QUILTER CHEVIOT

RESPONSIBLE INVESTMENT

SBTi Slow to Start

Rigour and relevancy in a new phase of the transition

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

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

SDG Alignment

> *"We only get one planet. There is no Planet B."*
>
> President Barack Obama

Introduction

As investors, we have a unique ability to influence companies and assets we invest in and a responsibility to consider the risks climate poses to their viability. Climate risk is, fundamentally, investment risk. One of the recurring climate engagements included in our Climate Action Plan is our SBTi – Slow to Start thematic engagement, wherein we identify priority direct equity holdings in our universe to encourage them to adopt SBTi (Science Based Targets initiative) validated targets.

The intention of this engagement is to identify and encourage companies in our universe which are high-emitters and high-contributors to Quilter Cheviot's climate impact to adopt science-based targets to decarbonise and better align their businesses with the ambitions of the Paris Agreement. These are not necessarily 'low hanging fruit' – many are in difficult-to-decarbonise sectors or have considerable barriers towards reducing their emissions – but owing to both their market position and the nature of their businesses, we consider these to be priority targets.

This engagement focuses on discussing any barriers businesses face in setting SBTi targets, as well as sharing what we consider to be 'better practice' from relevant, comparable peers which have set SBTi-validated targets. The intention is to provide helpful information and encouragement for these companies to consider setting targets. We have worked with the relevant equity analyst to ensure we consider regional, business model and structural challenges to setting ambitious climate targets.

This engagement targets assets in our centrally monitored universe where they meet three criteria: Quilter Cheviot has a material investment[1], the asset is a high emitter / contributor to Quilter Cheviot's climate impact[2] and it is in a high impact 'priority' sector[3]. These are holdings where a target-setting pathway exists[4] and similar peer companies have either set SBTi-validated targets or committed to doing so.

The criteria identifying priority holdings for this engagement have been informed by the guiding principles of the Quilter Cheviot Climate Action Plan (CAP), namely a focus on materiality and measurable outcomes. In keeping with this materiality-led approach, this engagement concentrates on directly held equities, as these are assets where we can more effectively engage directly. We have also excluded any oil and gas companies from this engagement. Although these are amongst our highest-emitting assets, given SBTi still does not have a pathway for fossil fuel companies to set targets, this is not a constructive point to engage these companies on. Our engagement targeted 20 companies of which we engaged with 13 (seven declined to engage)[5].

In keeping with the principles for meaningful engagement outlined in our CAP, for each of our target companies we undertook research to identify sector-relevant peers with SBTi-validated targets. We feel this is an important element of our engagement, in pointing to 'real world' examples and grounding our asks in an appropriate role model.

Better practice: incremental changes manifest material shift

An essential part of this engagement was based in sharing 'real world', relatable, sector-relevant examples of innovations which progressive peers (with SBTi-validated targets) have developed to facilitate achievement of their climate targets. There are numerous examples of these across different sectors, including the below examples.

Automotive industry

Challenges around the pace of electric vehicle (EV) adoption by consumers has been a common theme for car manufacturers around the world as traditional internal combustion engine (ICE) manufacturers attempt to pivot their established businesses and compete with EV-exclusive competitors. There are, however, notable examples of established car manufacturers developing technological innovations and shifting their manufacturing processes to enhance the quality and range of their EV offerings. Toyota, SBTi-validated since 2022, has invested heavily in technological features in its EVs to enhance functionality and energy efficiency – such as predictive state-of-charge control battery optimisation technology. Volkswagen (SBTi-validated since 2022) and Ford Motor Company (2021) have both used partnerships to accelerate development and adoption of EVs in their offerings by instituting an EV platform alliance – effectively sharing their modular electrification toolkits to scale their EV fleet available globally.

1 Defined as being >£15m, as at 07/08/2026. There are several exceptions to this, where a holding has a significant contribution to our emissions – these are: SigmaRoc, Stellantis, DCC, and Xylem. These were included in the engagement due to their outsize contribution to Quilter Cheviot's overall financed emissions footprint.

2 Defined as having a material contribution to Quilter Cheviot's total financed emissions and carbon footprint (this is inclusive of Scope 3 emissions).

3 This is defined per the 'high impact' sectors of the Net Zero Investment Framework 2.0 guidance.

4 Either an industry-specific pathway (as in the case for financial institutions) or the general SBTi Corporate Standard is applicable.

5 Those companies declining to respond included: Amazon, Ares Management Corporation, BHP, Caterpillar, Xylem and Nvidia. We had previously scoped in Alphabet for inclusion but removed them from the list after confirming with SBTi that the company has submitted targets which are currently under review.

