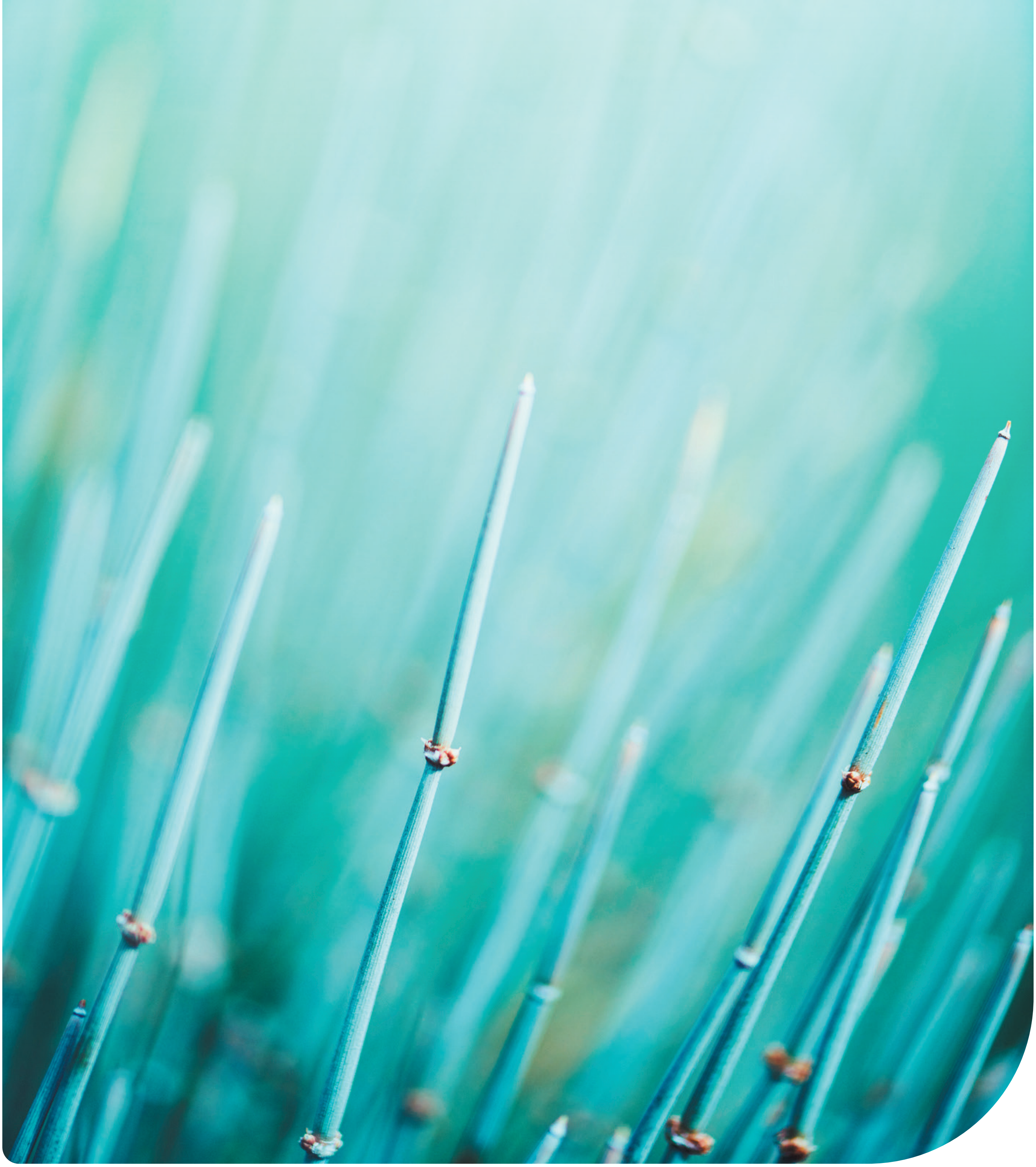
QUILTER CHEVIOT

# Responsible Investment Quarterly

*Quarter 2, 2026*



QUILTER CHEVIOT

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# Welcome

In the second quarter, our efforts were centred on proxy season. Key trends during this busy time of year included a decline in the number of shareholder proposals being tabled, but we observed a continued rise in the relative volume of governance-related shareholder proposals, alongside sustained levels of investor support for these types of items. This was particularly notable given the changing regulatory backdrop on stewardship practices in North America, which has reinforced investor focus on core governance standards and accountability. At the same time, support became more concentrated on a smaller number of proposals, suggesting a more targeted and deliberate approach by proponents.

Across our engagement activity, we saw encouraging signs of progress, particularly in terms of company responsiveness. Large North American companies were more open to engaging ahead of Annual General Meetings (AGMs), reflecting a greater willingness to engage constructively despite the more challenging external environment for those engaging on environmental, social and governance (ESG) issues with US companies. This increased responsiveness has helped stewardship efforts over the period.

Alongside our voting responsibilities, we also prioritised internal engagement, delivering a firmwide presentation to share key insights from proxy season. This brought together the main trends and data points from our voting and engagement activity, helping to build a more cohesive understanding of how the external landscape is evolving and how this informs our approach.

Over the quarter, we also continued to actively participate in industry collaboration. This included involvement with the IIGCC External Managers Working Group, contributing to efforts to strengthen climate integration and stewardship practices across externally managed assets spanning both public and private markets. In parallel, we supported the UK Department for Business and Trade with research into the impact of the 2022 climate-related financial disclosure regulations. Through this work, we shared perspectives on how the regulations have strengthened our understanding of climate risk exposure across both companies and funds, while also recognising ongoing challenges relating to data quality and the cost of implementation. Finally, we responded to two UK Sustainable Investment and Finance Association's (UKSIF) surveys: one was the annual membership survey to reflect our views on how we use its resources and future agenda. The second was focused on how UKSIF members are thinking about the current state of the clean energy and fossil fuel investment environment. The overall survey will form part of a valuable pool of data, which UKSIF can share with policymakers and media publishers at an aggregate level.

This quarter also included London Climate Action Week (LCAW), providing an important platform to reinforce our commitment to climate responsibility. During this period, we undertook our biennial 'Taking the Temperature' engagement with our largest emitters, which has now been expanded to include our critical fund holdings. This work is further highlighted in our latest RI Reels, produced in collaboration with our Equity Energy Analyst, Maurizio Carulli. In addition, we added our name to a new investor position statement advocating for greater action from steel manufacturers to address methane emissions across their value chains, published in alignment with London Climate Action Week.

As we move into Q3, our focus turns to completing our thematic engagement on artificial intelligence and ethics, while also initiating our work on plastics in the fashion sector, building on the momentum from the first half of the year.

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# Our latest research and insights

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

RESPONSIBLE INVESTMENT

# Beyond Special Meetings: Written Consent in an Uncertain Governance Era

**The Right to Act by Written Consent: this right allows shareholders to approve corporate actions like removing directors or approving mergers without holding a meeting. In most cases, it requires a simple majority of all outstanding voting shares, meaning action can be taken once sufficient support is secured, without waiting for a formal meeting process.**

**Beyond Special Meetings: Written Consent in an Uncertain Governance Era**

**Click here for the full insight**

**Adeola Egunnike**
Proxy Voting Analyst

# Voting highlights

### Social voting activity by numbers:

**6x votes against items opposing diversity and inclusion measures** (shareholder proposals)
We voted against several shareholder proposals that sought additional reporting on, or restrictions to, companies' diversity, equity and inclusion (DEI) practices. In each case, we concluded that the companies already provided sufficient disclosure regarding their workforce, recruitment, governance and human capital management practices, and that the requested reports would not provide meaningful additional value to shareholders.
*Companies voted on: Wells Fargo, The Coca-Cola Company, Colgate-Palmolive, Gilead Sciences, Verizon Communications, Merck & Co.*

**2x votes for enhanced reporting on AI and data privacy risks** (shareholder proposals)
We supported shareholder proposals requesting additional disclosure regarding the use of external data in artificial intelligence development. Given ongoing regulatory scrutiny, privacy-related controversies, and the increasing importance of data governance in AI systems, we believed enhanced reporting would be beneficial to shareholders.
*Companies voted on: Meta Platforms, Alphabet*

### Governance voting activity by numbers:

**10x votes against electing directors due to unequal voting rights structures** (management items)
We voted against or withheld support from directors at companies with multi-class share structures that provide disproportionate voting rights to certain shareholders. We believe such structures undermine the principle of one-share-one-vote and can weaken board accountability to minority shareholders.
*Company voted on: Saab (x3), Berkshire Hathaway (x5), Alphabet (x2)*

**4x votes for reducing ownership thresholds to call a special meeting** (shareholder proposals)
We supported proposals seeking to reduce the ownership threshold required for shareholders to call a special meeting to 10%. We believe this represents common market practice and strengthens shareholder rights by improving investors' ability to engage with companies on material issues when necessary.
*Companies voted on: Advanced Micro Devices, Markel Group, S&P Global, NVIDIA (simple majority proposal supporting shareholder rights theme)*

### Environment voting activity by numbers:

**1x vote for enhanced climate and emissions disclosure** (shareholder proposal)
At Wells Fargo, we supported a proposal requesting annual reporting on the company's energy supply ratio, as we believe company-specific disclosure is more valuable than relying solely on third-party data providers.
*Company voted on: Wells Fargo*

# Voting activity

In **Q2 2026** Quilter Cheviot voted at:

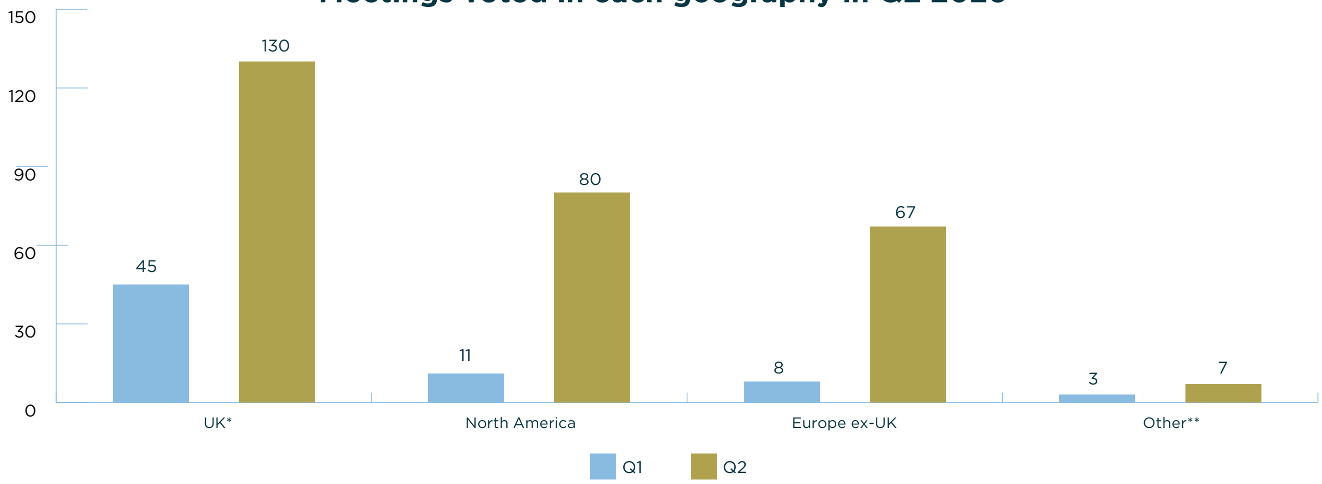
**284**
Company meetings

**4730**
resolutions

**10**
clients instructed voting on specific holdings

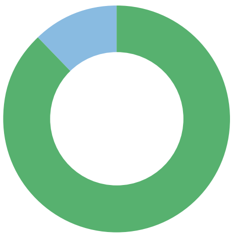
**It is important to note that on a number of occasions having engaged with the relevant company we did not follow ISS' recommendations.**

### Meetings voted in each geography in Q2 2026



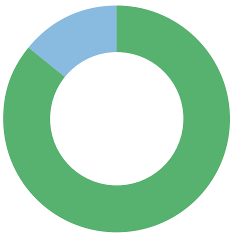

* Includes the Crown Dependencies of Jersey and Guernsey
** Australia & New Zealand, Asia ex-Japan, Latin America, Japan

**Meetings with votes against management in Q2 2026** (excluding shareholder proposals)



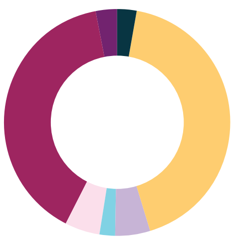
- With management recommendation **88%**
- Against management recommendation **12%**

**Meetings with votes against management in Q2 2026** (including shareholder proposals)



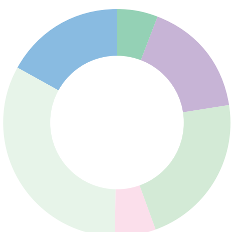
- With management recommendation **86%**
- Against management recommendation **14%**

**Management resolutions voted against by topic in Q2 2026** (excluding shareholder proposals)



- Audit and accounts **3%**
- Board related **42%**
- Capital structure **5%**
- Corporate transactions **2%**
- Other business **5%**
- Remuneration **39%**
- Shareholder rights/ company articles **3%**

**Shareholder proposals supported in Q2 2026**



- Board related **6%**
- Environmental matters **17%**
- Other business **22%**
- Remuneration **6%**
- Shareholder rights/company articles **33%**
- Social and ethical matters **17%**

# Engagement activity

**During the second quarter of 2026 we have undertaken various company and fund engagements, and we include the majority of these within the report. In line with the Shareholder Rights Directive II (SRD II) disclosure regulations, we usually include the name of the company, investment trust, or fund. In some cases, we will anonymise or not include the engagement in our public reporting, 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 an analyst's recommendation

**Environment:** climate change and natural capital

**Social:** human rights

**Governance:** engagement activity across our holdings

# Climate change

## Taking the temperature: assessing progress on climate transition plans

**Objective**: The aim of this biennial engagement is to evaluate the climate transition plans and risk management of those companies which contribute the most to our firm-level financed emissions. Our discussions will interrogate climate transition plans, evaluating targets committed to and progress to date, with a particular focus on understanding the 'difficult to decarbonise' industries and processes.

### BP - Environment

**Objective**: We engaged with BP to discuss its climate transition targets following its strategy reset in early 2025, which saw the company shift capex away from renewable / non-fossil fuels and revert to increasing oil production in the near-term. Since then, the company has replaced the board chair (although the new chair was only in post for a short period of time) and CEO and presents this as a 'simplification' of the business line and objectives, namely delivering higher profits. It emphasises that these changes have been well-received by investors, despite some negative press attention given its recent efforts to suppress climate-related shareholder resolutions.

Our discussion centred around the tension between BP's new strategy and its contention that it remains committed to supporting the energy transition to low-carbon power. The company cited market forces and slower-than-anticipated changes in demand for oil-based products as the key driver behind it lowering its climate target ambitions. Although it has removed its supply chain (Scope 3) decarbonisation target, the company considers its new strategy to be a more focused, targeted approach to supporting transition fuels.

The company also emphasised that its targets are all near-term: its current strategy extends only to 2030. However, BP does maintain a 2050 net zero ambition. When asked whether the company has preserved some flexibility in its strategy to accommodate the possibility of an accelerated transition, its continued ownership in its renewable energy businesses was cited.

**Outcome:** BP has received a positive response from shareholders to its strategy reset, including its explicitly lower climate ambitions. Ultimately, the company is citing this support as justification in and of itself for its strategy shift. However, we believe the shift away from investing in transition-enabling fuels will ultimately reduce the likelihood that BP will indeed ever be 'beyond petroleum', let alone a leading energy company in a transitioned world. By vastly reducing its transition fuel capex and distancing itself from renewable energy subsidiaries, the company is sending a strong signal that it sees its future in oil and gas. As current world events demonstrate, however, that future may indeed be just as uncertain as an energy transition BP championed once was.

### CHEVRON - Environment

**Objective**: Chevron's approach to climate has evolved over time. The company now frames its strategy around a goal of delivering "higher returns, lower carbon" and has adopted several practices that align with broader industry approaches. These include participation in methane emissions reporting and reduction initiatives, such as UN's Environmental Programme Oil and Gas Methane Partnership 2.0, and the Oil and Gas Climate Initiative's methane intensity target, as well as the use of climate scenario analysis in business planning.

