Code is already under discussion in the Egyptian legislature. The FLA, in collaboration with Egypt's National Council for Childhood and Motherhood, have developed a manual outlining standard operating procedures for identifying, referring, and managing cases of child labour. To assess the most recent 2024 harvest the project hired 16 monitors embedded within local jasmine suppliers' teams, covering 21 villages and more than 150 hectares. The field-level activities aim to address the root causes of child labour in seven key villages covering four jasmine producers and targeting 18,500 workers and their families.

Outcome: This is a positive response from the company, and we maintain our current responsible investment categorisation. In our initial dialogue we recognised the severe fragmentation of global supply chains in commodities that are of low volume use in perfume supply chains. There were evidently gaps in the company's monitoring practices that were not sufficiently covered by independent auditing and certification, but helping to launch and leverage a multi-stakeholder project like the one detailed above is a credible approach to supplementing current monitoring practices.

L'Oréal - Social

Objective: As part of our multi-stage engagement regarding reports of child labour used in jasmine farms in Egypt, we spoke to the human rights and procurement specialists at L'Oreal to better understand its supply chain risk management and take a deeper dive into how the company is responding to the controversy.

As detailed previously, an investigation into perfume supply chains by the BBC found jasmine used by Lancôme (owned by L'Oréal) was picked by children. The presence of child labour was found in Egypt, a country that produces around half the world's supply of jasmine flowers. As part of the investigation the BBC has evidenced, at four separate harvesting locations, many workers on smallholder farms supplying jasmine oil factories were under the age of 15. Since our initial engagement, L'Oréal has expanded its work with 15 other national and international producers and purchasers of jasmine and jasmine derivative products. The project, known as 'Harvesting the Future' aims to promote child protection and decent working conditions in the jasmine sector in Egypt. This project is led by the Fair Labour Association (FLA).

The project is funded by suppliers and purchasers of jasmine products. This is a key aspect in localising the initiative but also incentivising suppliers to place importance on the outcomes. L'Oréal is committed to a minimum of two years funding and participation and will extend this if needed. The aim is to hand over the project, which will provide local monitoring, education and equipment, to suppliers and industry groups. L'Oreal believes this will better embed best practice, as the company cannot guarantee jasmine oil purchases from these suppliers in perpetuity. Improving levels of pay as well as reforming the structure of paying per kilo harvested will be important to disincentivise child labour. The company accepts that this should lead to higher jasmine product prices.

Further to this we discussed the sustainability of the above initiative and how the company is developing its commodity input risk assessment strategy. The company has a vast array of commodity inputs, and many are low volumes products (like jasmine oil). The Human Rights team primarily categorises social risks by country of production. According to the team, prior to the 2024 BBC article, it had put in place studies to monitor child labour at the detailed locations. L'Oréal had already identified occurrences and were in the process of bringing in remedial action – in the form of the above project – as the BBC investigation was released. Both team members also speculated that the media coverage was helpful in prompting peers to join the initiative more quickly than usual.

In addition to a country risk prioritisation, the Human Rights team is introducing commodity-based risk assessments, prioritising further due diligence for commodities that have shorter growing seasons which are more likely to experience abuses related to migrant workers, child labour as well as poor pay and working conditions. The combination of taking a deeper dive into higher risk commodities in higher risk countries is a welcome development in their supply chain due diligence.

Outcome: The level of access and detail given has provided us with additional comfort in assessing the company's response to this event. We maintain our responsible investment categorisation, and based on our engagement to date, welcome L'Oréal's coordinated action on this issue. Helping to launch and leverage a multi-stakeholder project like the one detailed above is a proactive approach to supplementing current monitoring practices, which are being further refined.

Governance

Assura PLC - Governance

Objective: We provided feedback as part of the 2025 remuneration policy consultation.

