QUILTER CHEVIOT GLOBAL INCOME & GROWTH FUND FOR CHARITIES

RESPONSIBLE INVESTMENT REPORT
FOR THE 12 MONTHS TO 30 JUNE 2023

QUILTER CHEVIOT
INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited, 1 September 2023

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INTRODUCTION

Welcome to our second dedicated responsible investment report for the Quilter Cheviot Global Income & Growth Fund for Charities (Fund). As we did last year, in this report we have brought together the responsible investment related activity that we have undertaken over the past year for the Fund. We have outlined the three elements of the Quilter Cheviot responsible investment approach as well as explaining what we are not targeting through the Fund. Within our firmwide responsible investment process we focus on the following areas:

STEWARDSHIP

Active ownership agenda

ESG INTEGRATION

Focus on core list of equities, funds and fixed income holdings

Part of the investment process – research analysts' working alongside RI team

Multiple data providers including ISS, Sustainalytics, Ethical Screening, CDP and other NGO data providers

ESG SCREENING

At a firm level we exclude direct investment in controversial weapons and have undertaken an attestation process for our third party actively managed funds

The Fund does not invest directly in tobacco producers

Within this report we focus on our stewardship activity and how we integrate ESG (environmental, social and governance) factors within our investment process. In regards ESG screening, for the Fund we have the formal exclusion of not investing in tobacco producers; however, we have not (and are unlikely to) hold companies whose activities would not be consistent with our long-term approach such as armaments and gambling.

It has become increasingly fashionable to funds to provide metrics related to the positive impact that the underlying investments had on society and the environment, as well as linking holdings to the UN Sustainable Development Goals (UN SDGs). We believe that this is appropriate if the Fund has a specific impact mandate or has intentionality behind the linkage to UN SDGs. This Fund has neither and therefore we will not be reporting against such measures as any outcome would be happenstance rather than intentionality. This is not to say that we don't invest in holdings which have positive environmental or social outcomes, and which are aligned to UN SDGs.

Howard Jenner
Executive Director & Manager of the Quilter Cheviot Global Income & Growth Fund for Charities

Gemma Woodward
Head of Responsible Investment

STEWARDSHIP

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.

For more information on our engagement policy please click here.

For more information on our voting principles please click here.

For our Stewardship Code report as part of Quilter please click here.

Engagement activity for the 12 months to 30 June 2022 and 12 months to 30 June 2023

Type of engagement	Companies engaged with 01/07/21-30/06/22	Companies engaged with 01/07/22-30/06/23
Governance	Apple, Aptiv, Assura, B&M, Compass, Electronic Arts, GlaxoSmithKline, LVMH, Microsoft, Persimmon, Tesla, The Renewables Infrastructure Group	Ares Management Corporation, Baillie Gifford, Compass Group, Electronic Arts, Experian, Halma, Hipgnosis Songs Fund, Princess Private Equity, Tesla
Social	Apple, Microsoft	AstraZeneca, Darktrace, Persimmon
Environment	CDP Non-Disclosure Campaign, National Grid, NextEra, Rio Tinto, Shell, Total Energies, Xylem	CDP Non-Disclosure Campaign, Diageo, DS Smith, Experian, Foresight Solar, Greencoat, Intermediate Capital, JPMorgan , Mondelez, NatWest, Shell, Tesla, Total Energies, TRIG
ESG and stewardship disclosure	JP Morgan Global Core Real Assets, Throgmorton Investment Trust	Emerson, NB Private Equity, Schroder Oriental

AstraZeneca – Social

Objective: From our centrally monitored universe, we identified the companies that had more advanced family leave polices (where polices extend beyond statuary regulations), with the aim of gaining additional information on areas such as shared parental leave and flexible working. AstraZeneca currently provides a maternity leave of 26 weeks of full pay, and six weeks of full pay for paternity leave. This benefit also covers adoption, and it is applicable from the first day of employment. Family leave must fit into the wider inclusion strategy. To do so, it must allow for financial wellness and equitable reward. Additionally, it was important to ensure that the adoption was included in the policy. Different countries have different statuary leave policies. However, when AstraZeneca is looking at the policies it offers in each region, it benchmarks based on what is best practice globally rather than on what is best practice in the country. Benefits, including family leave, are part of the employee value proposition. If AstraZeneca wants to attract a diverse talent, having adequate family leave is essential. However, this is also important from a reputational perspective. Two thirds of