However, it lags its peers on several basic climate disclosures which we expect as standard, including clear support for carbon pricing, full emissions inventory disclosures, and an articulated decarbonisation strategy and associated targets.

Chevron has identified the commercial opportunities available in an energy transition – and is positioning itself appropriately. It has invested in biofuel refineries and Carbon Capture and Storage (CCS), particularly on the back of the Inflation Reduction Act (IRA) since 2020. The company was clear that policy environment dictates how much it invests in these assets, and policy durability was repeatedly raised as a challenge today. Chevron pointed out variability in permitting processes and insufficient customer demand as key policy hurdles for its CCS business line.

**Outcome:** There was a palpable sense of change fatigue, particularly regarding US domestic policy, where the current policies are straining its resilience and ability to plan its future energy feedstocks. Although we appreciated the opportunity to engage with Chevron, its climate approach is fundamentally lacking many of the critical components of a thorough and effective transition plan for us to consider the company well-positioned for a global energy transition. This is in keeping with our voting history on the company's climate strategy to date.

## MELROSE INDUSTRIES - Environment

**Objective**: Melrose Industries (whose main operating entity is GKN Aerospace) has robust SBTi-validated targets in place and clear sustainability disclosures. Given aerospace is broadly in the 'difficult to decarbonise' end of the industry spectrum, this is particularly commendable leadership on Melrose's part. The company has a well-structured concise climate transition plan, published in 2024, which is due to be updated this year. It neatly outlines its SBTi targets, including forecast quantified contributions of each identified lever to both near-term 2030 and long-term 2050 net zero targets.

The company has evidenced strong progress to date on both its operational (Scope 1 & 2 emissions) and supply chain (Scope 3) targets. However, the company lacks disclosures of and targets on use-phase emissions of its products (Scope 3, category 11), which GKN has forecast are likely to exceed 90% of its total footprint (GKN is working with SBTi on refining calculation methodology for this as outlined in GKN Aerospace's 2025 sustainability report).

When asked about its stance on potentially setting targets on these emissions, the company acknowledged there is significant internal debate about this, citing limitations to its ability to materially influence energy consumption of completed airplanes when it is only providing engine components and airframe elements to aircraft original equipment manufacturers (OEMs). GKN is planning to review feasibility on this in discussion with SBTi within the next year. It outlined conditions for commitment at a minimum would require strong, committed uptake of sustainable aviation fuel (SAF) by OEMs, which could vary tremendously across different geographies given required policy and infrastructural support for a broader introduction of SAF.

Supplier engagement will form an important part of the company's Scope 3 targets, and it has set targets to engage with its most material suppliers (70% of suppliers by spend) around adoption of decarbonisation targets. However, the wording of this target has changed markedly[1] since originally being included in its 2023 transition plan – suggesting ongoing challenges in this space. The company is progressing its engagement threshold, however the uptake in suppliers having targets in place has been sluggish – only 19% of suppliers by spend qualified for this in 2025, from an undisclosed baseline. The company noted it is still struggling with data disclosure consistency and coverage across some suppliers, with significant regional variation.

Carbon prices are also considered a valuable tool for embedding systemic, large-scale decarbonisation into corporate strategy. We noticed that GKN Aerospace does not have a carbon price in place (either internally or publicly disclosed) and asked about the rationale behind this. The company explained that this has been under consideration before, but it had not done this to date because of challenges incorporating this effectively (and with minimal administrative burden) into the business' decision-making processes. As the company plans the next phase of its decarbonisation roadmap, this is explicitly included in its upcoming discussions with its board. The company was receptive of our recommendations for sector peers' approaches with regionally tailored carbon prices.

**Outcome:** Melrose has taken a progressive climate transition approach to its business, which is particularly commendable as aerospace is certainly at the 'difficult to decarbonise' end of the spectrum. We look forward to continued progress on the existing validated SBTi targets, especially disclosure of and commitments around the Scope 3 use-phase emissions of products and the introduction of carbon pricing to the business's strategic decision-making processes.

## SHELL - Environment

**Objective**: Our conversation with Shell followed the theme of other European oil and gas majors in discussing the company's strategic reset – in Shell's case, this occurred in 2024, shortly after our last climate-themed engagement.

Shell presented a very pragmatic attitude towards its strategic reset, framing its planned expansion in natural gas / LNG and near-term growth in fossil fuel provision as better aligned with the reality of the global energy transition: which is to say, a retrenchment to reliable familiar fuels amidst rapid reversals of low-carbon fuel commitments. Succinctly, Shell sees its previous targets and expansion into lower-carbon fuels as an over-extension into new energy technologies which do not enjoy sufficient customer demand yet.

Shell emphasised that it is continuing to invest in low carbon technologies and business lines (although significantly less – it halved its previous capex target of 20% last year). However, its willingness to provide low carbon options is guided by where preexisting consumer incentives are in place, and, critically, where Shell believes it has a commercial advantage. The outcome is that low carbon fuels are offered only sporadically, with the company having removed low carbon products / services from many of its markets.

1 This target was originally phrased as "70% engagement with supply chain to ensure that 70% of suppliers by spend covering purchased goods and services, have science-based targets by 2028" (2023 Transition Plan, pg. 30). This has been revised in its latest sustainability report to "Encourage 70% of suppliers by spend, covering purchased goods and services, to have science-based targets by 2028" (2025 Sustainability Report 2025, pg. 33). Note – the wording is explicit in its SBTi validated targets, as GKN Aerospace Services further commits that 70% of its suppliers by spend covering purchased goods and services, will have science-based targets by 2028.

**Outcome:** Shell's direction of travel was clear from our discussion; its strategic retreat away from renewables is a reflection of our times. The question going forward is whether this retreat will prove a temporary hiccup, or a turning point away from a global energy transition. What this strategic reset across the oil and gas sector reflects is perhaps a financial reality politicians are wilfully ignoring: that oil and gas companies are not going to finance the creation of novel energy systems, when they can continue to produce carbon intensive fuels for greater profit. From an investment case perspective, Shell's retrenchment and pause on further low carbon investment is logical and pragmatic. By refocusing solely on the near-term and offering no longer-term strategic view, the company has clarified its stance: it has dropped the pretence of supporting a global energy transition.

## The Net Zero Engagement Initiative (NZEI) - Environment

**Objective**: The Net Zero Engagement Initiative (NZEI) is an annual collaborative engagement encouraging companies to set and progress decarbonisation targets and provide informative annual climate disclosures for investors' use.

## DSV A/S - Environment

**Objective**: Our participation in this engagement is as a co-signatory on a letter sent to the company, outlining the key 'asks' we encourage companies to achieve. Given DSV's strong performance to date in its climate transition plan - it has near-term SBTi-validated targets inclusive of its most material emissions (and including Scope 3 emissions), it is documenting clear progress over time despite business growth, and has clear and accessible climate disclosures - this letter serves more as a reminder of our continued support for strong climate governance, particularly following the company's acquisition of Schenker (and associated increase in its emissions baseline).

**Outcome:** The company retains its existing rating.

## KINGSPAN GROUP - Environment

**Objective**: Our participation in this engagement is as a co-signatory on a letter sent to the company, outlining the key 'asks' we encourage companies to achieve. The letter is individually tailored to the company, with particular focus on areas needing improvement or missing from its climate transition plan and associated disclosures. For Kingspan Group, this year's engagement letter highlights the value of greater transparency in its transition policies and targets, namely clarification of its capital expenditure allocated towards decarbonisation and a clear policy on the role of carbon offsets in its climate transition strategy.

**Outcome:** The company retains its existing rating.

## CDP Non-Disclosure Campaign 2026 - Environment

**Objective**: Quilter Cheviot continued to support the CDP Non-Disclosure Campaign (CDP NDC) as a co-signer in 2026. The aim of the campaign is to encourage companies to disclose on environmental issues and to boost transparency.

This year the campaign targets over 740 companies with support from 172 signatory participants, including 80 signatories who are leading the engagements. As part of the 2025 campaign, 1,314 companies disclosed through CDP for the first time, disclosing on climate (918 companies), forests (306), and water security (711).

**Outcome:** We use CDP data as an input into our ESG integration and engagement activity. Better disclosure from companies helps us better understand their management of environmental issues.

## CHEVRON - Environment Governance

**Objective**: We contacted the company's Investor Relations team prior to the 2026 AGM to highlight concerns regarding climate transition planning and targets.

The company continues to lag its peers in setting robust operational emissions targets (i.e. Scope 1 and 2) and has made minimal investment in low-carbon capital expenditure, despite its stated commitment to achieving net zero by 2050. The company has recognised the physical and transition risks of climate change but does not appear to be taking meaningful steps to manage these risks. As in previous years, we will vote against the lead independent director due to the inadequacy of the company's climate transition strategy.

**Outcome:** We voted against the lead independent director given the company failing to commit to a robust transition plan. We outlined our voting decision to the company.

## COCA-COLA COMPANY - Environment Social

**Objective**: We met with the company's Corporate Governance team for an information-gathering engagement. Our objective was to deepen our understanding of several environmental and social topics - including sustainability reporting, plastics and packaging, climate targets, product safety, and DEI (diversity, equity and inclusion) disclosures - which were the subject of multiple shareholder resolutions put forward at the 2026 AGM.

Coca-Cola's representative explained that the company has evolved its sustainability reporting approach. After previously aligning its disclosures with Global Reporting Initiative (GRI) standards, management recently shifted to a more focused, data-driven reporting style, emphasising key metrics over narrative detail. This move away from the traditional GRI format was driven by a desire for robust, assured data that meets investor needs. The company signalled willingness to adjust its reporting if essential information is lacking. On plastics and packaging, Coca-Cola reaffirmed its commitments to use 35-40% recycled content in primary packaging and collect 70-75% of bottles and cans by 2035. The company's expansion of refillable and reusable packaging is ongoing and varies by region: a previous refillables goal was dropped from public targets at the board's direction, but internal goals remain and Coca-Cola expects reuse to grow as recycling infrastructure improves. Local regulatory and infrastructure differences have caused uneven progress among its bottling partners (with some regions, e.g. Europe, ahead on recycling and refillables), although Coca-Cola is confident it can narrow these gaps over time and is comfortable with bottling partners using their discretion to move ahead.

On climate, we discussed that Coca-Cola's climate goals. A 25% absolute emissions reduction by 2030 (versus 2015) and a 2050 net zero ambition are not verified by the Science Based Targets initiative (SBTi). Management said these targets are aligned with a 1.5°C scenario and cover the company's direct and indirect emissions (Scopes 1, 2 and 3), even though they have not pursued formal SBTi validation yet. There seems to be no plan to do so and a suggestion that the political context is not supportive of expanding public ESG disclosures. On product safety and chemical additives, a shareholder proposal highlighted potential risks from the Generally Recognised as Safe (GRAS) regulatory framework for food additives. Coca-Cola expressed confidence in its product safety measures, noting that it complies with all relevant regulations and conducts its own research on ingredients to ensure safety across different markets. Finally, for DEI, we noted the challenging US political climate (with some recent laws and rulings limiting diversity initiatives). The company indicated it is proceeding carefully with its diversity and inclusion programmes to remain compliant with new legal constraints while maintaining its commitment to an inclusive workplace.

**Outcome:** Informed by our engagement, we do not think disclosure or management of any items highlighted through the shareholders proposals are misaligned with peers or substantially lacking. We also recognise the restricted operating environmental on expansive ESG strategy and disclosures in the US currently. We welcome the opportunity to engage with the company on these topics and supported management on all items.

## Investor position statement on metallurgical coal mine methane in the steel value chain - Environment

**Objective**: A group of investors has compiled an investor statement around methane emissions linked to metallurgical coal-produced steel, with the aim of encouraging relevant stakeholders in the steel supply chain to participate in the UNEP International Methane Emissions Observatory (IMEO)'s Steel Methane Programme. This initiative aims to improve transparency and tracking of methane emissions, promote effective mitigation measures, and define emerging best practice.

We consider methane emissions to be an important, and potent, source of unmitigated greenhouse gases contributing to the global climate crisis. Within our own universe, there are several companies we would encourage to demonstrate greater willingness to track, disclose and address their methane emissions; these include BHP and Glencore, both of which are not signatories/supporters of the UNEP's Oil and Gas Methane Partnership or affiliated programmes as specified in the investor letter. We support the stance articulated in the letter, which says in part: "Given the strong benefits of addressing methane emissions, we advocated for steel value chain company boards and management teams to elevate methane emissions as a priority."

**Outcome:** In addition to co-signing this public letter, we will be including discussion of methane emissions (accounting, disclosure, and mitigation measures) with relevant companies in our upcoming climate engagements (BHP and Glencore are included in scheduled engagements for 2026). We will scope for affiliated steel supply chain-relevant companies within the broader universe later in 2026.

## NEXTERA ENERGY - Environment

**Objective**: The objective of the engagement was to engage with the company to understand the rationale behind the withdrawal of its 2045 net zero target and discuss a shareholder proposal on producing a report on their plans to reduce and align their GHG Emissions with Paris Agreement Goals.

Ahead of the AGM, we held a call with the company to discuss the recent removal of its 2045 decarbonisation target, which had not been replaced. The company explained that the decision was driven by the loss of green hydrogen tax credits, making the original pathway financially unviable, alongside broader geopolitical and regulatory considerations in the United States. While we recognise the constraints outlined and the limitations of the shareholder proposal, we do not support the removal of long-term decarbonisation targets without a clear alternative.

**Outcome:** We voted for the shareholder proposal that requested a report on their plans to reduce and align their GHG Emissions with Paris Agreement Goals.

## SHELL - Environment Governance

**Objective**: We engaged with the chair of Shell (Sir Andrew Mackenzie) via an Investor Forum group meeting prior to 2026 AGM. This was an engagement for information, focusing on high-level strategic topics: Shell's climate strategy and energy transition oversight, capital allocation and financial resilience, and board composition and succession planning.

The chair first addressed a climate-focused shareholder resolution filed for the 2026 AGM. This proposal calls on Shell to clarify how its strategy would perform under a scenario of declining oil and gas demand. The chair indicated that the board was recommending a vote against it, on the basis that Shell's existing disclosures already allow investors to model various demand scenarios and that mandating the following of specific external scenarios (for example from the International Energy Agency) was too prescriptive. Investors pressed the chair on how the board nonetheless ensures Shell's strategy is rigorously tested against such downside risks. In response, the chair described how scenario analysis is embedded in board oversight, with directors regularly challenging management's assumptions and ensuring strategic plans can be adjusted if market trends start to reflect a faster energy transition. The chair provided a candid assessment of how the board approached oversight of Shell's climate strategy in the context of heightened uncertainty across energy markets, policy frameworks and geopolitics. He emphasised that the board deliberately avoided anchoring strategy to a single transition pathway, instead focusing on whether the company's portfolio and capital plans could remain resilient across a range of energy transition and demand scenarios. The chair explained that the board expected scenario analysis to translate into tangible challenge of management assumptions, particularly where market signals suggested weaker demand, greater price volatility or slower policy progress. The engagement group encouraged transparency on how these considerations influenced strategic decisions and disclosure, rather than remaining internal exercises. The chair also reiterated that he wanted Shell to be an open company, to have a bias to accept shareholder resolutions at the AGM and have a meaningful dialogue.

Capital allocation was a central area of discussion, with the chair recognising the inherent tension between near-term shareholder returns and the need to preserve long-term resilience. He explained that the board placed significant weight on cash generation and balance sheet strength when assessing capital deployment, particularly given the long-dated nature of many investment decisions. We discussed how the board evaluated trade-offs between returning excess cash to shareholders and retaining flexibility to invest through the cycle, including in lower-carbon opportunities where returns were competitive. The chair acknowledged investor focus on the company's increased reliance on cash flow metrics within the chief executive officer's remuneration framework and recognised the risk that an overly narrow focus on short-term cash generation could, if not carefully overseen, discourage investment where capital expenditure might be required to support long-term value creation. He indicated that the board viewed remuneration outcomes as one tool among many and stressed that judgement remained central to capital allocation decisions.

On governance, the chair reflected on the board's own effectiveness and the importance of succession planning ahead of the AGM. He described an active approach to board refreshment, aimed at maintaining strong financial oversight while ensuring the board retained sufficient breadth of experience to challenge management on strategy, risk and the energy transition. Reflecting on the sudden departure, and short-lived position, of one member of the board– the chair stated this was part of a review into the balance of skills where it was felt there was too much energy industry CFO experience and too little direct financial markets expertise.