The company is consulting shareholders on proposals for a new remuneration policy and sought our input. Headline proposed changes to the policy include material salary increases for both CEO and CFO, equalising the level of annual bonus between CEO and CFO as well as increasing the maximum award level of the long-term incentive plan (LTIP). We are broadly comfortable with these changes but will assess the final published policy in detail. Remuneration for both the CEO and CFO has typically sat below the market median, despite increases in recent years. Jayne Cottam is also one of the few women CFOs in the sector and has been positioned below market median remuneration for some time. We support this rebalancing. We were not so supportive of one of the finer points of the policy which looks to reduce the mandatory deferral of the bonus and LTIP (beyond market standard holding periods) from 100% to 50% even for executives who have not yet met the internal shareholding requirement. As both the CEO and CFO have not yet met the shareholding requirement, we would prefer to see this threshold reached as quickly as possible and we made this clear to the company.

Outcome: We provided input into the policy formulation and are provisionally supportive of the proposals but have expressed concerns over some of the finer details. We await the final draft of the policy when a decision to approve will be made looking at the proposal as a whole.

Baillie Gifford US Growth - Governance

Objective: To discuss the options available to the board following the failure of the Saba requisition.

We met with the Senior Independent Director (SID) as the board is sounding out shareholders to discuss options for the future. Saba remains a significant shareholder of the trust, and the board is mindful that all shareholder views must be heard and considered, not just those with the loudest voice. The board will re-engage with Saba post these shareholder meetings and its upcoming board meeting. The board is focused on maintaining a single digit discount to Net Asset Value (NAV) and using share buybacks to achieve this is more complex given the trust's exposure to unlisted companies such as Space X, as the consensus view of the board and shareholders is that the exposure to these should not exceed a certain level.

Outcome: We were able to provide our feedback and will await further guidance on the future course of action from the board. There was no change to the RAG rating for the investment trust as a result of the meeting.

DSV A/S - Governance

Objective: To engage the company regarding over boarding concerns.

A nominated director currently holds four external board positions in addition to their role at DSV, raising questions about their ability to dedicate sufficient time to each position. We consider a points-based system as well as the nature of the roles, to evaluate board commitments, and the director's new non-executive position, taken up in 2024, now moves them into an over-boarded points total. The company has noted that two of these external positions are within the same parent company, which we are comfortable discounting, but it does not mitigate concerns.

The primary concern is the new appointment made in late 2024. The board reviews its directors' external commitments annually between March and May, after this year's AGM. This review considers factors such as meeting attendance and the time required for each role. If a director is considered over boarded, they may need to step down from an external position or the DSV board. While we recognise using a points-based calculation to determine over boarding can be overly quantitative, in this case, we consider the ability to commit sufficient time to the directorship key, therefore, an abstention vote is appropriate.

Outcome: The board will begin its annual director review cycle in Q2 to assess the director's external appointments. While we do not typically place abstention votes, in this instance we are not able to support the director's re-election but are comfortable placing and abstention vote rather than voting against management pending the company's review process.

Infineon Technologies - Governance

Objective: We engaged the company prior to the 2025 AGM to discuss concerns related to the proposed remuneration policy

Our proxy advisor recommended voting against the proposed remuneration policy. Primary concerns related to changes to the structure of the long-term incentive plan (LTIP). Changes included reducing the weighting of total shareholder returns as a metric used to calculate total rewards (from 80% to 40%) and increasing the maximum potential LTIP award from 150% to 200% of salary. The balance of the LTIP metrics will be replaced with the company's overall strategic target composite – known as the 'Target Operating Model' (TOM). The company highlights the TOM aligns very closely to its strategic financial goals including metrics such as revenue growth and free cash flow improvement.

We engaged the Head of Rewards at the company. According to management, the aims of the changes were to bring the policy in line with the domestic market and international peers, as well as rebalance alignment of rewards with the company's strategic financial goals (represented through TOM). Based on our engagement, we are comfortable with the above adjustments. Relative to German market peers but also international ones, an 80% total shareholder return (TSR) weighting is high, so rebalancing is not misaligned with market norms. Many peers do not include a TSR weighting in the LTIP. Additionally, we do not find the increase in the LTIP maximum to be outside of market norms with c.90% of the forty largest German listed companies having a 200% LTIP maximum.

