ENGAGEMENT POLICY

RESPONSIBLE INVESTMENT AT QUILTER CHEVIOT

QUILTER CHEVIOT
INVESTMENT MANAGEMENT

Introduction

As a responsible investor Quilter Cheviot is committed to its role as a steward of clients' assets to protect and enhance long-term returns. This encompasses our engagement with investee companies by considering environmental, social and governance (ESG) factors which could impact shareholder returns.

Quilter Cheviot aims to meet the challenges of a dynamic market environment to deliver the investment performance that provides its clients with the outcomes they require to meet their financial aspirations.

We are committed to using our resources to encourage companies to improve their management of ESG issues.

Our engagement approach

By engagement, we mean speaking directly to companies and investment trusts about the issues that concern us and understanding their general approach to material ESG issues. This can be at board or executive level. Engagements can be reactive or proactive.

For engagements around general meetings, we use an external proxy advisor (ISS) as a benchmark for recommendations. However we will not necessarily follow ISS' recommendations. Where there is a recommendation to vote against or abstain, we will engage with the company in question. Where we disagree with ISS this is reviewed by the voting panel which comprises the Chief Investment Strategist, Chief Investment Officer, Head of Equity / Fund Research, and the Director of Responsible Investment. Where engagement topics are proactively set by the responsible investment team, we use numerous data providers to identify engagement targets and track the success of these efforts over time.

Any engagement or decision making about voting includes the relevant Quilter Cheviot investment research analyst. Our central teams of equity and fund analysts provide a dedicated investment research resource with no conflicting commitments; the research teams monitor investee companies and funds on an ongoing basis and regularly meet company management. It is imperative that ESG considerations sit within the investment decision making process and are not outside it.

Voting

Company shares usually carry voting rights and exercising these enables shareholders to express their views and engage with companies to support the creation of wealth, benefitting shareholders and the wider economy. As a responsible investor we will use voting rights (where appropriate) to further the economic interests of our clients and have established a set of voting principles which guide how we vote. Discretionary clients' holdings held in our nominee name will be voted in accordance with Quilter Cheviot's decision, as the voting of holdings reflects our investment thesis. Voting is the end-point of the engagement process and we may vote against management at general meetings where we feel sufficient progress has not been delivered.

We vote on our UK, European and US equity and investment trust positions – this includes the monitored equity lists, the monitored investment trust list, our AIM portfolio service, MPS Building Blocks and where we own more than 0.2% or £2 million of a holding in the UK. This represents around 90% assets we hold which have voting rights. Voting is undertaken alongside engagement, the extent of the engagement will be dependent on the materiality of our holding.

For more information on our voting process please refer to the Quilter Cheviot Voting Policy.

Types of engagements and how they are prioritised

We undertake our own engagement with the responsible investment team working alongside the relevant analyst. Quilter Cheviot's engagement activity falls into three buckets:

- **Reactive** – where we will initiate engagements in reaction to a controversy or to an AGM / SGM resolution
- **Proactive** – where we have conducted analysis on a specific topic and look to engagement with the worst performers. This may include thematic engagement
- **Monitored** – where no immediate concerns are identified but is part of a regular catch-up process

In considering how to prioritise engagement we consider the following factors:

- Norms and incident-based
- Risk-based
- Thematic priorities

Our thematic priorities are:

Climate Change - This includes clean energy and technology (and conversely thermal coal and fossil fuels) as well as reforestation/deforestation (palm oil and palm plantations) and emerging natural climate solutions. This includes understanding companies' net zero ambitions as well as decarbonisation plans.

UN Sustainable Development Goal (SDG) Alignment:

- 7 - Affordable and Clean Energy
- 13 - Climate Action
- 15 - Life on Land

People & Human Rights - Human rights in employment in areas such as decent work and pay, human rights in the supply chain, and health and safety. This also encompasses diversity and inclusion – incorporating issues such as gender equality but also broader diversity themes.

SDG Alignment:

- 5 - Gender Equality
- 8 - Decent Work and Economic Growth
- 10 - Reduced Inequalities
- 16 - Peace, Justice & Strong institutions

Water - This incorporates such areas as access to clean water for communities, clean oceans and water pollution (recycling). In addition, this also encompasses water stress and intensity (particularly caused or impacted by corporates), water usage and responsible consumption/production.

SDG Alignment:

- 6 - Clean Water and Sanitation
- 12 - Responsible Consumption and Production
- 14 - Life Below Water

Identifying engagements

The Quilter Cheviot responsible investment team identifies areas of specific focus within the three broad groups mentioned above. These are then agreed by the Engagement Panel (which includes representatives of the research and executive teams). In 2021/2022 preliminary areas of focus will include: carbon emissions (and links to executive remuneration), percentage of women on boards and companies in breach of UN Global Compact. Any outcomes as well as further engagement details are disclosed quarterly on our website.