**Outcome:** This was a useful engagement for information on company strategy, and the chair reiterated the pivot towards a leaner, LNG focused organisation. Shell maintains its net zero and operational emissions targets, although present the move towards decarbonisation as one defined by the pace of policy incentives and the transition of broader society. While we appreciate the merits of increased transparency requested in the shareholder resolution, we also recognise the company's call for scenario flexibility. We will be voting to support management on all items at the upcoming AGM.

## TRANE TECHNOLOGIES - Environment

**Objective**: This engagement comprised an annual review of the company's latest sustainability disclosures, which are typically released in May. The CA100 collaborating investors had identified several focus areas and an agenda prior to the call with Trane Technologies.

Our annual engagement is typically well-timed with Trane Technologies' sustainability disclosures being released. Unfortunately, this year the new CEO delayed the release of these so that first publication coincided with the day of our engagement. This meant some of our questions – particularly those focusing on recent progress against emissions targets – were shelved for another time, once disclosures can be reviewed.

The agenda included discussion of refrigerants, energy efficiency standards, decarbonisation progress to date, climate governance (at board level, executive remuneration), and climate policy advocacy. Our investor group was especially keen to understand how Trane Technologies was balancing the growth of its businesses – especially in supporting the data centre boom globally – with ensuring continued progress against its climate commitments.

The global-warming potential (GWP) of refrigerants is among the most immediately controllable and impactful inputs Trane Technologies can alter in its products. The EU has introduced new regulations to ultimately require adoption of 'next generation' low-GWP refrigerants, including a full phase-out of hydrofluorocarbons (HFCs) by 2050[2]. Trane confirmed it is already complying with EU standards, with the lowest possible GWP target threshold changing downward all the time. When asked if it is aiming for complete removal of HFCs where possible, the company confirmed it is prioritising non-HFC refrigerant options, highlighting parallel benefits in safety, refrigerant toxicity, and reliability non-HFCs offer.

We raised Trane's inconsistent disclosure of SEER 2 (Seasonal Energy Efficiency Ratio) ratings for its products, and implications this can have for consumers lacking this easily comparable metric for the overall energy efficiency of a heating, ventilation, and air conditioning (HVAC) unit. Trane Technologies acknowledged this as valuable feedback, noting that it does have these metrics available for all of its inventory and internally tracks this across sales. Although these figures have not been public to date, the company will consider increasing consistency of SEER 2 ratings across its catalogue at a minimum. On a related note, we enquired about how Trane was tracking usage of its products in data centres and associated PUE (Power Usage Effectiveness); this presents a considerable market opportunity for Trane Technologies, and the company is in an industry working group developing guidance on PUE calculation methodologies.

The company is progressing its existing SBTi-validated targets and associated programmes like the Gigaton challenge (addressing use-phase Scope 3 category 11 emissions). When asked how well the company's targets are tracking with the pace of the transition today, Trane was clear that in most cases (with notable exception being the US) the 'greening of the grid' is occurring at an even more accelerated pace than forecast. This represents a significant contribution to the company's Scope 3 targets especially. However, there remain challenges where the company is continuing to see growing HVAC sales in countries with 'dirtier' (more carbon-emitting) electricity grids, particularly in eastern Europe. This has led to some 'stickiness' in its Scope 3 emissions, and concern about how appropriate the units of its use-phase target – particularly where these emissions are in-part driven by systems far outside of Trane's realm to control or influence (i.e. the power generation fuel mix of a region's electricity grid). Trane is engaging with SBTi on whether the current framing of its use-phase emissions target remains appropriate, with an outcome expected later this year.

Our engagement group identified several climate governance topics to raise with Trane, including climate capabilities within the board, the role of sustainability metrics in the company's business opportunities, and how climate in incorporated into executive remuneration key performance indicators (KPIs). The company noted the board had recently undergone a climate scenario training session, and that it takes consideration of climate risks very seriously. Sustainability metrics and climate impact is explicitly included when evaluating new projects – noting that some data centre projects have not been progressed due to anticipated environmental impacts. The company also has annual KPI incentives tied to the company's 2030 climate targets for all managers, although these figures are not made public.

**Outcome:** Our engagement with Trane Technologies confirmed the company remains on track with its climate transition plan. The company was very receptive of several of our investor group's requests, notably its willingness to add greater SEER 2 ratings disclosures to its catalogue, the commitment to disclose a more region-agnostic measure of average energy efficiency of sold units (moving away from the obtuse, US-centric 'Energy Star' system), and confirmation it will be adopting the Climate Lobbying Standard later this year.

2 https://climate.ec.europa.eu/eu-action/fluorinated-greenhouse-gases/climate-friendly-alternatives-f-gases/refrigeration_en

# Human rights

## Moral machines: Artificial Intelligence (AI) and ethics

We began (and reported on) this engagement last quarter; over the last three months we engaged with additional companies we identified as having a material exposure within our investment universe.

**Objective**: As AI systems become more integrated into commercial processes, the ethical implications of their use have come under increasing scrutiny. We have engaged with investee companies to better assess the challenges and opportunities that arise when developing and deploying AI technologies, including issues of bias and fairness, as well as questions of accountability, privacy, and transparency. Our engagement focuses on exploring the measures companies have in place to address and manage the principles of AI use in relation to human values, ensuring that companies have appropriate policies and practices in this area, and that they maintain a robust standard of reporting incidents.

### HSBC - Social

**Objective**: HSBC, as one of the world's largest financial institutions, is leveraging AI across many aspects of its business - from financial crime prevention and risk modelling to customer service and market analytics. Our aim was to assess how HSBC is integrating AI into its operations in a way that upholds ethical principles and maintains the trust of stakeholders.

HSBC is deploying AI across a wide range of activities, including financial crime detection, credit risk modelling, customer service, and market analytics - reflecting its position as a large, data-rich financial institution. A central theme throughout the discussion was trust: emphasising that as a global bank, customer trust is foundational, and this inherently constrains the pace and nature of AI adoption. It must adopt AI carefully to preserve its reputation for reliability and integrity.

HSBC has integrated AI into core operations looking to derive clear benefits in efficiency and risk management. For example, machine learning tools in financial crime detection have improved speed and reduced false positives, while AI-supported analytics enhance credit and market risk modelling. Customer-facing applications, such as chatbots and personalisation tools, are also being deployed, alongside internal administrative productivity tools leveraging generative AI.

However, the bank's approach is notably cautious and incremental. Management described HSBC as a "fast follower" rather than a leader, reflecting both regulatory constraints and a low tolerance for operational or conduct risk. AI use cases are subject to strict validation thresholds, with limited appetite for tools that introduce even modest error rates in high-stakes contexts. This is particularly evident in areas such as payments or credit decisions, where regulatory expectations for accuracy are effectively near-zero.

HSBC has also invested in internal infrastructure to manage AI deployment. Its model-agnostic "gateway" architecture enables the use of multiple third-party models while keeping sensitive data within a controlled environment. This reduces dependency on any single provider and aligns with best practice around vendor diversification. However, management acknowledged trade-offs, including slower performance relative to leading external tools and internal friction in adoption. Cost considerations are also increasingly relevant. The bank highlighted uncertainty around the long-term economics of AI (particularly token-based pricing models), suggesting a degree of caution in scaling use cases until cost structures stabilise.

**Outcome:** HSBC appears to be pursuing a deliberate, risk-aware AI strategy, prioritising reliability, regulatory compliance and reputational protection over rapid innovation. This reduces downside risks but may limit its ability to capture AI-driven efficiencies as quickly as more agile competitors. Overall, HSBC demonstrates a mature and well-structured approach to AI governance, supported by strong risk management, data controls and accountability.

Its key strengths include a cautious adoption model aligned with regulatory expectations, integration of AI oversight into existing risk frameworks, robust privacy and security controls, and vendor-agnostic infrastructure that reduces dependency risk.

Areas for further development remain. External transparency is limited, particularly on model performance, bias mitigation and real-world outcomes, while the bank's approach appears more process-driven than outcome-focused. Its cautious model may also slow innovation and create internal friction, especially across a complex global organisation.

Overall, HSBC is a responsible but cautious adopter of AI, prioritising trust and control over speed. Further progress on transparency and measurable outcomes will be important as stakeholder expectations on ethical AI rise. We maintain our responsible investment categorisation of the company.

## MERCK & CO - Social

**Objective**: Our goal was to engage for information and confirm that Merck is not only leveraging AI for business and healthcare innovation but doing so in a way that is guided by ethical principles and maintains stakeholder trust.

The findings of our engagement echo those of other companies and particularly the approach of other pharmaceutical companies. The company is demonstrating a level of AI governance which is very much in line with global best practice to date, with several more advanced embedded processes which were well communicated. The approach is driven by a principles-based policy which is informed by principles-based global regulation and guidance (such as the EU AI Act and OECD standards). Pharmaceuticals companies are relatively familiar with well-established predictive AI and typically have robust practices on data bias and privacy. Although generative AI is being used across the company, this seems to be moving at a cautious pace in front office and drug discovery applications, with the true benefits of such AI augmented processes still to be seen. Back-office applications are moving at greater speeds with tangible gains in the speed of regulatory analysis and filing applications. This dual speed approach makes sense, and additional caution has been placed on AI use in real-time of patient facing applications. Every AI system undergoes an AI impact assessment, which is broader than a traditional risk assessment, covering a wide range of AI-related issues. Each principle is broken down into actionable questions, helping operationalise concepts such as transparency and fairness in a practical manner. This impact assessment is undertaken when an AI process is updated or implemented in a new area. This is a well-articulated and welcome approach. The appointment of an external Digital Ethics Advisory Panel (DEAP) by the Executive Board is also a positive approach. Panel members serve as independent advisors, assessing complex ethical challenges related to data and artificial intelligence, and providing impartial guidance to the organisation.

**Outcome:** This was a constructive dialogue and on the basis of our engagement, there is no change to Merck's responsible investment categorisation.

## WOLTERS KLUWER - Social

**Objective**: Wolters Kluwer provided a detailed overview of its AI strategy and governance, branded as "Expert AI", which is grounded in proprietary, expert-curated data and human validation to ensure reliability. The company positions AI as core to its digital transformation and product innovation, integrating AI capabilities across all five of its divisions (from clinical decision support in healthcare to legal research and tax automation). Wolters Kluwer's approach combines advanced AI (including large language models and even "agentic" AI) with deep domain knowledge and human experts in the loop. This multi-pronged strategy is supported by a central Digital eXperience Group (DXG) and a proprietary AI enablement platform called "FAB", which provides standardised AI components and governance controls to safely deploy AI features company wide. Importantly, the platform allows incorporation of leading third-party AI models (e.g. OpenAI's GPT) in a controlled, secure environment that enforces privacy compliance and responsible use. This model-agnostic approach reflects a conscious effort by Wolters Kluwer not to tie itself to a single AI provider, the company actively evaluates different AI models for various tasks, aiming to use the best available technology while staying flexible in a rapidly evolving field. Overall, Wolters Kluwer's AI governance is framed by formal Responsible AI Principles (in areas like privacy, transparency, accountability, fairness, and human-centric design) and a dedicated AI Centre of Excellence for oversight and best practices. These elements indicate strong internal commitment and coordination on AI ethics, even as the company acknowledged that certain industry-wide challenges remain in scaling responsible AI practices.

The company has legal experts monitoring the AI Act's development and evaluating whether any of its products (especially in healthcare) might fall under high-risk categories requiring additional controls or even regulatory approvals. A recent industry incident underscores this cautious stance: OpenEvidence, an AI-driven medical reference app funded by pharmaceutical advertising, was withdrawn from the EU/UK market in 2026 potentially due to regulatory concerns under the new AI rules. Wolters Kluwer cited this "shadow AI" example as a lesson in the importance of robust governance, compliance and bias safeguards (the OpenEvidence tool, being open and ad-funded, was seen as at higher risk of bias and lacked the oversight present in Wolters Kluwer's closed, expert-driven model).

**Outcome:** Our engagement found that Wolters Kluwer is generally on the right track in managing AI ethics. The company exhibits a well-developed responsible AI framework (with strong principles, embedding of expert oversight, and an enterprise-wide governance platform) and many commendable practices already in place. Its Expert AI strategy, focusing on trustworthy AI grounded in curated data and human validation, is particularly notable for aligning innovation with risk management. At the same time, like most sophisticated AI users, there are areas for improvement. We identified that Wolters Kluwer could enhance its approach by formalising Board-level oversight of AI ethics and increasing external transparency (e.g. on metrics and results of its AI governance) as its AI deployments expand. Overall, we were satisfied that Wolters Kluwer's leadership understands its ethical obligations and is proactively addressing them, balancing a strong innovation agenda with the demands of fairness, accountability, privacy, and public trust. Based on this engagement, we have confirmed Wolters Kluwer's Responsible Investment rating, reflecting our confidence in the company's current trajectory. The company recognises that market pressures to innovate rapidly must not override safety and ethics, a viewpoint we strongly support. We encouraged Wolters Kluwer to continue its careful, human-first approach, even as it pushes to stay competitive in the fast-moving AI landscape.

## 3I GROUP - Social

**Objective**: As part of the 30% Club's Fix the Exec working group, we are engaging with companies that lag in gender diversity at the executive level. While board representation has improved, attention is now turning to executive management, where women hold only 32.7% of roles in the FTSE 100 and 27% in the FTSE 250. Building on the FTSE Women Leaders Review, we are encouraging companies to target 50% female representation on executive teams and meet the Parker Review's diversity objectives. To understand 3i Group's approach, we spoke with the Sustainability Manager and Sustainability Strategy Director, about its policies, training programmes, and mentoring initiatives aimed at improving gender diversity.

The organisation's small size and long-serving senior leaders result in low recruitment volumes and challenges in refreshing leadership. For example, the Chief Operating Officer (COO) has served since 2006 and the Head of Human Resources since 2001. This contributes to low recruitment volumes and presents challenges in refreshing the leadership pipeline. Gender diversity barriers are particularly acute in investment roles, reflecting sector-wide historic under-representation of women and a limited talent pipeline.

The company's recruitment processes are designed to include diverse candidate pools, and recent hires have achieved a gender-balanced split at certain levels. Grassroots initiatives such as Gain, Level 20, and Synergy Network aim to support gender diversity via internships and industry engagement, although there is no formal graduate scheme and recruitment is largely ad hoc.

Instead, recruitment is largely limited to investment banking and consulting backgrounds as the company expects these initiatives will strengthen the future talent pipeline over the next decade.

Tracking the success of diversity initiatives is difficult due to small recruitment volumes and GDPR constraints on data collection. While gender data is gathered, formal tracking of departures is not yet in place, and the company recognises the need for improvement. There are no formal targets or incentives for gender diversity in senior executive roles; diversity objectives exist, but they are mostly focused on portfolio companies. 3i Group seeks to foster a safe and supportive workplace culture, with independent reporting mechanisms and strong anti-harassment and equal opportunities policies. Leadership development and bias training are provided, and differences are respected within the transparent, small organisation.

**Outcome:** While 3i Group acknowledges sector-specific and organisational barriers to gender diversity, particularly in investment roles, it has implemented several grassroots initiatives and maintains an inclusive recruitment process. Formal targets and incentive structures are not currently in place, but the company is committed to fostering a safe and supportive environment for all employees, with ongoing efforts to improve gender diversity and awareness throughout the organisation.

## ANGLO AMERICAN - Social

**Objective**: We engaged with Anglo American's Vice President for Social Performance as part of a collaborative meeting with other investors under the Principles for Responsible Investment (PRI) Advance initiative on human rights. Our aim was both information gathering and setting expectations, focusing on how Anglo American is managing human rights issues amid significant business restructuring.