Outcome: On balance and after engagement, we are comfortable with the changes being made to the remuneration policy and voted to support management.

ISS - US DEI benchmark recommendations - Governance

Objective: Address ISS's changes to its voting policy on board diversity in the US.

In January 2025, a Presidential Executive Order aimed to eliminate diversity, equity and inclusion (DEI) initiatives across the US, impacting governance agencies, education, and private companies. These orders are not law but provide a direction of travel for future US government policy. Following this, our proxy advisor, ISS, suspended its board diversity expectations for US companies. Previously, ISS recommended voting against or withholding votes from the chair of the nominating committee at companies without at least one woman on the boards.

We met with ISS to understand the rationale and investor impact of this decision. Due to legal ambiguity regarding implementing DEI practices and policies, ISS's legal team advised on suspending US voting decisions based on diversity recommendations. ISS will still analyse board diversity but will not let it influence vote recommendations. We expressed disappointment as this deviates from global established market practices.

ISS, as a registered financial advisor, also holds further concerns regarding DEI recommendations' legality and how this may be interpreted by other agencies like the US Securities and Exchange Commission (SEC). After recent SEC guidance which has widely been interpreted as limiting investor stewardship in this area, more SEC actions are expected, requiring further clarity to re-implement DEI-related recommendations. The goal is to roll back this change in policies, but ISS will need to establish additional clarity on the subject in the coming months.

Outcome: This conversation clarified ISS's rationale for suspending its board diversity recommendations. Although we expressed our frustrations, it's clear that the legal interpretation of recent US Presidential Executive Orders led to this outcome. We will monitor this closely moving forward.

M&G - Governance

Objective: We were consulted on proposed changes to the executive remuneration policy and provided detailed feedback on changes we would like to see.

The company is putting forward a revised remuneration policy at the 2025 AGM. The draft proposal aims to make several changes including increasing the long-term incentive plan (LTIP) payout for the CEO and CFO as well as making changes to the LTIP scorecard metrics. While we understand the rationale for the increase in LTIP opportunity, we did challenge the overlap in financial metrics targeted by the annual bonus and LTIP, highlighting the risk that executives benefit twice from the same achievement. We are also generally supportive of non-financial metrics being included in incentive awards but did again challenge whether the measures proposed are appropriately stretching. On viewing a second draft of the proposal we can see that shareholder feedback has been taken into account. The board has reviewed the overlap of financial metrics with the annual bonus and brought in a new key performance indicator (KPI). The sustainability component of the LTIP award has also been reduced and the ambition of the targets are being reviewed prior to the final proposal.

Outcome: We were pleased to see shareholder responses meaningfully incorporated into the remuneration consultation, with several adjustments aligned with the feedback included in our response.

Renishaw - Governance

Objective: To discuss concerns around diversity and board independence.

As part of our bi-annual audit and review of ESG risks, we look to identify companies flagged as peer group laggards as part of our responsible investment categorisation process. For the technology hardware and equipment industry group, Renishaw is flagged as a peer group laggard due to its average board tenure exceeding nine years and its board diversity falling below the median for its industry group. We met the company’s human resource (HR) director, diversity manager and company secretary to address these concerns.

Due to the nature of the industry the company operates in, and its headquarters being based in a part of the UK with relatively low levels of ethnic diversity, Renishaw has found it challenging to meet frameworks based on ethnic and cultural diversity, such as the Parker Review. This is compounded by the engineering industry being historically male dominated. To counter these challenges, Renishaw has targeted grassroots programmes where female only schools and children from lower socioeconomic backgrounds can visit the company’s Science, Technology, Engineering and Mathematics (STEM) centre at the Gloucestershire based headquarters. The HR team has also created a new model to help track talent, succession planning and regular reviews of its pipeline. We were pleased to learn the company has made a commitment to improve its board gender diversity ratio from 33% to 40%, and has reported this in its equity, diversity and inclusion policy. This is in line with the standard set by the FTSE Women Leader’s Review, which we use to assess good practice for UK listed companies. Renishaw has been on a journey of continuous improvement over the last three years as it has made meaningful progress such as hiring a diversity manager, and the company has seen an improvement in the gender diversity of its executive committee from 23% to 28%.

