

Considering sustainability risks and factors at Quilter Cheviot

Sustainability risks are an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. As part of our responsible investment approach, we consider sustainability risks and factors when assessing investments. We refer to this as ESG (environmental, social and governance) factor integration and this is an ongoing process across all asset classes that we invest in.

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

We invest directly as well as indirectly through funds. Here we have outlined our approach to considering ESG related risks and factors within our investment process. To identify and prioritise ESG factors we use a number of data sources which inform our engagement strategy focused on our three mega themes of climate change, human rights and natural capital. Underpinning our stewardship approach is our governance engagement activity through which we hold the companies and funds we invest in, to account.

For our direct equity holdings, we have created proprietary industry group dashboards to incorporate material ESG factors based on the Sustainability Accounting Standards Board (SASB) framework plus additional factors which are identified in conjunction with the relevant analyst which are determined to be relevant to the sector. This will then inform:

- which of the three responsible investment categories the holding sits within
- engagement priorities to understand specific ESG issues at a company level; and
- engagements within our three thematic priorities of climate change, human rights and natural capital, as well as governance matters.

For indirect holdings, i.e. holdings in third-party funds we have constructed asset class and geographic dashboards which inform:

- ongoing assessments of the manager's

approach to ESG integration and active ownership (their approach to voting and engagement)

- quantitative ESG analysis on underlying fund holdings to identify risks and opportunities, and engagement on specific holdings where appropriate
- evaluation of the firm's net zero and climate transition planning; and
- how the firm approaches responsible investment across its business.

Our focus is on our centrally monitored holdings which as at 31 December 2024, represented 92% of our overall assets under management. For our direct holdings of equities, it is our research analysts' responsibility to identify ESG factors (both challenges and opportunities) when they initiate on a new holding, as well as on an ongoing monitoring basis. We combine this approach with an over-arching programme to engage with our key holdings on both a reactive (to news-flow) as well as on a proactive basis. Our fund research team is responsible for engaging with third party managers to understand their approach to ESG integration and stewardship, again this is part of the research initiation process as well as on an ongoing basis. This process involves a qualitative as well as a quantitative approach. The Responsible Investment team works alongside the research teams and leads the engagement and integration processes.

A significant part of our bond exposure is through third-party funds, therefore the fund research approach of understanding the underlying manager's ESG process applies. ESG analysis for credit issuers is on a similar basis to

equities. The growth of green bond issuance, and newer areas like bonds linked to the UN Sustainable Development Goals, and transition bonds, adds a new dimension which we would expect third-party managers to evaluate appropriately. Sovereign bond analysis can be limited for developed markets but could increasingly incorporate climate risk in the future.

Within our ESG integration process we do not exclude specific sectors or activities (the only area where we have a firm wide restriction is controversial weapons). However, our responsible investment framework offers clients the opportunity to determine their own approach.

Regulatory Disclosure on Responsible Investment

Under Article 3 of the EU's Sustainable Finance Disclosure Regulation (2019/2088) ("SFDR"), Quilter Cheviot is required to publish on its website information about its policies on the integration of sustainability risks in its investment decision-making process or in its investment advice. This Regulatory disclosure together with our Responsible Investment Policy, which can be found [here](#), addresses this requirement. Additional information may be found [here](#) **Responsible Investment | Quilter Cheviot**.

Responsible investment continues to be an important theme within Quilter Cheviot, and indeed within the regulatory landscape, and we set out our approach to evaluating sustainability risks below.

"Sustainability risk" is defined under the SFDR as *"an environmental, social or governance (ESG) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment"*. As part of our investment process, we integrate the consideration of sustainability risks and factors when assessing companies or funds to invest into. We refer to this as ESG integration and this is an ongoing process across all asset classes.

The foundation of our responsible investment framework is the integration of ESG factors, as well as active stewardship in terms of engaging with and voting on our core holdings. For many clients this approach meets their sustainability preferences.

Our responsible investment framework also offers clients the opportunity to determine their own approach, for some excluding specific sectors or activities is their main priority and for those clients we offer screening for direct holdings.

The sustainability (or ESG) risks and factors will vary according to the approach you choose. Therefore, the environmental or social characteristics or the sustainable investment objective will vary from client to client and can be discussed with our investment managers on a regular basis.

To measure and monitor the environmental or social characteristics or the impact of the sustainable investment selected we use a number of data providers who are specialists in this area.

QCE's Remuneration Policy is consistent with and promotes sound and effective risk management, including sustainability risk, and does not encourage risk-taking which is inconsistent with clients' risk profiles, client objectives and personal circumstances.

No Consideration of Adverse Impacts of Investment Decisions on Sustainability Factors

Under Article 4 of the SFDR, Quilter Cheviot is required to disclose whether we consider adverse impacts on sustainability factors in our investment decision making or in our investment advice.

Quilter Cheviot does not, at this time, consider any adverse impacts of investment decisions on sustainability factors by reason of the nature, scale and complexity of our activities and the fact that we do not promote our own funds or financial products (rather we provide portfolio management and investment advisory services to clients). We consider this a pragmatic and transparent approach to our obligations under SFDR at this time.

However, Quilter Cheviot intends to reassess this position on an ongoing basis, and we may choose at a future date to consider adverse impacts of our investment decisions on sustainability factors, as prescribed by the SFDR, in relation to the services that we provide and products that we may provide in the future.

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

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