Anglo American described multiple ongoing changes in its business and the rationale behind them. The company is simplifying its portfolio by divesting or demerging certain operations (such as its coal business and De Beers diamonds) to refocus on core commodities and strengthen the group's longer-term resilience. It has also agreed a merger-of-equals with Teck Resources, which will transform Anglo into one of the world's largest copper producers. However, as regulatory approvals for the merger are still pending, Anglo can only conduct high-level planning (e.g. future organisational design) at this stage and cannot merge policies or operations until post-completion. Anglo American outlined its responsible divestment approach: it has established policies to evaluate potential buyers of assets on governance quality, management experience and team capacity, not just financial terms, to ensure that any new owners are capable of maintaining responsible practices. The company committed to uphold all its existing human rights and social performance standards throughout any sale process so that important issues do not "fall between the cracks" during ownership changes. In fact, Anglo confirmed it will not weaken or relax its policies at mines being sold until deals close, avoiding any "Anglo-lite" version of standards for assets about to be divested.

Anglo American also discussed workforce, union and community considerations during these transitions. For example, the company noted that in regions like Australia it has worked closely with unions and employees to retain skilled workers even when mines are idled or closing, helping to maintain expertise and employment so that sites can reopen or integrate smoothly under new ownership. Anglo emphasised that local communities are being consulted and supported throughout the portfolio changes, in order to preserve trust and its social licence to operate. Additionally, Anglo American provided an update on its "Social Way" framework for managing social performance. The company reflected on lessons learned since the Social Way was introduced in 2020: earlier implementation was sometimes too prescriptive, so new updated Social Way standards (expected soon) will set mandatory minimum requirements group-wide but allow site-level flexibility in how to achieve the key social outcomes, recognising the need to adapt to local context.

Finally, Anglo American reaffirmed the role of independent third-party assurance and responsible mining standards in underpinning its credibility. The company leverages external auditors to verify its practices and is working towards having all its operations certified under credible international standards for responsible mining (such as IRMA) that go beyond basic compliance. This approach, it noted, supports stakeholder confidence and market trust in the company's social and environmental performance.

**Outcome:** We concluded the engagement by reinforcing our expectation that Anglo American should continue to prioritise independent verification of its mining practices. In particular, we emphasised that Anglo American must remain actively involved with the Initiative for Responsible Mining Assurance (IRMA), an independent global standard for responsible mining with rigorous multi-stakeholder governance and third-party assurance, and work towards all sites being certified under such frameworks. Anglo American's management acknowledged these points and indicated that it will maintain its commitment to IRMA and similar high-bar standards. We will continue to monitor how the company maintains and develops social standards as the merger with Teck Resources develops.

## BARCLAYS - Social

**Objective**: As part of the 30% Club UK Investor Group's Fix the Exec working group, we engaged with Barclays on gender diversity and inclusion at executive and senior management level. While board representation across the UK market has improved, progress at executive level remains slower. The engagement sought to understand how Barclays is supporting female progression into senior leadership, how it assesses the effectiveness of its inclusion strategy, and how senior management is held accountable for progress.

Barclays explained that it has moved away from traditional diversity, equity and inclusion framing towards a broader inclusion and opportunity agenda. The company described diversity as an outcome of an inclusive culture, rather than a standalone input, and said its focus is on embedding inclusion across business processes, colleague experience and day-to-day decision-making. As a people-driven business, Barclays also highlighted the importance of inclusion to talent attraction, retention and long-term organisational performance.

The company noted that implementation needs to reflect regional regulatory and cultural constraints. Barclays has adjusted aspects of its approach in the US given the more complex political and regulatory environment around targets, language and programmes. However, it stated that it continues to work towards greater consistency across its global footprint while accommodating local requirements.

Barclays appears to be taking a more integrated approach to inclusion by placing responsibility across the organisation rather than limiting accountability to leadership or HR. The company uses practical tools, including daily inclusivity nudges in team communications, to reinforce inclusive behaviours. Progress is measured through a colleague-centric Inclusion Index, which is designed to capture day-to-day employee experience rather than relying solely on headline representation metrics.

**Outcome:** The engagement provided useful insight into how Barclays is embedding inclusion within governance, culture and remuneration. From an investor perspective, the company's focus on employee experience and qualitative indicators is positive, particularly where these are connected to formal accountability structures. We will continue to monitor Barclays' disclosure on inclusion and opportunity, including the practical impact of the Inclusion Index, consistency across geographies and how the company manages targets and benchmarks in markets where constraints are more complex.

## GILEAD SCIENCES - Social

**Objective**: We engaged with Gilead Sciences following the submission of a shareholder proposal by the AIDS Healthcare Foundation. The proposal requested that the company publish a report assessing whether extending patent exclusivity periods could limit patient access to more effective or more affordable medicines. Our objective was to understand the company's approach to patent strategy, board oversight and patient access, and to inform our voting decision on the proposal.

We held a meeting with a representative from Gilead Sciences' Legal and Governance team and during the discussion, the company emphasised that patient access is a core consideration in its business strategy, particularly given its long-standing focus on treatments for HIV. Gilead explained that patent protection, including the extension of patent exclusivity, is critical to enabling sustained investment in research and development, which involves significant scientific, clinical and financial risk. The company stated that without this protection it would be more difficult to fund innovation and bring new medicines to market.

Management indicated that it does not consider the company to be abusing the patent system and expressed the view that the shareholder proposal is not an appropriate mechanism for addressing patient access concerns. The company outlined that its patenting approach is overseen by the Corporate Governance Committee, providing board-level scrutiny. The lead independent director is kept informed of material litigation matters and participates in investor calls where such topics are discussed.

In addition, Gilead highlighted steps taken to support access to medicines globally, including the voluntary licensing of the drug Lenacapavir to six separate licensees for HIV prevention in high-incidence, resource-limited countries. This was undertaken despite a challenging political and regulatory environment in the United States.

**Outcome:** We considered the explanations provided and concluded that the company has appropriate governance oversight of its patent strategy and that patient access considerations are integrated into its approach to innovation. On this basis, we voted against the shareholder proposal, in line with management's recommendation.

# Governance

## ABERDEEN - Governance

**Objective**: We engaged the company's compensation team to raise concerns regarding the remuneration policy being proposed at the 2026 AGM.

The company is putting forward a hybrid remuneration policy for executives at the 2026 AGM. The policy includes the introduction of a restricted share component which will not be performance based but will be awarded based on time vesting. Accordingly, the level of performance-based shares will be reduced by 50% and given the higher level of guaranteed pay the total potential variable remuneration awarded will be reduced from 350% to 260% of salary. According to the board, the changes allow better alignment with US pay structures (a key hiring geography), helping to assist future executive recruitment and retention. The board is also looking to reduce the number of financial performance metrics used to calculate long-term incentive plan (LTIP) performance from two (one relative measure and one absolute) to a single absolute financial measure. The board has historically had discretion in choosing these metrics and has indicated the relative total shareholder return (TSR) measure used in previous years will be dropped. We believe TSR is a key performance indicator for most companies so are surprised to see this removed. The board argues there are few relevant peer comparators, making relative TSR less useful.

**Outcome:** We do not support the move away from relative TSR as a measure to award variable executive remuneration. The board's initial decision to drop relative TSR is reflected in the company's most recent remuneration report. We therefore voted against this item. Although we disagree with the decision not to use TSR as a performance metric, we voted to abstain on the remuneration policy as there are some positive aspects of policy implementation and we believe the reduction in total compensation is appropriate for the implementation of the hybrid plan.

## ADIDAS AG - Governance Social

**Objective**: We engaged the company's Investor Relations team to raise concerns regarding board gender diversity and the structure of the new executive remuneration policy being put forward for approval at the 2026 AGM.

Supervisory board gender diversity stands at 25%. On engaging the company, we both agree that according to the German Stock Corporation Act, supervisory boards of listed German companies should be composed of at least 30% women or at least 30% men. We have a mathematical disagreement. As the board is comprised of eight members (two of which are women), the company believes it complies with the regulation as 2.4 members would represent 30%. To us this is not the spirit in which the regulation was passed and fails to comply with the Act's key headline of 30% minimum gender diversity, even if it may comply with a legal interpretation. We will therefore be voting against the re-election of an incumbent member of the nomination committee, as the current committee chair is not standing for re-election.

The company is also putting forward a revised executive remuneration policy. Under the long-term incentive plan the company proposes moving from a multi-year target to a one-year performance assessment, making the overall package more oriented towards the short-term. It is also proposing to remove the existing relative TSR metric, in the context of notable underperformance of the broader German listed peers. We do not find the rationale for the changes compelling and the presence of multi-year assessment for long-term variable pay is a key pillar of remuneration best practice and sustained shareholder alignment.

**Outcome:** We voted against the re-election of the above nomination committee member based on board gender diversity concerns and against the proposed remuneration policy given the greater short-term orientation.

## ADOBE - Governance

**Objective**: We contacted the Investor Relations team to raise concerns related to shareholder approval of executive pay at the 2026 AGM.

We have identified a pay for performance issue regarding the CEO's total remuneration. The CEO's already relatively large target equity grant was increased substantially in 2025 with little rationale provided, and despite short and long-term share price under performance.

**Outcome:** We received no response from the company and voted against approving executive compensation at the 2026 AGM.

## ALPHABET - Governance

**Objective**: We contacted Alphabet's Investor Relations team ahead of the annual general meeting to communicate our intention to vote against several resolutions, and to support a couple of shareholder proposals. The intention was to seek any additional context that may inform our voting decision. Our concerns related primarily to governance structure, executive remuneration, and the design of equity-based incentive arrangements.

Ahead of the AGM, we outlined our intention to oppose two Items given concerns regarding the absence of a reasonable end date (sunset provision) for the company's multi-class share structure and the continued support of this framework by relevant committee members. We also indicated our intention to vote against Item 3 due to concerns about the plan's high cost, potential share dilution, and weak shareholder protections. The plan also includes features such as the reuse of unused shares originally allocated to employee incentive plans and the ability to accelerate the vesting of bonus awards which we do not consider best practice.

In addition, we flagged concerns regarding Item 4, relating to the CEO's recent triennial equity award. We consider the award, valued at approximately $385 million, to be materially larger than prior grants and believe it raises both quantum and structural concerns from a remuneration perspective.

We communicated our support for Item 7, a shareholder proposal that we believe appropriately reflects a preference among non-affiliated shareholders for aligning voting rights with economic ownership through a one-share, one-vote structure. We also expressed support for Item 14, as we consider enhanced reporting on data governance and AI-related risks to be prudent given the company's recent privacy-related legal challenges, the scale of its data holdings, and increasing regulatory scrutiny in this area.

**Outcome:** The Alphabet Investor Relations team responded that they would share our feedback with the relevant teams however absent of additional disclosure from the company, we proceeded to vote in line with our stated concerns. We voted against the four management resolutions and in favour of two shareholder resolutions.

## ARES MANAGEMENT - Governance

**Objective**: We reviewed some governance concerns raised by our proxy advisor in relation the ownership structure and governance at the company.

Ares qualifies as a controlled company under NYSE rules, with Ares Partners Holdco LLC holding a majority of voting stock. This allows exemptions from having a majority independent board and fully independent committees. While this differs from typical public company practice, it is permitted and broadly in line with peers such as KKR and Blackstone. The founder retains significant control, and the company continues to reflect aspects of a private ownership model. Governance has developed in recent years, including the addition of independent directors, and compensation is determined through carried interest overseen by an independent Conflicts Committee. We will continue to engage on improvements, including board diversity and clearer communication with proxy advisers.

**Outcome:** We decided to support management based on our previous engagements, but we will continue to monitor governance developments at the company.

## BERKSHIRE HATHAWAY - Governance

**Objective**: We sought to engage with Berkshire Hathaway Inc. ahead of the annual meeting following our intention to vote against management recommendations on executive remuneration, director elections, and pay-related governance. The objective was to better understand the company's approach to executive pay structure, board oversight, and climate-related accountability, and to inform our voting decisions in line with our policy.

Our concerns centred on high fixed compensation for certain named executive officers with limited disclosure on how pay outcomes are linked to performance, the continued use of a multi-class share structure without a reasonable end date, and perceived weaknesses in board-level oversight of executive remuneration. We also noted the absence of clearly articulated greenhouse gas reduction targets aligned with prevailing climate accountability expectations.

We contacted the company to discuss these issues; however, no response was received to our engagement request prior to the AGM.

**Outcome:** In the absence of engagement and satisfactory disclosure, we proceeded to vote against the advisory vote on executive compensation, withheld support from certain directors on the governance and compensation committees, and withheld support from the lead independent director/audit committee chair. We additionally supported an annual say on pay vote, which we consider best practice, contrary to the company's recommendation for a triennial vote.

## BP - Governance

**Objective**: We engaged with BP's management (specifically the company secretary and a senior IR representative) ahead of BP's 2026 Annual General Meeting (AGM) to discuss several key proposals and governance changes. The purpose was to understand BP's rationale for these proposals and to convey our perspective as a long-term investor, ensuring our forthcoming voting decisions were well-informed and transparent to the company.

During the meeting, BP's representatives outlined the context and reasoning behind three main AGM proposals. Firstly, they explained a proposal to amend BP's Articles of Association to allow fully virtual shareholder meetings. BP cited low in-person attendance and logistical flexibility as benefits, but we expressed concern that moving entirely to virtual AGMs could diminish shareholder accessibility and participation compared to a hybrid format. Secondly, we discussed BP's plan to revoke two previously approved climate-related reporting resolutions from 2015 and 2019. BP argued that these legacy resolutions had been overtaken by modern disclosure requirements and were creating unnecessary complexity in reporting. While we acknowledged that reporting standards have evolved, we questioned the need for a formal revocation, noting this step would be unprecedented in the UK context and that the prior resolutions, which were overwhelmingly supported by shareholders, still provided useful transparency. Thirdly, the company addressed a shareholder resolution (coordinated by a group of climate-focused investors) seeking additional disclosures on BP's investment strategy and capital discipline. BP viewed this requisitioned proposal as duplicative in light of its recent strategic reset and net zero plans, describing it as a "blunt tool" that could complicate reporting without materially enhancing disclosures. Finally, we also raised an issue not on the AGM agenda - a climate related proposal coordinated by the NGO 'Follow This' which was excluded by the board. Although common in the US, shareholder resolution exclusion is relatively unprecedented in a UK context. Throughout the discussion, BP's team placed these actions within the broader context of its new strategy and governance updates (including recent leadership changes and a streamlined board structure), emphasising an agenda to simplify operations and focus on current priorities. We highlighted that, taken together, these measures, while each might have merit from management's perspective, risked being perceived by some shareholders as a retreat from prior commitments, an erosion of governance norms and a strain on BP's relationship with minority investors.

**Outcome:** As a result of this engagement, we confirmed our voting decisions for the forthcoming AGM, aligning our actions with the conclusions drawn from the discussion. We informed BP that we will vote against management's proposals on virtual-only meetings and on revoking the 2015/2019 resolutions, as we remain unconvinced these changes are in shareholders' best interests. At the same time, we will support management's position on the shareholder climate-disclosure resolution, meaning we intend to vote against that shareholder proposal, consistent with BP's recommendation. Given a string of measures being put forward that could be seen as unfavourable to shareholder rights, we will also keep the support for re-election of the board chair under review as they are ultimately responsible for governance performance.

## CELLNEX TELECOM - Governance

**Objective**: We engaged with Cellnex's Investor Relations team and the deputy Corporate Secretary to raise concerns related to the on-boarding of a director ahead of the company's annual general meeting.

Our proxy adviser had recommended voting against the re-election of one board member, citing concerns that this director held too many external board roles. On engagement, the company provided additional context and explained that the director would step down from another outside board position to address this concern and ensure sufficient commitment to Cellnex.

**Outcome:** As a result of the engagement, we concluded that the company's actions adequately addressed the issue. We therefore decided to vote in favour of management's proposal at the annual general meeting, contrary to our proxy adviser's recommendation.

## DOLLAR GENERAL - Governance

**Objective**: We engaged with Dollar General ahead of the annual general meeting regarding a shareholder resolution to reduce the ownership threshold to call a special meeting to 10%. The purpose of the engagement was to understand the company's perspective and prior shareholder feedback on the appropriate threshold, and to inform our voting decision.

Following engagement with the company, Dollar General provided additional context regarding its current governance framework and historical shareholder sentiment. The company highlighted its willingness to engage with shareholders on this topic in previous years, during which a 25% threshold received shareholder support and was viewed as consistent with common practice among S&P 500 companies.

The company further explained that its shareholder base includes a relatively limited number of investors holding significant ownership stakes. As a result, lowering the threshold to 10% could increase the likelihood that a small minority of shareholders might exercise the special meeting right disproportionately, potentially leading to governance risks.