In addition to historic proprietary research, we use multiple external data sources to identify engagement targets and inform our dialogue. For much of this data there will be a focus on granular underlying information (e.g. scope 1, 2 and 3 carbon emissions) rather than using ESG ratings. We also use third party publicly available information such as TPI (Transition Pathway Initiative). Below is more detail on the external providers we employ:

Data provider	Purpose
ISS	Voting platform – we use ISS to inform our decision making. Recommendations are made based on the agreed voting policy. We do not always vote in line with ISS' recommendations Governance risk oriented data –focussed on board structure, compensation, shareholder rights and audit & risk oversight. Informs decision making for governance engagements and is an input into the equity ESG dashboard
Sustainalytics	Equities: we use the ESG data as an input into the equity ESG dashboards, as well as the high level information provided in the company reports, as well as the carbon risk rating. This also includes exposure to specific product involvement areas and controversies, as well as sustainable product areas. Companies that breach the UN Global Compact are also highlighted. Funds: this feeds into the Style Analytics tool to provide the research team with more granular detail regarding ESG factors and underlying holdings. This data is also used to inform our engagement program and identify target companies.
Style Research	Fund analysis tool – the Sustainalytics data feeds into this as well as other data sources to provide the fund research team with more granular detail on underlying exposures and ESG factors
Ethical Screening	Screening tool – employed at a portfolio level as well as an additional data source for the research teams to identify areas of exclusion as well as positive screening
Trucost	To provide detailed reporting for the Climate Assets Fund and Strategy Looking at potential investment exposure to carbon and other environmental impacts

Other considerations when identifying material engagement targets include:

- Size: In terms of relative size of the position and the likely access/impact we will have. This will be viewed on a total exposure and percentage of equity issued basis.
- Geography: We will have more meaningful engagements in markets where we have expertise in legal processes and stewardship norms.
- Research coverage: Our equity analyst team is embedded into our engagement process. We will have more meaningful engagement where knowledge and relationships are deeper.

Engagement examples

We think about engagement in terms of objectives and outcomes. Below are a few examples of recent engagements:

BHP (Environmental issue)

Despite making several climate positive commitments including to reduce carbon emissions, the company is a member of some of the most influentially oppositional industry associations on climate policy. We have concerns that these industry associations may be undermining the company's climate-related strategy and have encouraged them to use their influence to bring the two into alignment.

Objective: Ongoing engagement regarding climate lobbying activities.

Outcome: Based on multiple engagements with numerous shareholders, the company has now published a review of key industry association memberships, highlighting where climate policies are not aligned. The company has begun an engagement process with those associations identified as laggards. We will monitor progress moving forward.

COMPASS (Social issue)

Compass' Chartwells subsidiary was implicated in a controversy relating to supplying inadequate food parcels to school children. We engaged with the company to understand what happened. We were reassured by their quick actions and believe they are behaving in the right way. Compass' shortcomings (2% of all parcels) came from limited time to prepare (less than 12 hours' notice of school closures), supply chain shortages and lack of quality checks. They have resolved the supply chain issues and seem to have the right quality controls in place. They have committed that they will not charge the schools affected by any shortage and created extra quality assurance checks at the supplier level and within each individual school – including photographing every batch of parcels when it goes out. In addition to this, they have set up a free helpline for concerned schools and parents. This is a difficult time for households, particularly those on free school meals and we believe the measures the company have now put in place will work well to resolve current shortcomings and mitigate future ones.

Objective: To gain further information regarding the food parcels Compass had supplied to school children.

Outcome: We gained a greater understanding of the challenges facing the company as well as the remedial action. This is an ongoing engagement.

ASTRAZENECA (Governance issue)

For the second consecutive year, variable pay is being significantly increased. While the company's recent strong run of performance is acknowledged, it is highlighted that the CEO's total variable pay opportunity will have increased from 650% of salary to 900% of salary over the course of two years. Specific to the 2021 AGM, a policy vote to increase the annual ong-term incentive plan (LTIP) opportunity from 550% of salary to 650% of salary was proposed; the remuneration committee (RemCo) also determined to increase his bonus maximum from 200% of salary to 250% (this is possible within the current policy). The company explained the new policy was driven by the incoming chair of the RemCo. Despite a policy being presented at the last AGM, it was felt that total compensation needed to be brought in line with leading European peers and take into account the expanded scope of the role resulting from Covid-19 vaccination production and the Alexion acquisition.

Objective: We initiated an engagement with the company on executive remuneration levels in the context of Covid-19 stakeholder experience and concerns over levels of total compensation.

Outcome: While we recognise that the scope of the role has expanded over the past two years, the rationale is not sufficiently compelling and we are not comfortable with a new Remuneration Chair changing a three year policy we voted to support last year. If a gap in pay needs to be closed, we would expect to see a managed, well communicated pathway. We voted against the remuneration policy and it did not gain majority support from shareholders.