Renishaw was first flagged as a peer group Laggard in November 2024, and at this point the company’s average board tenure was 17 years. This was driven by two board positions held by the company founders which exceeded the nine-year standard in the UK Corporate Governance Code. Following the death of one of the company’s founders, the average tenure number reduced and the company’s board succession planning now includes the search for a permanent independent chair and an independent non-executive director to improve its board composition and bring the average board tenure more in line with market practice.

Outcome: This was a productive engagement, and we are pleased to learn about the company’s commitment to meeting the FTSE Women Leader’s Review and improving its average board tenure. We will continue to monitor this progress on a bi-annual basis using our internal ESG evaluation tool. Based on this engagement the company maintains its responsible investment categorisation.

Rio Tinto - Governance

Objective: We spoke with the founder of Palliser Capital, who has placed a shareholder resolution on the agenda at the 2025 Rio Tinto AGM, calling for the company to review its dual-listing structure. Palliser argues that this structure is outdated and has led to significant value destruction

The dual-listed company (DLC) structure has allegedly destroyed billions of dollars in shareholder value since its inception. This includes billions in lost book value due to the inability to effectively issue stock for mergers and acquisitions. Palliser also argues there is a structural value gap between Rio Tinto Plc (LSE/NYSE) and Rio Tinto Ltd (ASX) shares, owing to the DLC structure. The activist investor cites BHP's successful unification as a blueprint for Rio Tinto, highlighting that BHP's share prices converged and outperformed post-unification. Palliser is also arguing that the resolution should be presented to both Rio Tinto Limited and Rio Tinto Plc shareholders, as it is currently only being put forward to the latter London-listed line. The firm also argues that having executives based in London, while key operations are predominantly in Australia, has contributed to the poor management of sexual harassment and cultural heritage issues.

It was useful to hear the proponent's case, but we are aware of Palliser's position as an activist investor. The case has some merits, but we also believe that Rio Tinto's situation differs from that of BHP's, in that BHP was originally an Australian listed business (versus Rio Tinto's original London listing) and a unified listing is not currently one of our engagement priorities. We also note Rio Tinto's opposition to the proposal, and we do not typically look to contradict management on operational items such as this.

Outcome: This was a useful engagement to hear a proponent's position on a shareholder resolution, but we do not currently hold the same view on the strength of the argument and do not see it as a priority for Rio Tinto. We supported management on this item.

Supermarket Income REIT - Governance

Objective: We engaged with the trust Chair and Senior Independent Director to discuss bringing the investment management function in-house. This is being put forward at a 2025 special general meeting.

Supermarket Income REIT (SUPR) was established in 2017 with a small portfolio of supermarkets leased to Sainsbury's and Tesco. The company still operates in the niche supermarket sector of the UK property market but is focused on assets with additional uses (such as fast-food/coffee pods in car parks) and those that are crucial in helping the tenant fulfil online orders, catering to the trend of grocery e-commerce. The trust portfolio comprises of over 50 supermarket sites rented to tenants like Tesco, Waitrose, Morrisons, Asda, Marks &Spencer, and Aldi.

SUPR plans to internalise its management function, pending shareholder approval. Following internalisation, Rob Abraham, the current Fund Manager at Atrato Group, will be appointed as Chief Executive Officer and Mike Perkins, the current Finance Director for Supermarkets at Atrato Group, will be appointed as Chief Financial Officer of the company and both will join the board. The funds will come from the sale of the Tesco Newmarket asset, which was completed at premium to the June 2024 valuation. This internalisation is expected to save at least £4m per year and reduce the current share price discount to Net Asset Value (NAV). The board highlights that this is part of the journey to getting back to full dividend cover and believes previous running costs were too high. The chair added that the trust is of a sufficient size to efficiently internalise fund management, and this is the natural next step in its development. He also dismisses concerns that this is an effort to protect against mergers or acquisitions, reiterating it is an important component of demonstrating a covered dividend by 2029. The board believes it will now be better able to control the cost base and will have more scope to explore joint ventures. From a governance perspective, the chair contends that this will make challenging the investment decisions and managing conflicts of interest more straightforward.