**Outcome:** While we generally support proposals that seek to reduce the threshold required to call a special meeting to 10%, we carefully considered the company's rationale and shareholder engagement history. We acknowledged the alignment of the current 25% threshold with market practice and the potential risks associated with further reduction given the company's ownership structure. Taking these factors into account, we decided to vote against this proposal, in line with management.

## ESSILORLUXOTTICA - Governance

**Objective**: We contacted the company to raise concerns related to a range of issues and items being put forward at the 2026 AGM.

Following the previous year's AGM, the company did not engage with shareholders following the high levels of dissent against executive directors' remuneration. Consequently, our proxy voting adviser recommended voting against this year's compensation report as well as the remuneration policies for the chair and CEO, and Vice-CEO as there was no rationale given for the exceptional awards, and the policies favoured the executive in the event of their departure from the company. Finally, a vote against the re-election of the chair of the Nomination and Compensation Committee was recommended considering the ongoing compensation concerns.

**Outcome:** We placed votes against on these items (compensation report, policies and the re-election of the director with specific compensation responsibilities) as the company has failed to address concerns in previous years. We contacted the company for comment but did not receive a response.

## EXXONMOBIL CORP - Governance

**Objective**: Ahead of the annual general meeting we assessed three items: the management proposal to change in state of incorporation from New Jersey to Texas, a shareholder proposal on retail voting participation, and the re-election of the lead independent director.

Our decision to vote against the proposed move from New Jersey to Texas was driven by concerns that it could weaken shareholder rights by making it more difficult to hold directors to account. The company stated that the board considered the move to be in shareholders' best interests, citing its strong operational presence in Texas and the importance of legal certainty in a complex, long-cycle industry, as well as the familiarity of Texas-based legal institutions with its business.

We also supported the retail voting programme proposal, as we believed it addressed a limitation in the current framework that may steer retail investors towards board-backed positions. The company highlighted regulatory constraints under SEC and proxy solicitation rules, noting that the proposed options would exceed what is permissible and could conflict with the board's fiduciary duties, and suggested that external parties could develop alternative solutions.

We abstained on the re-election of the Lead Independent Director, in line with the prior year, reflecting our view that the company continued to lag European peers on energy transition targets and disclosures, and that stronger oversight was required and the company did not provide a response to this.

**Outcome:** Following internal discussion, we decided to vote against the change in state of incorporation as we still believed the move could weaken shareholder rights. We voted for the shareholder proposal on retail voting options to signal that, despite regulatory constraints, the current retail voting approach falls short of expectations and could benefit from further enhancements to shareholder participation and rights. We abstained on the re-election of the lead independent director.

## FORESIGHT SOLAR FUND - Governance

**Objective**: The board does not meet the Parker Review requirements regarding diversity, and we contacted the broker to discuss this.

Whilst the board is comprised of a 50% / 50% gender split, it has consistently not met the Parker Review ethnicity targets. The broker stated that the Nominations Committee recognises this and will seek to address it during the next recruitment round "subject to the availability of suitably qualified candidates". Given that the next appointment is slated to be a Jersey-resident director, and the board acknowledges that this is a "narrower pool" the likelihood of the board meeting the Parker Review target is limited.

**Outcome:** We have signalled to the board that we are monitoring the progress against the target and will review its progress ahead of the next AGM.

## GOLDMAN SACHS - Governance

**Objective**: As in previous years we contacted the Investor Relations team at the company regarding concerns over remuneration practices and the subsequent response to significant shareholder dissent.

At the 2025 AGM the company suffered a low approval rate on the 'Say on Pay' proposal. The concerns expressed last year have not been materially addressed. The key issues include the fact that, despite being informed by performance assessments, executive offer pay is ultimately discretionarily determined. Performance assessments also do not include preset goals or weightings, with the remuneration committee placing "substantial importance on the assessment of firmwide performance". The lack of disclosure on target or maximum pay goals reduces transparency and makes it harder to assess pay-for performance alignment.

**Outcome:** We voted against management in approving executive compensation and against the re-election of the Remuneration Committee chair given the absence of material changes. We also voted against management in supporting three shareholder proposals on reducing the threshold to call a special meeting, improving reporting on lobbying payments and reporting on the company's energy supply ratio (a measure looking at the company's lending on low carbon versus fossil fuel energy activities).

## HERMES - Governance

**Objective**: We contacted the company to raise concerns related to a range of issues and items being put forward at the 2026 AGM.

Concerns have been raised about a lack of transparency regarding two consultancy agreements that involve connected persons. It is unclear if the arrangement benefits shareholders. Additionally, our proxy voting service identified an ongoing conflict of interest in the process of determining executive pay. Furthermore, a range of directors benefit from an unequal voting structure.

**Outcome:** We placed votes against on several items (on compensation, approving related party transactions and director elections), as the company has failed to address concerns in recent years. We contacted the company for comment but did not receive a response.

## IBERDROLA - Governance

**Objective**: We engaged Iberdrola's investor relations team ahead of the 2026 AGM to gather information about the company's proposed remuneration policy and particularly the long-term incentive plan (LTIP), a share-based executive reward program spanning three years.

Our proxy advisor recommended voting against the remuneration policy, owing to the potential for excess rewards in the event of a sharp rise in share price (aka windfall gains). The discussion focused on the structure and scale of the proposed LTIP and how it compared to the previous plan. We raised concerns about the magnitude of potential payouts for top executives under the new scheme. With no additional internal cap limiting payouts beyond a fixed number of shares, we highlighted the risk of disproportionately high rewards if Iberdrola's share price continues to rise. We queried the peer benchmarking approach used to justify these award levels and raised the threat of negative public perception (headline risk) should such windfall gains materialise. We also asked whether the board would consider an explicit cap or use its discretion to reduce awards in an extreme outcome, beyond relying on formal malus/clawback triggers (mechanisms to retract pay in cases like misconduct). In response, Iberdrola's representatives acknowledged the plan's substantial scale but stressed that the number of shares granted was broadly similar to prior LTIPs over the years, implying that the high monetary value is driven by strong share price performance. The company highlighted enhancements to performance conditions: for example, relative total shareholder return (TSR), a measure of share price plus dividends, must rank among the top five of 22 peer companies for any payout, a more demanding hurdle than before. The company explained that the award pool was increased by 43% to reflect 77% growth in market capitalisation since 2022 and a broader group of participants (+33% vs the prior plan). Iberdrola argued that imposing a euro-value cap could "punish" strong performance, indicating the board's view that high outcomes are justified by exceptional results and would be monitored with existing governance provisions. The company noted it had engaged extensively with shareholders (meeting investors representing approximately 40% of share capital in a recent roadshow).

**Outcome:** In many ways this policy is very similar to plans put forward over the past decade, with even the number of shares awarded at the executive level being very similar. Our proxy advisor has supported these previous policies. The only major change has been the fact that the share price has risen significantly over the period, largely owing to strong company performance. We also recognise the sector in which this company is based. It is a global utility, not a technology company and unlikely to experience the levels of share price growth put forward in a theoretical worst case windfall scenario. This policy strengthens several award mechanics such as the stretching goals of target reward. We disagreed with our proxy advisor and supported management in voting for the remuneration policy.

## IMPAX ENVIRONMENTAL MARKETS - Governance

**Objective**: Saba Capital Management who hold c.31% of the shares called a special meeting to propose removal of all the directors on the boards and to elect their own shareholder representatives.

After internal deliberation, we concluded that Saba Capital has not presented a sufficiently compelling case or clear plan to justify the proposed board changes. Despite its significant shareholding and push for control, there remains limited visibility on the nominees, strategy, and future direction of the company if Saba's proposals were to go through, creating uncertainty compared with retaining the current board.

**Outcome:** We decided to vote against the proposed resolutions to remove directors and appoint shareholder representatives, as the case for change is unconvincing and there is insufficient clarity on the proposed nominees and future strategy.

## INTERNATIONAL PUBLIC PARTNERSHIPS - Governance

**Objective**: We engaged with the company ahead of the annual general meeting to better understand its succession planning for a non-executive director (NED), who is approaching the end of her nine-year tenure. The purpose of the engagement was to assess their alignment with corporate governance best practice and to inform our voting decision on her re-election.

In response to our engagement, the company confirmed that the NED will step down at the first AGM following the completion of her nine-year tenure, which will take place in 2027. The company also stated that the chair has already initiated the succession process by engaging a recruitment firm, and that a replacement director will be announced in due course.

**Outcome:** Based on the company's response and its alignment with our expectations, we are satisfied with the proposed approach to board succession, and we voted for the NED's re-election.

## JERONIMO MARTINS - Governance

**Objective**: We engaged with the company regarding the proposed payments to Remuneration Committee members.

Our proxy voting provider recommended a vote against the pay proposals for the Remuneration Committee members as there was no clear rationale provided to justify the proposed fee level. In addition, concerns arose from the fact that the pay is structured on a per-meeting attendance basis, without any global cap, and the proposed meeting attendance fee is deemed high in view of market practice.

**Outcome:** We contacted the company and the Investor Relations team replied with an email detailing the rationale for the proposed remuneration policy. The company argued that the remuneration of committee members has not changed since 2022 and that the Remuneration Committee is an independent body elected by the shareholders, responsible for determining the remuneration of the company's governing bodies, and therefore its own remuneration is also proposed by the shareholders. We considered the rationale but still decided to vote against this resolution.

## LVMH - Governance

**Objective**: We engaged the Investor Relations team to raise several concerns prior to the 2026 AGM, notably, on remuneration and share issuance.

We continue to hold concerns over several items including related third-party transactions, unequal voting structures, remuneration transparency and capital issuance disclosure which conflict with governance norms.  We engaged the company and outlined our concerns. We welcomed the effort to communicate but found little improvement in addressing the above concerns.

**Outcome:** We voted against management on all of the above issues referenced, including several equity issuance items because the requests exceed the recommended 10% guidelines for issuances without pre-emptive rights.

## MERCANTILE - Governance

**Objective**: To meet the new chair of Mercantile and review the investment trust RAG rating.

We met with the chair without any JP Morgan (the investment adviser) representation. She was interested in understanding whether our allocation to the UK had changed over time and the flows out of the trust, as well as our view on the cost disclosure requirements for investment trusts. We explained that our allocation to the UK had reduced over time (in line with other wealth managers) and that we did not have a specific allocation to mid and smaller companies within our models. In regards to outflows, this is a function of capital gains tax management rather than any change to the analyst's recommendation. In regards cost disclosures we noted the advantage equity investment trusts have over open-end funds; however, we did not see this as a particular advantage given the overhang of activist investors and discounts within the sector.

Marketing is a key issue for the trust, and indeed it has a marketing and communications committee. 60% of the shareholder base is institutional and the board is focused on growing the retail share. To that end some of the marketing budget was spent on train station adverts to target the over 55 market which is a sweet spot for trusts. We flagged that we have had reservations about JP Morgan's marketing of the trust (and others in its stable) for some time as we feel that the website is lacking.

With the move to attract retail shareholders there is a concern that this makes it easier for activist investors to take control of the trust however with a 60% institutional shareholder base this is less of an issue. The activist investor, Saba, is present on the register (c.1.5%) and the board closely monitors this in conjunction with its two brokers. A broker review was undertaken last year with resulted in one broker being retained and the other being replaced as it was felt the newly appointed firm would be better placed to service the pivot to the retail market. The board has maintained a buy back process to manage the discount and is focused on keeping this to a single digit.

Two non-executive directors (NEDs) are due to retire in 2027, and their respective skillsets are asset management and marketing / advisory. The chair is seeking to replace these skillsets and may consider adding further asset management experience to the board. Interestingly the board has not used a 'usual suspect' executive search firm, instead for the asset management role it has appointed an asset management focused firm which has had limited experience in the investment trust sector. This was intentional to avoid conflicts between other mandates a firm might be working on.

In regards the RAG rating, the only area where we would like to see improvement is the responsible investment disclosures. These are very focused on JP Morgan's responsible investment activity, and we would like to see Mercantile specific disclosures.

**Outcome:** We maintain the investment trust RAG rating as well as the responsible investment categorisation. This was a helpful meeting to understand how the trust is pivoting in a difficult time for the sector and the strategy.

## META PLATFORMS - Governance

**Objective**: To seek additional context from the company on governance concerns, including director re-elections, remuneration practices, and shareholder rights, ahead of the AGM.

We contacted the company to outline our intention to vote against the re-election of several directors (Peggy Alford, John Elkann, Andrew Houston, Tony Xu, and Mark Zuckerberg), citing concerns around the multi-class share structure, excessive executive remuneration, elevated director pay, and over boarding. We also noted our consideration of several shareholder proposals relating to AI risk disclosure, an annual say on pay, recapitalisation to one share-one vote, and improved voting transparency. We invited the company to provide further context to inform our voting decision; however, we did not receive a response.

**Outcome:** In the absence of additional context, we maintained our initial assessment and proceeded to vote against the re-election of the identified directors, and we voted for four shareholder proposals on enhanced reporting on AI data use risks, the introduction of an annual say on pay, approval of a one vote per share recapitalisation to better align ownership and control, and the disclosure of voting results by share class to improve transparency and board accountability.

## NICHOLS - Governance

**Objective**: We engaged the chair of the Remuneration Committee to raise concerns related to a one-off award made to the CEO.

Our proxy advisor initially recommended voting against the remuneration report being put forward at the 2026 AGM. The company has granted a one-off share award to the CEO to support the company's transition to a more market standard remuneration model and to retain the CEO. We do not typically support one-off equity awards and believe total remuneration should be performance driven and established within a transparent remuneration policy framework. The chair of the Remuneration Committee further explained that the one-off award was made during a period of significant organisational change, as following the sudden passing of the company's CFO, the CEO assumed a substantially increased workload, something acknowledged by the extraordinary reward. Our proxy advisor has since changed the recommendation and favours supporting management on this item.

**Outcome:** Following our engagement, we voted to support management on the above item. We do not typically support one-off awards, but in this case, it does appear to be a reward given in an exceptional circumstance and recognises the transition to a more market standard model of remuneration from this point onwards.

## OCADO - Governance

**Objective**: We engaged with Ocado, as we have in previous years, regarding executive remuneration. Our proxy advisor recommended voting against the remuneration report given the perceived misalignment between annual bonus outcomes and company performance. There are additional concerns regarding the treatment of the Kroger Letter of Credit within the cash flow metric of the annual bonus.

The company explained that remuneration outcomes were entirely formulaic rather than discretionary, and that there had been extensive discussion at board and committee level. The Remuneration Committee decided not to apply downward discretion, citing performance against cash flow and EBITDA metrics, noting that investor feedback in prior years had called for a stronger emphasis on financial measures, which now account for approximately 90% of remuneration metrics. While shareholder experience, including the decline in share price, had been considered, the committee highlighted that there has been no long-term incentive plan (LTIP) vesting since the last policy review and that executive awards have declined as a result of the falling share price. With respect to the Kroger Letter of Credit being included in the cash flow metric for the annual bonus, this is unusual as it is a non-recurring item received in the wake of the early breaking of the partnership with the retailer Kroger. The inclusion of this cash item meant that the executive bonus metric on cash flow paid out in full (without its inclusion the payout would have been zero). The Remuneration Committee stated that it aimed to remain consistent with accounting treatment, as determined by the Audit Committee, and although the appropriateness of a negative adjustment was discussed, it was ultimately not applied. The committee emphasised that remuneration decisions are taken holistically rather than by isolating individual components and noted that a subsequent cash payout for site shutdown impacts of the breakdown of the Kroger partnership may be reflected in future cash flow awards.

**Outcome:** We considered the explanations provided but ultimately maintained our decision to vote against the remuneration report particularly as we feel strongly that site shutdown compensation should not be included in next year's cash flow metric which feeds into the annual bonus. We believe these compensation related payments artificially inflate cash flow performance and reward.

## PEARSON - Governance

**Objective**: We engaged with Pearson's Head of Reward to raise concerns regarding the company's new remuneration policy.