Sustainability risks and ESG integration

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. We consider sustainability risks when assessing investments. We refer to this as ESG integration and this is an ongoing process across all asset classes that we invest in. As part of the remit of our analysts they consider ESG factors within the research process. Below are examples of the issues we consider in our investment decisions:

Environmental: A company's impact on the natural world

- Climate change
- Biodiversity loss
- Resource scarcity
- Waste and pollution

Social: The wellbeing and rights of people and communities

- Human rights
- Labour standards
- Working conditions
- Data protection

Governance: The standards for running a company

- Bribery and corruption
- Executive remuneration
- Board structure
- Political contributions

Reporting

As a signatory to the UN-backed Principles for Responsible Investment (PRI), we have made a commitment to transparency and recognise its importance in creating higher standards, not only for responsible investment practices but also for the wider financial market. We disclose (from June 2020 onwards) all the votes within our voting universe cast on behalf of discretionary clients. We have classified all votes that are enacted within our voting universe to be significant. We do not disclose client-instructed voting publicly. We disclose engagements with all companies and funds on a quarterly basis. In some (rare) cases we may choose not to name the company or the fund in question if we believe publicity is likely to prove counterproductive to our engagement process. Undertaking potentially sensitive engagement in public may lead to a defensive reaction and entrench views of company management. The reports are available on our website and also on request.

Collaboration

Through Quilter, Quilter Cheviot is a member of various initiatives and trade bodies. Below we outline the most relevant collaborations and memberships in our role as an investor:

- 30% Club (which looks to promote gender diversity within companies)
- The UK Investment Association ('The IA')
- UN Backed Principles for Responsible Investment ('PRI') In 2021
- Institutional Investors Group on Climate Change (IIGCC)

As an example of collaborative engagement, we joined the UK Modern Slavery Collaboration using the UN-backed PRI collaboration platform in 2021.

We are also pleased to confirm that we are among the first group of investors to become signatories to the revised 2020 UK Stewardship Code.

Signatory of:
UK STEWARDSHIP CODE | 2021

We are reviewing which other initiatives we wish to become a member of, whilst being mindful that we do not want to be a passive member.

Escalation

The information published by companies, particularly financial statements and reports & accounts are important sources of information to assist in monitoring investments, but we also use other sources including third-party environmental, social and governance research, financial research and information we obtain during engagement with a company. The desired outcome of engagement activity is to reduce risk and/or obtain greater long-term success for the company and therefore our clients. Thus, achieving change and avoiding risks are factors we consider in reviewing holdings and the success of our activity.

Regular engagement with companies arises from one-to-one and group meetings with company executives, often following company results announcements. These meetings permit analysts and investment managers to assess the valuation of companies but are also used to question companies on strategy, governance, performance, and financial management. Depending on the topics of discussion, meetings are also held with company chairs, and chairs of remuneration committees; in specific instances we will request a meeting with the senior independent director (SID) if we believe this will be helpful.

Where possible it is our preference to support the management of companies in which we have holdings. We will therefore evaluate the actions and strategies of companies constructively, particularly through meetings and other engagement with executive and non-executive directors of the board. However, where there is a threat to the value of the company, we will take steps to protect the value of our clients' investments. We may consider taking one or more of the following actions:

- Engaging with members of the company board
- Discussing or working with other shareholders on matters of mutual interest
- Voting contrary to the management proposals at general meetings
- Selling the holding where we evaluate it is in the interests of our clients to do so
- In extreme circumstances, we could request a general meeting

In regards to engagement with the board, we often meet with the chair or chair of remuneration committee in the normal course of our stewardship activity. On occasion we have also spoken to the Senior Independent Director where there has been a particularly sensitive and difficult topic. We have found that multiple engagements are often required, and that patience and perseverance are helpful attributes.

Conflicts of Interest

Quilter Cheviot's conflicts of interest policy may be found at: https://www.quiltercheviot.com/siteassets/documents/important-information/os010171-qc-conflicts-of-interest-policy-uk.pdf

It is possible that actual or perceived conflicts of interest may arise in relation to the execution of our stewardship activity. Should a conflict of interest arise which may influence us to not act fairly, independently, or objectively in the interests of our clients we will follow the voting recommendations of our third-party proxy voting service provider.

Examples of possible conflicts include:

- There may be a situation where we are a shareholder in a company and also in a commercial relationship with that same company as a result of investing in one of their funds. As we have a separation between our equity and our fund research teams, which are also both independent functions; we believe that we are able to manage this conflict effectively given this separation.
- Quilter Cheviot is part of Quilter plc. There may be occasions where an interest to be voted is held in Quilter plc. In these cases, unless specifically directed by a client, we will follow the guidance given by our external proxy voting service provider with respect to voting.
- Conflicts could occur between clients and where this is the case we will continue to act in the best interests of each client. Thus, for example, the equity share interests of different clients may be voted differently at the same meeting where it is in the interests of each to do so.
- Where an employee of Quilter Cheviot, or any member of senior management or non-executive director within the wider business is a non-executive director of a company within our voting universe we will apply the guidance of our external proxy voting service provider.

Investors should remember that the value of investments, and the income from them, can go down as well as up. Investors may not recover what they invest. Past performance is no guarantee of future results.

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