Financials / Insurance industries

Over a third of our target companies occupy the financials and insurance sectors, which have hosted a variety of useful developments applicable to peers. Aviva offers a practical insurance and asset-owner example of applying SBTi-validated targets across operations, investments and the supply chain. Its approach introduces several tools it can utilise to advance the transition - providing electricity-generation project finance only for renewable electricity through to 2030, for instance. This use of project-finance allocation as a portfolio construction tool is a clear demonstration of the company using its influence proactively to support its climate goals. Similarly, Aviva developed a Supplier Accelerator Programme to help suppliers build greenhouse gas inventories, understand emissions measurement and develop science-based decarbonisation plans, recognising that many smaller suppliers lacked the internal expertise required to set climate targets. The programme uses supplier surveys and maturity assessments to identify capability gaps and provide targeted support, with a particular focus on helping small and medium sized enterprises (SMEs) progress towards SBTi adoption. By building suppliers' capacity to measure and manage emissions, the initiative is designed to support Aviva's own SBTi-validated commitment to increase the proportion of suppliers with science-based targets and accelerate progress towards a net-zero supply chain.

Structural vs. contextual challenges to target-setting

Since its advent and first Corporate Net-Zero guidance published in 2021, the SBTi has elicited strong feelings as it has established itself as the most rigorous 'gold standard' for corporates taking their climate risk and responsibility seriously. It has long been admired – and equally as often dismissed – for its stated intention to prioritise scientific expertise above easiness, creating sector-specific, scientifically-informed target-setting frameworks which explicitly link to the 1.5°C ambition of the Paris Agreement.

As the SBTi and the global transition have matured in the last five years, it has been widely acknowledged that this pursuit of rigour has had consequences. Variability in sector-level expertise, capacity constraints, extended validation timelines and perceptions of a highly rigid approach to target validation have, at times, created challenges for stakeholders engaging with the SBTi. Even among early partners and corporates which have been intimately engaged in the development of its net-zero sector guides, there is occasional frustration around the organisation's emphasis on methodological consistency, comprehensiveness and technical specificity.

Companies we spoke to were quick to mention the litany of strictures they have sought greater flexibility on within SBTi's corporate guidance: the use of offsets in supply chain emission targets (Scope 3), its high default temperature ratings for unaligned corporates, disallowing regional variance in expectations, the absence of explicit 'carve-outs' for difficult-to-decarbonise sectors or businesses within corporates, the sense of a 'one-size-fits-all' bar excluding corporates in emerging markets.

SBTi has made efforts to shift this reputation, with ongoing refinements to sector guidelines, extensive corporate consultation processes, and a raft of significant governance changes to the organisation in 2023-24[6]. However, the organisation has sought to maintain its image as a stringent standard-setter, while encouraging continued engagement and constructive feedback on corporate guidance it develops. We agree with the view, ultimately, that standards need to be sufficiently robust to avoid rewarding purely cosmetic transition claims but flexible enough to recognise a variety of credible transition-enabling activity in sectors and geographies where decarbonisation is going to be inherently uneven.

Context is critical

A recurring theme across company engagements was that climate ambition is shaped not only by management intent or technological capability but also by the broader commercial and policy environment in which firms operate. In many cases, a supportive regulatory framework remains a critical catalyst for investment in low-carbon products, technologies and infrastructure.

6 This was following criticism the organisation received around potential conflicts between arms of the same organisation, when it both set the standards and charged corporates fees to validate targets' compliance with these standards. The separation was also prompted by criticism around limited capacity across the organisation to maintain both functions – design of best-practice guidance, and target validation services. In 2024, SBTi split its validation offering into a subsidiary organisation, SBTi Services Ltd, which is formally separated both legally and with separate governance structures (i.e. dedicated independent councils to review decision-making) from the parent organisation SBTi, which continues to maintain the suite of corporate net zero guidance.

DCC highlighted the **importance of policy measures** such as Ireland's Renewable Heat Obligation and the EU's Renewable Energy Directive III **in underpinning demand for lower-carbon fuels**. These policy signals have supported the company's rapid expansion of hydrotreated vegetable oil (HVO) within its fuel mix, accelerating adoption beyond what would likely occur through market forces alone, particularly given the higher energy costs and lower population densities that characterise many of the communities it serves.

Sunbelt Rentals noted a similar dynamic from a different angle, observing that some of its largest customers, particularly public sector bodies, have embedded net-zero requirements into procurement and tendering processes. The company indicated that its own decision to adopt a formal net-zero target was influenced by the increasing prevalence of climate-related requirements within public contracts, demonstrating how policy can shape commercial incentives and accelerate corporate action.

At the same time, **several companies emphasised that commercial conditions place important constraints on target-setting and implementation**. A common theme was that demand for lower-carbon products and solutions remains uneven, particularly where customers are unwilling or unable to justify paying a premium or where the benefits of decarbonisation are not yet reflected in purchasing decisions.

Sunbelt Rentals reflected that it had "made mistakes" in the past by investing ahead of customer demand, including purchasing battery-powered equipment and other lower-carbon alternatives before sufficient market appetite existed to justify the higher cost. The company also highlighted practical challenges, such as deploying electrified equipment to remote locations where charging infrastructure remains limited.

Policy unlocks opportunity

A related challenge is that regulation is not always aligned with decarbonisation objectives.