Pearson's Head of Reward explained that the remuneration policy review aimed to rebalance the CEO's pay package by reducing fixed pay (notably pension) while significantly increasing the long-term incentive plan (LTIP) opportunity. Under the proposal, the maximum LTIP award would rise from 450% to 850% of base salary, raising the CEO's total pay potential by around 45%. The company justified this considerable increase as necessary to attract and retain talent in a global market; more than two-thirds of Pearson's revenue comes from the United States, and about half of its workforce (including 62% of senior management) is US-based. The company is increasingly seeking a technology-based skillset, which is often better remunerated. Pearson benchmarked pay against large US technology companies, even using a "CEO minus one" (CEO-1) benchmark for the largest companies (like Microsoft), comparing Pearson's CEO pay to the pay of executives one level below the CEO at those firms, to account for differences in company size. The Head of Reward noted that the rationale for the changes included an extensive consultation with shareholders and proxy advisers ahead of the vote. We noted that performance targets within the new policy have been made more demanding to help justify the higher LTIP and the company stressed that the intention was to position the CEO's pay nearer the mid-point of the US peer group, not to match the highest levels. The company believes these are accurate comparators, despite the size differences, given that the CEO was hired from a similar position at Microsoft.

During the discussion, we acknowledged Pearson's rationale and the steps it had taken but expressed concerns about the scale and timing of the pay increase. This proposal represents a second consecutive policy cycle of very large increases in variable pay: the previous 2023 policy raised incentive limits (resulting in 35% higher pay for the then-CEO) and faced significant shareholder opposition (46% votes against). We questioned whether another substantial uplift was proportionate to Pearson's performance, noting that the current 89% expansion in LTIP opportunity did not seem justified by the company's growth (Pearson's market capitalisation has not grown since the end of 2022). The Head of Reward responded that the changes were phased and necessary, anticipating increased investor support due to recent business improvements.

**Outcome:** We voted against Pearson's proposed remuneration policy reflecting our view that the increase in pay is excessive and not sufficiently justified.

## PERSHING SQUARE - Governance

**Objective**: We have engaged with Pershing Square previously, as contrary to best practice a member of its board is employed by the manager of the trust. We voted against the previous manager representative and have discussed our concerns. We contacted the trust to confirm our intention to vote against the re-election of the manager representative at the upcoming AGM.

As outlined in our thematic engagement on investment trusts, we believe non-executive directors (NEDs) should not be appointed by the investment adviser, be employed by or connected to the investment adviser and should be independent of the underlying holdings.

Where a board includes employees of the investment adviser, we will challenge this as we do not believe that this is necessary and can lead to potential conflicts of interest which are not always manageable or obvious. It does not help that proxy voting advisers fail to make this distinction as their focus is on the percentage of independent NEDs on the board. Manager representatives will obviously be present at board meeting but that does not mean that they need to be a NED.

**Outcome:** Through an email exchange we outlined our position with the trust. The counterargument that the board remains majority independent, and this is in line with practices such as the US Investment Company Act, did not sway our view that manager representation is unnecessary for investment trust boards and we voted against the NED. This did not change our RAG rating for the trust as this already reflects the presence of manager representative on the board.

## REGIONAL REIT - Governance

**Objective**: We have engaged with Regional REIT previously, as contrary to best practice a member of its board is employed by the manager of the trust. We voted against the previous manager representative and have discussed our concerns. We contacted the trust to confirm our intention to vote against the re-election of the manager representative at the upcoming AGM.

As outlined in our thematic engagement on investment trusts, we believe non-executive directors (NEDs) should not be appointed by the investment adviser, be employed by or connected to the investment adviser and should be independent of the underlying holdings.

Where a board includes employees of the investment adviser, we will challenge this as we do not believe that this is necessary and can lead to potential conflicts of interest which are not always manageable or obvious. It does not help that proxy voting advisers fail to make this distinction as their focus is on the percentage of independent NEDs on the board. Manager representatives will obviously be present at board meeting but that does not mean that they need to be a NED.

**Outcome:** Through an email exchange we outlined our position with the trust and voted against the non-executive director's reappointment.

## SMITH & NEPHEW - Governance

**Objective**: We sought to engage with Smith & Nephew ahead of the annual general meeting following our intention to vote against the remuneration policy and the performance share plan. This followed concerns raised by our proxy advisor regarding the scale of the proposed increase in maximum variable remuneration and the significant uplift in the proposed performance share plan award level. The objective was to understand management's rationale for these changes prior to finalising our voting decision.

Our engagement focused on two resolutions: approval of the remuneration policy, where the proposed changes would materially increase maximum variable pay opportunity, and approval of the performance share plan, under which the proposed individual award limit of 925% of salary represents a substantial increase compared with the previous plan. These proposals extend the company's ongoing efforts to align executive pay with US market practice, reflecting its revenue mix and senior leadership footprint.

We requested further context from management however no response was received in time to address our concerns or provide further justification beyond existing disclosures. At the 2024 AGM we engaged extensively with the Chair of the Remuneration Committee on similar proposals and ultimately voted abstain on both the remuneration policy and share plan, recognising the company's US exposure while signalling our continued reservations around alignment with UK governance best-practice norms.

**Outcome:** In the absence of timely engagement and given the continued escalation in pay quantum relative to UK best-practice expectations, we proceeded to vote against approval of the remuneration policy and the performance share plan.

## STRYKER CORP - Governance

**Objective**: We engaged with Stryker's investor relations team ahead of the annual general meeting following our proxy adviser's recommendation to vote against the re-election one of the non-executive directors (NED), based on his classification as non-independent under the proxy voting policy. The engagement was undertaken to seek clarification from management on the basis for this assessment and to inform our voting decision.

Our proxy advisor states that the recommendation to vote against management relates to the NED's professional relationship with Bain & Company, where he serves as both partner and chair. Bain & Company provided consulting services to Stryker in 2025.

We engaged the company to better understand the issue. It is not clear why our proxy advisor has changed its classification of independence, a view it did not hold last year (despite the event also being relevant). Given the size of Bain & Company's consulting business, the relatively non-material size of the services provided and the lack of indication of any involvement on the part of named non-executive director – we are comfortable with the company's classification of independence.

**Outcome:** We considered the explanations provided, including the nature and scale of the professional relationship cited by our proxy advisor and the absence of any new issues since the prior annual general meeting. Given that we supported the NED's election previously, that payments to Bain & Company were limited in scale, and that no changes to circumstances have been identified, we decided to vote in favour of his re-election.

## SUPERMARKET INCOME REIT - Governance

**Objective**: We took part in the early-stage consultation process for gathering shareholder feedback on the remuneration policy being put forward at the 2026 AGM. The consultation is coordinated by the Company Secretary.

Supermarket Income REIT is proposing to increase the CEO and CFO salaries. This would be a two stage increase with a +29% increase from July 2026 and a further +20% increase from July 2027. For context the REIT internalised the investment management team in 2025, thereby terminating the previous management agreement with Atrato Group. Neither CFO nor CEO received any termination payment at that time. On internalising the investment team and setting the initial remuneration policy the Remuneration Committee made the conscious decision to set initial salaries that were in the lower quartile of the real estate sector and move them towards market over time subject to satisfactory performance. Variable incentive levels (annual bonus and LTIP) were aligned with FTSE 250 Real Estate median. Based on our benchmarking assessment we would agree that salaries are positioned well blow peers, c. 40% below its closest peers and even further behind some of the wider peer group. The proposed increases would bring salary roughly in line with current peer salaries by 2027.

**Outcome:** We welcome shareholder consultation on this topic and let the company know we broadly agree with its assessment and, pending final details, would support a rise in salary. We also welcome the proposal to phase the increases over two years.

## SUSTAINALYTICS - Governance

**Objective**: To discuss our responsible investment priorities and how they align with Sustainalytics' offering.

We met with representatives from Sustainalytics including the president of the company. We discussed a number of issues including the turnover of the account manager position as well as AI developments. Sustainalytics assured us that the team is now more settled, whilst the AI focus is on consistency and supporting customers. In terms of current developments there is considerable investment in its nature and biodiversity data set.

**Outcome:** We agreed to reinstate quarterly meetings for further discussion and oversight.

## SUSTAINALYTICS - Governance

**Objective**: We met with the data provider to discuss current voting and engagement trends.

Morningstar research shows that there is a decline in significant resolutions on sustainability (significant is defined as those with meaningful independent support), this is in line with our view of proxy voting and we noted the rise in anti-ESG and anti-DEI resolutions which often use opaque language to mask the intentions behind the resolution. There is a continued bifurcation between US and European asset managers' support for sustainability resolutions, with smaller US managers being marginally more inclined to support such proposals. The 2025 White House executive orders are believed to have contributed to the fall in US manager support for workplace-related resolutions.

**Outcome:** The report's findings confirmed our view of the voting landscape in relation to US and European based asset managers.

## TALANX - Governance

**Objective**: We contacted the company to raise concerns related to several items proposed at the 2026 AGM.

Our proxy advisor had recommended voting against several items at the upcoming AGM, notably a vote against all directors on the supervisory board as it is not deemed sufficiently independent. Other concerns include the proposed remuneration report (which includes outsized pension contributions) and a proposed change of corporate structure to Societas Europaea (SE). The change in corporate structure is not controversial apart from the inclusion of a change to five-year board terms (currently annual re-elections) attached to the transformation. The company is c.75% owned by a controlling investor so much of the lack of independent representation on the board is associated with links to the majority ownership. Even though overall CEO remuneration is not significantly above peers (and could be seen as lagging the market), however the pension contribution is close to 61% of salary. This lacks transparency and is not best practice, we would prefer to see pensions contributions aligned with the wider workforce (and increase in remuneration brought forward to salary and variable awards).

**Outcome:** We did not receive a response from the company. We voted to support director re-elections as we do not think it is unreasonable for a majority-controlled company to have board representation. We voted against the remuneration report and the change in corporate structure proposal. For the latter we would want to see annual board elections and cannot support a change to five-year terms.

## TEMPLETON EMERGING MARKETS - Governance

**Objective**: To follow up regarding the 2025 survey and the board composition, as well as discussing other matters.

We met with the chair, Senior Independent Director (SID), and broker in person. We covered several topics including marketing, fees, board composition, and Saba.

The non-executive director (NED) who is approaching his nine-year term is stepping down in line with best practice. Saba has been a holder within the trust, and it was noted that it is hard to tell whether it is on the register currently. The trust (TEMIT) has a reasonably significant institutional shareholder base, which in our view provides some protection against Saba, however TEMIT is working on building its retail shareholder base.

The board has focused significant energy and resource on marketing activity including social media. Alongside Franklin Templeton, the board has created a visible presence for TEMIT which is driving traffic to the website and then to the investment platforms for retail investors to purchase shares. There has been much discussion about how investment trusts are able to engage with investors on platforms and TEMIT has invested in section 793 notices to enable it to identify beneficial owners to hopefully communicate directly with them. It is also looking to enhance its AGM with investor presentations. The chair noted that it is difficult to calculate the return on investment of marketing costs for an investment trust versus an open-end fund, in the case of the latter growth in assets under management would be a measure of success, whereas for investment trusts, the link to a lower discount to net asset value is harder to measure quantitatively.

We had completed a survey for the trust in 2025 and asked how this had informed the board's thinking. The chair explained that they had undertaken two surveys. One for retail investors and the other for institutions / wealth managers, both were highly informative in honing channel specific language and communication formats.

Finally, the trust has undertaken a dormant assets review and through this has made charitable contributions to several causes. This is an interesting innovation, and one for other investment trusts to consider as well.

**Outcome:** The RAG rating remains unchanged (all green), and we commend the board for its marketing efforts at a time when this is a crucial factor for all investment trusts, as well as the innovative use of dormant assets.

## TENCENT HOLDINGS - Governance

**Objective**: We engaged with Tencent Holdings ahead of the annual general meeting following our intention to vote against the reappointment of PWC as auditors and the approval of the issuance of equity or equity-linked securities without pre-emptive rights. The purpose of the engagement was to seek additional context from management in response to concerns raised by our proxy advisor and to inform our voting decision.

Our engagement focused on two agenda items: (1) concerns regarding the external auditor, including regulatory scrutiny of PwC's audit practices, and (2) the lack of clarity around discount limits and potential dilution associated with authority to issue shares without pre-emptive rights. Management provided a detailed written response outlining safeguards around audit independence and quality, including the use of separate audit teams, annual independence assessments by the Audit Committee, and engagement-partner rotation. Management also clarified that any share issuance would comply with HKEX rules, including a 20% discount cap, and highlighted limits intended to mitigate dilution risk.

The responses did not provide sufficient assurance to fully address our concerns. In particular, we remained unconvinced on the robustness of audit quality oversight and the potential risks of shareholder dilution from issuing shares without pre-emptive rights.

**Outcome:** We proceeded with votes against both resolutions. We acknowledged management's subsequent explanations and welcomed the opportunity to engage further in future to discuss other proxy-related issues.

## T-MOBILE US - Governance

**Objective**: We engaged with T-Mobile US ahead of the annual shareholder meeting following concerns relating to board independence and executive remuneration arrangements. The purpose of the engagement was to better understand the company's rationale for the composition of the Compensation Committee and the structure of recent executive compensation awards, and to inform our final voting decision.

We raised concerns regarding the presence of non-independent directors on the Compensation Committee, as we believe compensation committees should be fully independent. We also sought clarification on the use of multiple one-off equity awards and leadership transition arrangements. The company explained that the awards were intended to support retention and long-term strategic alignment during a significant transition period. However, while we appreciated the additional context provided, we did not consider the rationale sufficient to justify the scale and structure of the awards, which we believe weaken alignment between pay and long-term performance.

Following engagement and internal voting panel discussions, we decided to vote against the re-election of three non-executive directors (NEDs) due to concerns regarding Compensation Committee independence and against the executive compensation policy. However, recognising T-Mobile US's controlled ownership structure and Deutsche Telekom's significant shareholding, we considered it appropriate for the controlling shareholder to retain a degree of board representation and therefore supported the re-election of four other non-executive directors.

**Outcome:** We voted against the re-election of three NEDs and against the advisory vote on executive compensation. We supported the remaining directors following consideration of the company's ownership structure.

## WARPAINT LONDON - Governance

**Objective**: We engaged with the company's chairman to discuss two items related to the approval of the Waiver of Rule 9 of the Takeover Code ahead of the annual general meeting due to concerns around potential creeping control by the Concert Party.

Our proxy advisor had highlighted the risk that the Concert Party's shareholding could increase over time through the proposed share buyback and the exercise of New Concert Party Options, potentially leading to incremental control. As part of our stewardship process, we sought direct engagement with the company to better understand the safeguards in place and assess whether these concerns were sufficiently mitigated. During the discussion, the company provided additional context on the structure of the share buyback agreement and the associated limits, explaining how these mechanisms are designed to prevent concentration of ownership exceeding 50% of the company's shares and mitigate the risk of creeping control.

**Outcome:** Following our engagement, we concluded that the safeguards and limits outlined by the company adequately address the concerns raised. We therefore decided to vote in favour of both items, as well as in line with management on all other resolutions at the meeting.

## WELLS FARGO & CO - Governance

**Objective**: We engaged with the company secretary to discuss executive remuneration and board leadership structure. The main goal was to address concerns around these governance issues ahead of the AGM.

During the engagement, executive pay was the primary focus, particularly the one-off equity award granted to the CEO. The rationale for the award was discussed in detail. The company stated that the award was granted to recognise delivery against exceptional, time-bound objectives that were viewed as highly material to long-term shareholder value. In particular, the board highlighted progress in strengthening the firm's risk and control framework, the closure of a large number of legacy regulatory matters, and the removal of the long-standing regulatory asset cap in 2025. The cap was imposed by the Federal Reserve in 2018 following the 'fake accounts' scandal. These outcomes were described as transformational for the business and difficult to capture through standard annual incentive structures.

The company emphasised that the award was designed primarily as a retention mechanism at a critical point in the company's transformation, rather than as a replacement for annual pay. It noted that the award was entirely equity-based, non-recurring, and subject to an unusually long vesting schedule of around six years, with vesting beginning only after several years of continued service. While the award did not include explicit performance conditions, the board argued that stock options were inherently performance-linked, as value would only be realised if sustained share price growth was achieved. The company also highlighted ongoing shareholding and post-departure holding requirements, which were intended to reinforce long-term alignment with shareholders.

In terms of board leadership, we discussed Wells Fargo's recent decision to recombine the roles of board chair and CEO in 2025, ending a period of an independent chair. The Company Secretary asserted that, with a fully refreshed board and a strong lead independent director in place, a unified leadership structure was considered effective. Taking this further, alongside the removal of asset cap restrictions, the company sees the return to a combined CEO/chair as a milestone in the governance rehabilitation of the company since the 2018 scandal. We nonetheless highlighted that many investors prefer an independent board chair for stronger oversight.