From our previous board quality assessment we believe that the trust is a high performer with clear responsible investment disclosures and a robust approach to diversity and independence. The board is committed to maintaining its focus on supporting the decarbonisation of the portfolio, structured through its Science Based Target Initiative (SBTi) certified transition plan. The trust will continue to outsource some reporting functions to Atrato but expect shareholders to see very little change in terms of responsible investment approach or disclosure.

Outcome: We understand the rationale for the internalisation of the investment management function and supported the proposal at the 2025 special general meeting. We hope to see a continuation of the trust's commitment to decarbonisation frameworks and regular responsible investment disclosure. There was no change to the RAG rating of the investment trust.

The Saba Saga

Governance

The UK investment industry came under fire in late 2024, with the US based activist investor, Saba, taking aim at seven investment trusts. The goal appeared to be to take control of the trust's assets and appoint new Saba affiliated directors. Saba's intentions had resulted in the investment trusts' discounts narrowing, which might seem to be beneficial to shareholders, however that was not how it was perceived by the market.

Investment trusts play an interesting role in the UK market, many have been in existence for decades and for enthusiasts of the vehicle, they have a distinct persona. This has been a topic of discussion during our long-term engagement with boards, as some of the marketing by larger, often US asset managers, is bland and corporate.

The question of shareholders being able to vote on these resolutions became a hot topic, with the FCA taking an interest in how platforms facilitate this. Again, the role of platforms has been a discussion point with boards. For many investment trusts a considerable proportion of their shareholder register is 'retail' and is often housed on these platforms. How do you engage with these investors with the platform potentially acting as a gatekeeper? It seems that Saba, despite protestations to the contrary, was gambling on a low turn out from these retail investors – however that did not pay off with all seven investment trusts defeating the proposals to remove the existing directors and appoint new Saba affiliated non-executives.

As holders of the seven investment trusts, albeit with only one of them being on our centrally monitored list, we engaged with Saba as well as the board of the centrally monitored holding. Additionally, we met with two boards of our centrally monitored BlackRock investment trusts. More on the latter, shortly.

We were unconvinced by Saba's argument, and at the heart of this was lack of regard to the UK Corporate Governance Code. Saba's proposal to appoint affiliated persons i.e. non-independents to the board, rides roughshod through the Code, as well as our own principles. We have consistently engaged and voted against non-independent NEDs (non-executive directors). We believe that for investment trusts a wholly independent board that represents the interests of all shareholders is critical. This is a non-negotiable and is a differentiating factor versus open-end funds.

Another issue was the timing. Whilst the industry was aware that Saba was building positions in investment trusts, and that it was a known activist investor, the battle itself was launched on 18 December just ahead of the Christmas holdings which tends to be a quiet time. Was Saba taking advantage of the Christmas holidays to reduce the amount of time the boards had to defend the proposals and get the vote out?

With the defeat of Saba's proposals, discounts have widened again. It is worth noting that the discounts of these trusts are nowhere near as wide as those in the alternatives asset class. Why wasn't Saba targeting alternatives? one theory is that these tend to have a higher institutional shareholder base, where votes would be more easily corralled by the targeted investment trust.

Then there was another twist to the tale. Saba had been in prolonged 'discussions' with BlackRock in relation to two US based closed-end funds. As part of the resolution of this, BlackRock's UK investment trusts were offered the opportunity to do a deal with Saba. To enter into a 'standstill' agreement until 2027, this would not preclude Saba taking a position in the trust, however it would have to vote in line with management thereby avoiding a potential coup d'état. Of those BlackRock trusts, some took the deal and others chose not to. We engaged with two centrally monitored holdings who took distinct positions on the deal, as well as the BlackRock investment trust team.

Both boards, and BlackRock independently corroborated the same timeline and process for the decision-making. It was a noticeably short timeframe and therefore shareholder consultation was not on the cards. It should also be noted, that at the time of accepting the deal, the outcome of the upcoming votes for the seven investment trusts was unknown, and Saba looked to be in the driving seat.