Stellantis expressed similar frustrations, arguing that **it had been penalised by the market for moving aggressively into EV before supportive ecosystem conditions were fully established**. Despite significant investment in EV offerings, the company cited insufficient consumer incentives, gaps in charging infrastructure and persistent price differences relative to conventional vehicles as barriers to wider adoption. The extent to which climate ambition depends on market demand emerged as a consistent theme. Several companies noted that customer willingness to pay, specify lower-carbon alternatives or accept changes in product design remains a material determinant of the pace of decarbonisation. While this does not provide a complete defence against inaction, it is an important constraint, particularly for businesses whose emissions are concentrated in sold products or supply chains. In such cases, climate strategy is shaped not only by what a company can produce but also by what customers are willing to buy.

Halma highlighted that technical specifications governing some safety-critical products, including fire detection systems, fire panels and fire-retardant applications, can limit the ability to substitute lower-carbon or recycled materials, even where alternatives exist. The company noted that supplier approval processes can be expensive and time-consuming, while product development cycles are often measured in years rather than months, reducing the scope for experimentation or rapid redesign.

Sunbelt Rentals similarly pointed to **a fragmented policy landscape, where differing regional regulations require more nuanced product selection and marketing strategies**. For example, markets such as California and the UK have developed stronger policy support for renewable diesel and biofuels, creating greater demand for equipment capable of operating on these fuels, whereas other regions have not produced similar commercial incentives.

These experiences reinforce the view that a supportive policy environment is no longer a peripheral consideration in transition planning. In many sectors, it has become a central factor in determining whether climate-related capital allocation can be commercially justified.

Finally, several discussions highlighted the challenges faced by smaller companies attempting to influence emissions beyond their direct operations. Firms with limited market share often lack sufficient purchasing power to drive meaningful change across supplier networks, even where there is a clear desire to do so.

Halma, for example, noted that its ability to influence suppliers is inherently constrained relative to larger market participants. However, the company also highlighted the benefits of broader regulatory initiatives such as the Corporate Sustainability Reporting Directive (CSRD), which help drive more systemic change across value chains than any individual company could achieve alone. This illustrates an important dynamic within the transition: while smaller companies may face a “small mover disadvantage”, larger corporates often possess the scale and influence to drive changes throughout supply chains that ultimately benefit the wider market. **As a result, the speed and success of decarbonisation will depend not only on company-level ambition, but also on collective action, supportive regulation and the ability of larger market participants to create conditions that enable progress across entire sectors**.

A two-track transition?

The debate around the value of SBTi’s role in advancing the global transition increasingly reflects a tension between two important objectives: maintaining the rigour that underpins the credibility of the standard, while ensuring the framework remains relevant and accessible to the companies expected to use it. A standard that is too flexible risks losing its value as a signal of climate leadership; a standard that is too rigid risks becoming disconnected from commercial realities and driving companies away from the framework altogether. The challenge for the SBTi is therefore not simply to preserve scientific ambition, but to retain company participation while doing so.

This challenge is particularly visible in what increasingly resembles a “two-track transition”. Companies operating in advanced economies generally have access to more mature regulatory frameworks, stronger disclosure requirements, greater availability of emissions data, and deeper pools of low-carbon technologies and infrastructure. By contrast, many companies operating in emerging markets continue to face more significant barriers to implementation. For these businesses, calls for greater flexibility are often rooted not in a desire to lower ambition but in the practical reality that some of the inputs required to deliver rapid decarbonisation, whether robust emissions data, regulatory certainty or affordable low-carbon alternatives, remain underdeveloped. As a result, questions of fairness and practicality are becoming increasingly difficult to separate from questions of ambition.

At the same time, broader political and economic uncertainty has complicated the transition landscape. Companies are increasingly being asked to determine how much of their strategy should change when the external environment continues to shift around them. This raises important questions for investors and standard setters alike. These questions point towards a more nuanced interpretation of climate alignment, one that extends beyond compliance with a predefined checklist and instead, considers how an asset, business model or investment contributes to delivering real-world emissions reductions and progress towards a 1.5°C pathway.

Should greater emphasis be placed on supporting “improvers” rather than focusing exclusively on already low-carbon business models? Should companies with carbon-intensive operations be viewed differently where those activities are enabling decarbonisation elsewhere in the economy?

For companies that ultimately decide not to align with SBTi requirements, the expectation should not simply be that they walk away from climate target setting altogether. Instead, they should be expected to explain why they have chosen a different approach, disclose the methodology they are using in place of SBTi validation and demonstrate transparently how that methodology contributes to emissions reductions in the real economy. The objective should be comparable accountability, even where the route taken differs.

Ultimately, the true test of the SBTi's evolving framework has yet to arrive. Much of the debate to date has centred on consultation drafts, methodological revisions and governance reforms. The more meaningful assessment will occur during the years leading up to 2030, as companies seek to renew targets, revalidate commitments and demonstrate progress against previously established pathways. Recent developments, including a greater willingness to accommodate proprietary methodologies and alternative approaches in certain circumstances, suggest a recognition that flexibility can support broader participation. The challenge will be ensuring that such flexibility does not come at the expense of credibility.

In many respects, the future success of the SBTi will depend on whether it can achieve what may be its most difficult balancing act: retaining the scientific rigour that gives the standard its authority, while remaining sufficiently relevant to guide companies through an increasingly complex and uneven transition.

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INVESTMENT MANAGEMENT

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