**Outcome:** We do not typically support one-off equity grants but given the exceptional context and the role the CEO has played in removing operational restrictions from the company since joining in 2019, we voted to support management in approving executive pay. Additionally, the long-term nature of the award adds stability to the executive team at a crucial time of transformation. Given the presence of a strong independent lead director, we also voted against the shareholder resolution to implement a separation of the CEO and chair. We did vote to support a shareholder proposal requesting that the company report on its 'Energy Supply Ratio' (the proportion of fossil fuel to low carbon lending). We would find additional disclosure in this area beneficial.

## WOLTERS KLUWER - Governance

**Objective**: We engaged with Wolters Kluwer's investor relations team ahead of the company's 2026 Annual General Meeting (AGM) to discuss a key voting item. This was a proposal to amend the company's Articles of Association to reduce the shareholder approval threshold for adopting a new executive remuneration policy from a 75% supermajority to a simple majority. We sought to understand management's rationale for this change and address our initial concern that lowering the threshold could weaken an important shareholder safeguard over executive pay.

We outlined our reservations that reducing the required level of shareholder support might erode robust shareholder oversight of pay policies. The Investor Relations representatives acknowledged these concerns and explained the context behind the proposal. As a legacy provision, they noted that about half of large Dutch companies, with more recent listings, already use a simple-majority vote for similar remuneration policy approvals, aligning with international norms. Under the current 75% threshold, they argued, even a relatively small minority of shareholders can block changes to the remuneration policy, given typical turnout levels. The company cited a previous example in 2020 where a new pay policy was supported by a slim majority (around 52% votes in favour) yet failed because it did not meet the 75% supermajority requirement. They indicated that to garner proxy advisor support at that time the company had made concessions on executive pay level, signalled how a smaller minority of shareholders can override majority approval.

Furthermore, the company stressed that as a global, talent-driven business, having flexibility in setting its executive remuneration is critical for competitiveness. The Chief Executive's pay is currently below the median of European peers, and the proposed change would allow the company to implement and adjust remuneration policies more nimbly to attract and retain talent. Overall, the company emphasised that the move to a simple-majority vote for the pay policy is intended to modernise governance in line with prevailing market practice (Amsterdam is one of the only exchanges in the world with this provision), without undermining shareholder rights.

**Outcome:** We concluded that the proposed change would not unduly weaken shareholder oversight but would improve governance efficiency and align better with international norms. Therefore, we decided to vote in support of management on this resolution at the AGM.

## WORLDWIDE HEALTHCARE TRUST - Governance

**Objective**: The outgoing chair contacted us to discuss a governance matter.

At the AGM and within the annual report & accounts, the trust will state that in future the tenure of any director will be limited to nine years. This will result in the manager's representative stepping down before the next AGM. We have agreed therefore to support the incoming chair and the re-election of the manager's representative.

**Outcome:** We have outlined our support with the caveat that if a new manager representative joins the board we will vote against the election of all directors at the next AGM in 2027. We have engaged with the board on this issue over a number of years and we are pleased with the board's proposed course of action. We will review the RAG rating once the manager representative steps down but note that the newly published annual report & accounts stipulates that tenure will be limited to nine years going forward.

# Fund engagement

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

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

## ARDEA GLOBAL ALPHA FUND

**Objective**: To understand in depth Ardea Global Alpha Fund's ESG integration approach.

We met with a member of Ardea's portfolio management team to discuss how Ardea approaches ESG for the Global Alpha Fund. Overall, the approach reflects the constraints of its investment universe, which is focused on highly rated government and sovereign, supranational, and agency (SSA) issuers. As such, traditional exclusion-based ESG strategies are not considered applicable. Instead, ESG is integrated into the investment process and treated as a risk factor alongside other financial considerations. It was stressed that ESG considerations are embedded throughout the investment lifecycle, including through climate scenario analysis. ESG factors are assessed in conjunction with market drivers such as relative value and curve positioning, rather than as standalone criteria.

Ardea has a clear preference for green bonds over conventional bonds, subject to relative value considerations. The team actively engages with issuers on pricing and structure ahead of issuance, reinforcing demand for labelled instruments. The fund also considers other thematic bonds (e.g. blue and nuclear-related bonds). Green bonds typically exhibit a pricing premium ("greenium"), and Ardea does not generally short these instruments.

Engagement is primarily conducted on a bilateral basis with issuers, with a strong focus on the development and scaling of the green bond market. Discussions centre on issuance size, structure, and investor demand. Ardea also participates in selected industry consultations (e.g. the Debt Management Office) and provides ESG-related reporting, including TCFD disclosures.

Europe continues to lead in green bond issuance, with growing demand also observed in Asia. The UK green gilt market remains relatively small compared to overall issuance, while structures such as Germany's twin green/brown bonds demonstrate pricing differentials driven by demand.

Ardea does not typically challenge the underlying use of proceeds in sovereign-labelled green bonds, relying on issuer designation. The strategy involves relatively high turnover, reflecting its trading-oriented approach.

**Outcome:** The engagement provided a good insight into how the Ardea Global Alpha fund team approaches ESG integration, and the information will contribute to the development of our proprietary hedge fund/absolute return scorecard. Overall, the responsible investment categorisation remains the same.

## BAILLIE GIFFORD JAPAN FUNDS

**Objective**: To understand the Baillie Gifford Japan funds' approach to ESG issues with a focus on human rights metrics and controversial weapons exposure. We invest in four different Baillie Gifford managed Japanese focused funds.

We met with the ESG specialist embedded within Baillie Gifford's Japan team, alongside an investment specialist, to discuss their approach to controversial weapons exposure and broader human rights considerations within portfolios. The ESG function operates in a decentralised model, with specialists closely integrated into investment teams. ESG input is embedded early in the investment process, including initial due diligence and stock discussions, where material ESG issues are identified and assessed for relevance to the investment case. The team undertakes both proactive and reactive engagements, working collaboratively with portfolio managers to structure and implement engagement plans.

A key case study discussed was Daikin, where previously undisclosed exposure to white phosphorus raised concerns. Baillie Gifford engaged extensively with the company to clarify the nature of this exposure, including distinguishing between different uses (e.g. incendiary versus non-combat applications), and to ensure alignment with the firm's policy on controversial weapons, such as cluster munitions. While the Article 9 Positive Change strategy divested from the company following this assessment, Japan-focused portfolios continue to hold the stock, reflecting a view that the overall risk–reward profile remains compelling. It was confirmed that full divestment is currently targeted by the end of 2026. However, residual risks remain, particularly given the company's historical lack of disclosure and the broader context of increased defence spending in Japan, which could introduce tail risks if strategy changes. Baillie Gifford expressed confidence in the company's commitment to exit the activity.

More broadly, there has been no significant change to the formal ESG process, but there is an evolving philosophical emphasis on long-term stewardship and influence. The team highlighted a growing focus on board quality and governance dynamics, including assessing whether boards are asking sufficiently robust and forward-looking questions. This reflects a belief that sustained engagement can help "tilt" companies in a more positive direction over time, despite an increasingly active and sometimes hostile shareholder environment in Japan.

On data and metrics, Baillie Gifford relies primarily on MSCI and RepRisk, supplemented by internal frameworks. In particular, the team has developed a climate assessment framework to evaluate company alignment with net zero pathways and scenario analysis, which in turn informs engagement priorities. The rapid rise in TCFD-aligned reporting in Japan, including increased disclosure of Scope 1, 2 and 3 emissions and adoption of science-based targets, has significantly improved the quality of available data. This has enabled the team to deepen its analysis and shift focus towards raising expectations and identifying areas where further progress is needed, including on human rights metrics where scores remain comparatively weak.

On human rights in particular, we flagged a few metrics where the funds are laggards in our ESG dashboard and there was a discussion around the small-mid cap bias in their funds where smaller companies are generally less advanced in their reporting. Whilst this is plausible, we are investigating the data further to see if there are any sectoral or industry trends at play. Given the positive metrics across climate, natural capital and governance we need to question why certain social metrics around fair worker pay, working hours and freedom of association policies are not in place at companies that are large enough to be operating internationally.

**Outcome:** Overall, Baillie Gifford emphasises an engagement-led approach, underpinned by long-term investment horizons and increasing scrutiny of governance quality and disclosure standards, while acknowledging ongoing challenges around data quality and residual risk in specific cases such as controversial weapons exposure. We will monitor the situation on controversial weapons as we see it as an unnecessary risk and continue the discussion with them on human rights. This discussion has reaffirmed the ESG categorisation and score of the funds.

## BNY MELLON REAL RETURN AND RESPONSIBLE REAL RETURN FUNDS

**Objective**: To understand the funds' ESG integration process and how the two Real Return funds differ in philosophy and process.

We met with the Head of Responsible Investment to discuss the funds' sustainability credentials. The meeting gave insight into the RI team comprised of five core members embedded within broader investment platform, working closely with portfolio teams. Emphasis is on a strong investment-led approach to ESG, focusing on: research and integration (macro, thematic, company-level), and active engagement (direct and collaborative, with defined objectives and timelines).

The Responsible Real Return Strategy uses the firm's 'Sustainable Investment Framework' to determine the criteria for fund stock selection. Stocks fall into a "Contributors" and "Aligners" classification where contributors are defined as companies providing solutions to sustainability challenges, and aligners are companies demonstrating strong ESG practices. Companies in the aligning category must meet a 30%+ threshold in revenue or expenditure linked to a sustainable theme to be required for inclusion. It was noted that there is a focus on transition contributors particularly energy grid/electrification and resource efficiency which have been strong contributors to performance. There is a strong emphasis on sustainability governance with weekly portfolio manager meetings to review positioning and monthly governance forums to assess holdings are in alignment with sustainability criteria and eligibility.

Sovereigns are also in scope for the fund and are categorised along red, orange and green rag ratings. Those that are orange undergo further qualitative review where appropriate. The overall strategy does not seek a specific sustainability outcome but in pursuing its objectives a minimum of 70% of holdings are invested in securities with sustainability characteristics.

It was noted that the stock turnover is limited but there is a sell discipline with a 30 day sell period if there are any controversy flags or issues that deem a stock as not meeting the criteria.

**Outcome:** Overall, this meeting was useful in understanding how the Responsible Real Return fund is constructed and how sustainability factors are embedded into the investment process. This discussion will feed into the creation of our proprietary ESG scorecard for hedge funds/absolute return strategies. The fund's responsible investment categorisation remains the same.

## FUTURE GENERATIONS FUND

**Objective**: To learn more about Capital Group's Future Generations Fund and its underlying philosophy.

We joined a group meeting with the global head of sustainability to learn about Capital Group's multi manager Future Generations Fund. It is an impact-oriented strategy that seeks to generate long-term capital growth while supporting positive societal outcomes for young people. The fund invests in companies that contribute to improving access to education, healthcare, and financial services for children and future generations, alongside selective philanthropic allocations. Its approach combines Capital Group's fundamental, long-term investment philosophy with a focus on measurable social impact, aligning financial returns with broader developmental goals.

The fund applies an ESG integration approach, embedding material environmental, social, and governance considerations within its investment analysis. The strategy focuses on identifying companies that support positive outcomes such as through access to education, healthcare, and financial resilience. ESG factors are assessed alongside traditional financial metrics to inform security selection and portfolio construction, and the fund invests in both "aligned" companies, those with significant revenue exposure to sustainability themes, and "transitioning" companies demonstrating credible improvement pathways, and reflecting an emphasis on forward-looking ESG integration rather than purely exclusionary or impact-only investing.

**Outcome:** Overall, the fund represents an interesting example of ESG integration, combining rigorous bottom-up research with a clear, forward-looking framework that captures both aligned and improving companies across SDG-linked themes, which should support more resilient long-term returns. This is not a fund that is currently on our centrally monitored list but could potentially be investigated further.

## HICL INFRASTRUCTURE

**Objective**: To understand in depth the fund's ESG integration and stewardship processes as well as general approach to sustainability

We met with the Head of Sustainability at InfraRed (the investment adviser) and a member of HICL's fund investment team to understand in detail HICL's approach to sustainability and ESG integration. With regards to ESG integration in investment decision making, ESG issues at HICL are embedded throughout the investment lifecycle rather than limited to screening or exclusions. Investment teams retain primary responsibility, supported by the sustainability team; final decisions sit with the Investment Committee (IC). ESG considerations are assessed using internal tools and guidance, with findings summarised and presented to the IC. Sustainability input is formally signed off at transaction stage, with ongoing ownership transferred to the fund/asset management teams. The consideration of ESG is evidence throughout the lifecycle of a holding, starting with pre-investment through to exit.

It was highlighted that the annual data collection process is driven solely by materiality, combining qualitative and quantitative indicators and core ESG metrics. HICL sends out asset-level surveys and develops scorecards to identify strengths and weaknesses of each asset. There is active oversight at the board level including management action plans and performance tracking which is monitored on a regular basis. There are also targeted metrics in place e.g. gender pay gap which are collected across applicable assets.

HICL provided evidence of how ESG factors are integrated alongside macroeconomic and regulatory considerations in the investment case and due diligence. For example, asset selection of investments such as Hornsea 2 and Texas-Nevada transmission reflect alignment with the transition to a clean energy system and broader sustainability themes. The portfolio positioning also supports opportunities such as London St Pancras High Speed which is modal shift from international air to rail travel.

Concerning climate risk and resilience, HICL has recently conducted a portfolio level physical risk assessment which will be published in the next upcoming sustainability report. Their current view is that the portfolio is relatively stable, but the work is on-going as physical risk scenario modelling capabilities are evolving. The assessment covers both exposure and vulnerability and a wide range of risks including extreme weather change, wildfires and flooding/physical hazards. HICL stressed that its assets are typically designed with local climate conditions in mind e.g. Texas transmission infrastructure which is susceptible to a range of weather temperatures across the day. It uses and adapts frameworks from the likes of the Institutional Investors Group on Climate Change (IIGCC) to assess risk including financial protections and is aware of the increasing limitations of insurance reliance against physical risk.

When questioned about the approach to natural capital and biodiversity issues, HICL stated that it has completed its first analysis at a sector level which builds upon existing environmental impact assessments which are embedded into due diligence and asset upgrade processes. To do this, they use ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure), a tool designed to help organisations explore their exposure to nature-related risk and take the first steps to understand their dependencies and impacts on nature. The analysis generally indicates low exposure to high-risk biodiversity areas. In 2025 the focus was expanded to downstream dependencies and impacts for e.g. hospitals and healthcare systems as well as on interconnections e.g. water stress and ecosystem dependencies.

Overall, ESG is actively managed throughout the holding period of an asset through continuous research and collaboration across the InfraRed and HICL teams with key issues such as health and safety monitored regularly as a standard agenda item during meetings.

**Outcome:** The meeting provided a strong insight into how ESG is considered and embedded during both the investment process and the holding period of the asset. The team provided a clear linkage between ESG factors, asset selection, risk assessment and portfolio positioning. Overall, this engagement has reaffirmed the categorisation of the fund.

## INTERNATIONAL PUBLIC PARTNERSHIPS

**Objective**: To gain clarity on INPP's ESG approach, governance arrangements, and management of material sustainability risks to inform the fund's ongoing assessment and categorisation.

We met with ESG specialists from Amber Infrastructure to discuss Amber's ESG integration approach particularly relating to INPP. The Head of Sustainability joined Amber seven years ago to help develop the firm's sustainability approach, with INPP identified as the most important fund. It was highlighted that Amber recognises that sustainability considerations vary significantly by asset class (e.g. gas transmission versus social infrastructure) and therefore applies a differentiated approach as required.

Amber takes a pragmatic view on ESG by considering sustainability primarily through an infrastructure lens. Climate change is recognised as a key driver of physical and operational change, alongside wider shifts that create both risks and opportunities. The team highlighted an award Amber received for its sustainability strategy and how it positions itself as a future-focused investor, seeking assets and projects that remain resilient and relevant over the long term. Ultimately, sustainability is viewed as a driver of value creation. Amber emphasised active management to ensure assets adapt to change over time. An example cited was an Eastern European rolling stock leasing business that was predominantly diesel at acquisition and has since transitioned towards electric trains, delivering both decarbonisation outcomes and financial returns.