The board that took the deal, has a shareholder base of just over 39% institutional investors, with a platform being its largest holder at just over 5%. The board viewed Saba as not being an imminent threat but felt that this was something that might cause a significant and costly distraction that they could avoid. The board was also concerned what shareholder reaction might be if it became known they had the option to stop this.

The board that turned down the deal has a significantly higher institutional share base that dominates the top ten shareholders. This was a factor; however, the board was more concerned with shutting out a potential buyer (Saba) in a market where demand can be problematic at times.

Obviously only time will tell which decision is most beneficial to shareholders. The Saba saga is likely to continue for some time, with the investment trust industry continuing to be in the spotlight.

For more information on our investment trust engagements please visit: **Stewardship | Quilter Cheviot**

RI Reels

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

Corporate Sustainability

Kirsty Ward is joined by Jack Condon, Sustainability Data Analyst at Quilter, to discuss Corporate Sustainability.

Watch vlog

Proxy Season

Ramon Secades joins Kirsty Ward to discuss proxy season this year.

Watch vlog

Conversation with our interns

Kirsty Ward is joined by interns Freya Mcewan and Grace Barnett for a conversation about their experiences.

Watch vlog

Source of images: iStock

Overview

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

Activity	Universe
Voting	Discretionary holdings within the global equity and investment trust monitored lists where we have voting rights. 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. MPS (Managed Portfolio Service) Building Blocks Climate Assets Balanced Fund and Climate Assets Growth Fund Quilter Cheviot Global Income and Growth Fund for Charities Quilter Investors Ethical Fund AIM Portfolio Service Quilter Cheviot International Funds
Engagement	Centrally monitored holdings AIM Portfolio Service holdings UK holdings where we own more than 0.2% or £2 million of the market cap (governance matters only)
ESG integration	Centrally monitored holdings

We use the ISS proxy voting service in order to inform our decision making, however we do not automatically implement its recommendations. When we meet a company to discuss governance issues, the research analyst usually does so alongside the Responsible Investment team as we are committed to ensuring that responsible investment is integrated within our investment process rather than apart from it. As Quilter, we are a signatory to the Stewardship Code. In order to maintain our signatory status, we submit a Stewardship Code report to the Financial Reporting Council (FRC) every April. We have successfully maintained our signatory status from 2023 onwards.

UK STEWARDSHIP CODE

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.
We have ensured that two clients were able to instruct their votes over the last quarter.

For information regarding our approach to responsible investment, including our response to the UK Stewardship Code and our voting principles, as well as more granular detail on how we voted at each meeting please visit our website **Responsible Investment | Quilter Cheviot.**

Responsible Investment at Quilter Cheviot

Active ownership and ESG integration – for 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.

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. To ensure 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 Climate Assets Funds and Strategy**
Investing in the growth markets of sustainability and environmental technologies, with a strong underpinning of ethical values. The strategy is fossil fuel free and invests in global equities, fixed interest and alternative investments. Five positive investment themes are at the heart of the stock selection: low carbon energy, food, health, resource management and water.

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.

* For UK, North American and European equity holdings

** Climate Assets Balanced Fund and Climate Assets 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

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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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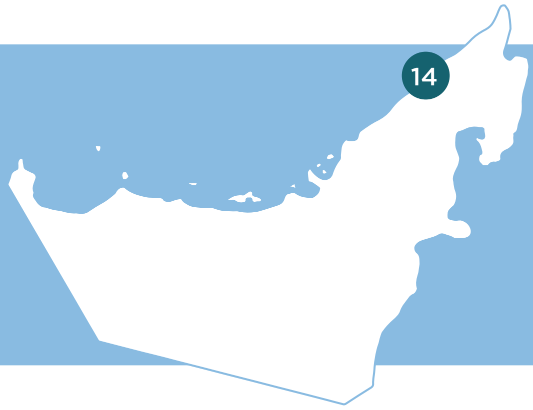
Our experts are here to help you



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