With regards to ESG integration, the team outlined the process that is followed when assessing a potential investment. ESG screening from the onset followed by in-depth due diligence looking into ESG considerations which are explicitly baked into investment decision-making. Monitoring and reporting are undertaken on a fund-by-fund basis, and portfolio level key performance indicators (KPIs) are introduced which are drilled down by sector allowing for ESG material factors to be integrated throughout the investment lifecycle. For INPP (considered a low-risk fund), data is collected annually, allowing benchmarking across holdings. Regular asset management reports are produced, including climate risk reviews with holdings every three years. Where Amber has board representation (e.g. Tideway), it uses this role to provide challenge and oversight. The approach to engagement is structured but flexible, focusing on what is material rather than following a fixed annual checklist

To help with ESG assessment, Amber has developed an in-house tool to measure non-financial data, having decided that existing solutions did not meet its needs. Asset managers upload data into a semi-automated system that has been externally verified by DNV, an organisation providing independent assurance and risk management. Greenhouse gas emissions account for a significant proportion of the reporting effort. Questions are sector-specific, and reporting aligns with the EU Sustainable Finance Disclosure Regulation (SFDR) adverse impact metrics and the Partnership for Carbon Accounting Financials (PCAF) standard. Templates are issued to asset managers and financial controllers, with outputs feeding into Amber's financial calculation tools. Amber also looks at broader drivers of change and invests across themes aligned with these trends.

To give an example of ESG due diligence and analysis, Amber spoke in depth regarding the work that was undertaken on Sizewell C, a recent investment which required extensive ESG and sustainability due diligence, reflecting the complexity of a new nuclear power station. Amber described a "multiple layers of defence" approach when assessing material issues for the new power station including: climate change and physical risk, including scenario analysis and how site design addresses long-term resilience, risk and opportunity assessment, security risks, including terrorism exposure and the resilience of reactor dome design, and embodied carbon and lifecycle emissions, with Sizewell C's 3.2GW capacity noted as comparable to solar and wind on a lifecycle basis, albeit at significantly larger scale. The Investment Committee was presented with detailed analysis covering both risks and positive aspects of the investment. Amber highlighted the depth of technical detail as a strength of the process.

When asked about investor collaboration, Amber confirmed that it undertook its own ESG analysis through an INPP lens, noting that other investors would conduct their own assessments. Sizewell C itself commissioned independent work and Amber used this information to challenge and validate findings. Overall, the level of detail was supported by extensive input from technical advisers and was described as more complex than comparable infrastructure investments such as Tideway.

**Outcome:** Overall, this engagement provided a detailed understanding of Amber's approach to sustainability and ESG integration into their funds including INPP. The meeting has reaffirmed the current categorisation of the fund as Engaged.

## PICTET JAPANESE EQUITY SELECTION FUND

**Objective**: To understand in depth the fund's ESG integration and stewardship processes as well as general approach to sustainability as part of fund initiation.

We met with the fund manager of the Pictet Japanese Equity Selection fund to understand in detail the fund manager's approach to ESG and sustainability. The fund manager described the evolution of the ESG approach since joining in 2018 as being developed bottom-up by the portfolio managers (PMs) rather than relying on third-party frameworks and data. There was an initial period of reliance on third-party ESG data which proved challenging due to a lack of transparency (black box scoring), poor comparability across companies due to non-standardised reporting, and limited usefulness in company engagement discussions. Following an ESG-focused research trip in 2019, the team developed a proprietary ESG matrix using company-disclosed data as the primary input. The trip helped the PMs understand how their peers were approaching ESG issues with companies as well as how Japanese companies themselves were prioritising and addressing sustainability-related issues across their business models. The matrix that has been developed is specific to Japanese strategies and reflects local market characteristics and is applied when a stock enters active consideration by the portfolio managers (PMs).

The matrix has a primary focus on governance as this area has the most developed metrics. Fifteen criteria are addressed including board independence and structure, transparency, executive compensation and alignment. There is a strong emphasis on companies going beyond Japan's governance code. Historically Japan has had quite a conservative corporate culture (focus on market share over shareholder returns) but there has been increasing pressure to improve capital efficiency and governance standards from investors both within and outside of Japan. There are a number of environmental and social metrics that are also considered including SBTI commitments, Scope 1 and 2 carbon emissions disclosure, water consumption, female employment data as well as targets for the percentage of leave taken. The manager highlighted that there is a greater emphasis on forward-looking improvement potential versus current scores.

Regarding integration into investment decisions, ESG scores are directly linked to valuation via the discount rate where the approximate impact (Governance ±150bps and Environmental & Social is up to -75bps penalty (no upside adjustment currently)) is modelled. The impact pathway is described as: ESG score informing the discount rate, which determines the target price which ultimately informs the position sizing. Lower ESG conviction results in a lower target price and a smaller portfolio weighting. The approach does show an asymmetry particularly for governance (explicitly priced reflecting longer engagement history) versus environment/social which are viewed as longer-term risks with an evolving track record. The manager is keen to give companies time to improve through on-going engagement, but no time horizon has been established for this monitoring. The PMs undertake formal and informal engagements with companies. Formal engagements are structured, time-bound with defined objectives (around 13 holdings with 30+ objectives across the different themes) and informal engagements consist of ongoing unstructured dialogue. The team shares the proprietary matrix with their companies to encourage more informed and targeted discussions.

The PM highlighted that ESG integration in Japan is highlight differentiated and investment-led rather than compliance driven with a strong focus on materiality and engagement particularly on governance. The fund's approach reflects local market realities while capturing ongoing structural improvements in Japan.

**Outcome:** The engagement provided a greater understanding of how the fund manager embeds ESG factors into investment decision making and undertakes engagements with portfolio companies. It is noted that no minimum threshold has been set when a company is assessed against the matrix but there is a reliance on engagement for improvement against ESG metrics over time. As such, the fund will be monitored and a follow up meeting in 12 months will further review this issue with the fund manager. This meeting reaffirmed the fund ESG categorisation.

## ROYAL LONDON ASSET MANAGEMENT

**Objective**: To understand the ESG integration processes put in place by the sustainability team which is pertinent for several funds we invest in that are managed by Royal London (RLAM).

We met with the Head of Sustainability and product lead to provide an overview of QC's fund assessment process across all asset classes and gain insight into how Royal London approaches ESG integration from a fund creation perspective. Detail was provided into the proprietary Responsible Investment Pathways approach which is used to categorise funds into the following buckets: traditional funds, ESG characteristics, transition/improvers, sustainable, and impact. Thresholds are set to determine which assets can be included in a fund and what percentage of assets need to be sustainable. RLAM confirmed that they have set a house standard for 70% across all funds if they are to be deemed 'sustainable' (in line with the UK regulations for labelled funds). They also confirmed that they have set absolute standards for some ESG metrics but others such as carbon intensity are more relative. A brief discussion took place around transition/improver funds which are crucial for decarbonising hard to abate sectors but recognised the careful consideration that needs to be given to those funds of this nature to ensure they have the intended outcome.

**Outcome:** The meeting was a useful insight into how RLAM categorises and approaches sustainability from a fund creation and categorisation perspective. RLAM is still in the early days of understanding what this could look like for private markets due to limited exposure, but this will be developed over the course of the next year. This engagement reaffirms our understanding of RLAM's firmwide approach to sustainability and ESG integration.

## TRIUM ESG EMISSIONS IMPROVERS FUND

**Objective**: As part of the ESG scorecard development for hedge fund/absolute return strategies, we engaged with Trium ESG Emissions Improvers Fund to understand the underlying ESG and decarbonisation philosophy that underpins the fund.

We met with the portfolio manager of the fund who provided a detailed overview of the firm's ESG integration approach, with a primary focus on emissions as the most financially material factor within high-emitting sectors. The strategy is deliberately concentrated on "hard-to-abate" industries, where decarbonisation presents greater challenges but also offers the potential for the most meaningful environmental impact, while more tractable areas such as water and the circular economy are considered where relevant.

Within portfolio construction, the strategy employs a market-neutral long/short framework. The long book is predominantly focused on environmental considerations, targeting companies with credible decarbonisation pathways or those enabling the transition through their products and services. Conversely, the short book seeks to identify companies exhibiting social and governance weaknesses alongside financial headwinds. ESG considerations underpin both sides of the portfolio, with financial materiality assessed through metrics such as carbon pricing (c. $74–75 per tonne for Scope 1 and 2 emissions), marginal abatement costs, and revenue opportunities linked to transition-enabling activities.

Sector-level analysis highlighted a number of industries undergoing significant transition, including cement, fertilisers, shipping, and energy. Many companies within these sectors are at early stages of capital investment cycles required to address emissions, with regulatory uncertainty, particularly in Europe, affecting the pace and direction of change. Developments such as the growth of green ammonia in China and continued emissions reductions among European energy companies were cited as indicative of broader structural trends, albeit with varying degrees of economic viability. In some cases, profitability constraints continue to limit the scalability of low-carbon solutions. The discussion also addressed the credibility and evolution of corporate decarbonisation targets. The team seeks to avoid companies that lack clear implementation pathways behind stated ambitions. Amongst the companies the fund has engaged with, several have revised targets in recent periods, necessitating a case-by-case assessment. For example, some firms have moderated near-term commitments due to regulatory or economic constraints, while maintaining longer-term net zero ambitions.

Trium classifies investments into three categories—Improvers, Enablers, and Leaders—reflecting differing roles in the transition. Improvers are typically high-emitting companies with credible plans to reduce emissions at scale, often targeting c.5% annual reductions in emissions intensity. Enablers derive revenues from products or services that facilitate decarbonisation across the economy, while Leaders are relatively low emitters within their respective sectors. While the framework provides structure, classification remains partly judgement-based, with governance required to ensure consistency and to manage reclassifications as company strategies evolve.

Engagement is an important component of the strategy, particularly with small- and mid-cap companies where change may be more achievable. However, the team acknowledged that engagement outcomes are contingent on underlying industry economics and regulatory support, with some engagements failing where these conditions are not supportive. The discussion also covered ongoing challenges in ESG data and measurement. While Scope 1 and 2 emissions data is generally available in developed markets, Scope 3 data remain less consistent and more difficult to compare. Portfolio-level emissions are assessed across long and short positions, as well as on a net basis, with carbon allowances incorporated into the analysis. The increasing cost of carbon and evolving policy landscape were noted as key factors influencing both portfolio positioning and the sustainability of a carbon-negative outcome.

**Outcome:** Overall, the engagement provided a detailed overview of the fund manager's approach to decarbonisation and how ESG factors are considered across the short and long books. The engagement reaffirmed the fund's responsible investment categorisation as Engaged.

## TROJAN FUND

**Objective**: To understand in depth the Trojan Fund's ESG integration approach.

We met with the Trojan Fund's portfolio manager and the sustainability investment analyst to discuss in-depth the fund's approach to ESG and integration as part of the investment decision-making process. The fund positions itself as a conservative, long-term investment firm focused first and foremost on preserving capital. The philosophy is explicitly risk-aware, prioritising downside protection over maximising returns and consistently stress-test investments by questioning how things could go wrong.

The strategy is multi-asset, combining equities, sovereign bonds and gold to balance growth with resilience. Equities are the main source of returns, while bonds and gold provide diversification and protection in adverse conditions. Within equities, the team follows a bottom-up approach, selecting individual companies based on quality and long-term productivity rather than macro trends. The fund invests with a long horizon typically holding stocks for around seven years with a focus on how the businesses will evolve over the next decade. Where companies do not align with the manager's expectations and standards, positions will be exited, e.g. Coca Cola's lack of progress on plastic reduction, Berkshire Hathaway on governance and carbon reduction concerns as well as Procter & Gamble on residual palm oil exposure.

ESG considerations are embedded in this process, viewed less as a separate lens and more as a driver of long-term competitive advantage, with governance highlighted as particularly important. Internal incentives and KPIs are structured around performance, reinforcing disciplined decision-making. The approach to gold reflects similar care around risk and responsibility. The manager previously avoided holding gold minted after 2010 due to concerns around sourcing standards but has become more comfortable via responsibly sourced exchange traded commodity (ETCs), such as those linked to the Royal Mint whom the fund has engaged with extensively, where a significant proportion of gold is recycled rather than newly mined.

In sovereign debt, ESG analysis is incorporated through an annual review of issuers. This includes assessing climate commitments, energy resilience, physical climate risks and social factors. The process is described as deep and iterative, and has influenced allocation decisions for example, reducing exposure to the US due to governance concerns and broader fiscal and energy-related risks. The manager emphasised that government policy, spending choices and infrastructure resilience (such as strengthening energy grids) are critical to long-term economic stability and therefore investment risk.

**Outcome:** Overall, the team provided a strong insight into how ESG factors are considered by the analysts throughout the investment decision-making process. It is evident that ESG is integrated from the onset with regular engagements undertaken by the team on material issues. The engagement has resulted in the responsible investment categorisation being placed under review and potentially upgraded.

# Overview

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

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

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

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

As at 31 December 2025, Quilter Cheviot's Assets under Management (AuM) was £32.5 billion. Of this, £30.5 billion is centrally monitored which represents the core of our responsible investment universe.[3]

We invest directly and indirectly:

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

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

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

3 The data exclude client cash held across multiple currencies in client portfolios as well as investment manager (IM) led ideas (£0.19 billion) and other (£0.73 billion) which represents a long tail of legacy holdings, in some cases the position will only be held by one client.

# RI Reels

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

### Disposable Disclosures

Yumna Yusuf is joined by Greg Kearney, Senior Responsible Investment Analyst at Quilter Cheviot, to discuss **disposable disclosures and why they matter for investors**.

Watch time: 6 minutes

Watch vlog

Source of images: iStock

# Responsible Investment at Quilter Cheviot

## Our solutions

**Active Ownership and ESG Integration - for all discretionary clients**

We vote and engage with companies and fund managers on environmental, social and governance (ESG) matters. Integrating ESG considerations into our investment process can have direct and indirect positive outcomes on the investments we make on behalf of our clients.

We take a more targeted approach for clients that want their portfolios to reflect their specific interests or preferences. Teams are responsible for incorporating this into their ongoing analysis of investments.

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

The strategies harness Quilter Cheviot's research and responsible investment process, as well as data from external providers, to implement ESG factor screening on a positive and negative basis. Positive screening relates to the process of only including companies that reach a certain performance threshold. Negative screening excludes companies involved in pre-defined activities or controversial practices. This ensures more emphasis is placed on ESG risks beyond the firm-wide approach to active ownership and ESG integration which forms the basis of the Aware categorisation.

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

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

**Ethical And Values Oriented Investment – Client Specific**

This is incorporated on an individual client basis, informed by their specific ethical preferences and values. These will vary from client to client and will focus on industry groups, industries or individual companies.

**Client Preferences**

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

* For UK, North American and European equity holdings

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

# Glossary

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

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

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

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

*Source: US Securities and Exchange Commission*

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

**Carbon pricing:** Operates by placing a fee on emissions 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 changes in 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 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 an advisory capacity only, however they should hold the executive directors to account. They are not employees of the company; however, they are paid a fee for their services.

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

Source: IPCC

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

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

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

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

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

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

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

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

*Source: PRI*

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

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

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

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

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

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

*Source: Financial Reporting Council (FRC)*

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

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

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

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

Source: EU Directive

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

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

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

*Source: United Nations*

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

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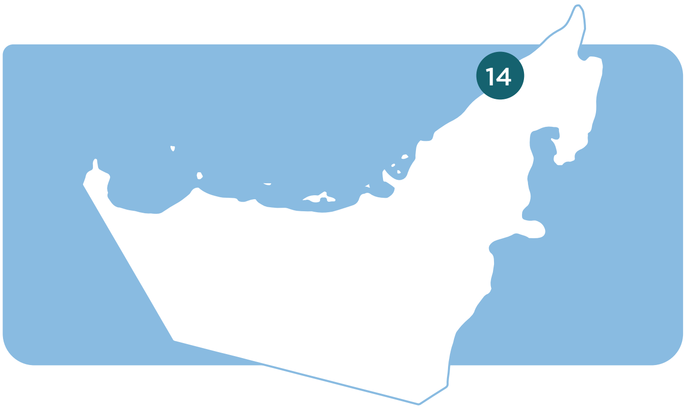
# Our experts are here to help you

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