the staff are based in laboratories, which makes it difficult from a flexible working proposition. One third of the company is office based, and for these employees there is a flexible schedule which allows them to work two days per week in the office, as the company believes in the benefit of collaborative working. When employees take leave, the method for distributing the workload is up to the manager. Usually, the vacancies are covered by contractors, but internal moves are also used. There are currently no plans to increase the length of leave. However, AstraZeneca is looking into how to make the transition back from family leave easier for employees. Upon the return of employees from family leave, they are asked to fill in a survey to describe their leave experience and this feedback is essential to understand where the process can be improved.
Outcome: AstraZeneca is thinking about how to improve the experience of employees going on family leave. Whilst having a sufficiently long leave is important, having the right structures in place so that employees can confidently return to the workforce is also key. Additionally, employees would benefit from their line managers being trained on the process of family leave, as this will give them the tools to help their employees.

Ares Management Corporation – Governance
Objective: To discuss concerns related to the approval of the new omnibus stock plan.
We engaged the company to discuss concerns raised by our proxy adviser on approving the new omnibus stock plan. New York Stock Exchange listing rules require employee stock plans to be approved by shareholders once every 10 years. This plan is essentially a rolling over of the previous one but includes a couple of enhanced features including additional clawback parameters. Concerns remain that the plan could be excessively dilutive. Additionally, the plan contains an evergreen feature that provides for automatic share reserve replenishments without requiring shareholder approval for each. On further analysis we are broadly comfortable with the potential dilution rate and even see some inconsistencies in how this has been calculated by the proxy advisor. Over the past three years the company's dilution rate has stood at around 1% and it is expected to be similar moving forward. This is largely a continuation of the previous plan that has been operation for nearly a decade, without any material dilution events occurring. We are also comfortable with the continuation of the evergreen feature which reflects many equivalent plans in the sector.
Outcome: On the basis of our conversation and further analysis we voted to support management on this item.

Baillie Gifford – Governance
Objective: As part of the investment trust thematic engagement, we engaged with five trusts managed by Baillie Gifford (BG). Therefore, we sought the perspective of the investment adviser (manager) on some of our findings.
We started the conversation by stating the purpose of the investment trust thematic engagement. We also noted that we have a good relationship with BG as a fund house, and there are a lot of positives, including the website and marketing, which we have used as a positive example to show other boards. From an investment perspective we do not have any particular concerns, however governance concerns will impact our predisposition to invest in the future. However, we clarified that we are having this engagement in the spirit of transparency and understand that the boards are independent. Therefore, we would not expect BG to dictate the board's position but act as an intermediary. We will keep communications with the boards open and make use of our voting powers. We discussed responsible investment-related disclosures and the process behind deciding which disclosures are included in the annual report. BG explained that this process might seem especially rigid however given upcoming regulations BG wanted to err on the side of caution in order to avoid making disclosures that might hurt the trust in the long term.
Outcome: The conversation was helpful in understanding the manager's perspective on these issues. Whilst it has no authority over the board, it can be a valuable intermediary to relay investor sentiment to the board. Additionally, as requested, we will share some examples of what we think is the best-in-class disclosure of responsible investment-related disclosures.

Compass Group – Governance
Objective: Our proxy voting service provider recommended an abstain vote for the re-election of the remuneration committee's chair and an against vote for the remuneration report based on the company's approach to the previous year's voting outcome.

We have reached out to the company to provide further context on those items. The company explained in a letter that, in its view, the ISS recommendation is driven solely by the perception that the company has not responded to shareholders that did not support the approval of the remuneration policy at the 2022 AGM. The company disagrees with this view and reiterated that it has consulted extensively with investors after the AGM. Last year, we engaged with Compass and supported its remuneration policy.
Outcome: After reviewing and discussing the letter internally, we have decided to vote in support of management.

Darktrace – Environment and Governance
Objective: The purpose of the meeting was to have a broad discussion on Darktrace's sustainability profile as well as the role of Mike Lynch.
The first discussion point was the lack of reporting and disclosure on sustainability issues such as carbon emissions, customer privacy, and diversity and inclusion. On carbon reporting, the company has prioritised Scope 3 emissions as this accounts for 98% of overall emissions. Regarding sustainability metrics unrelated to carbon, Darktrace is at an early stage of scoping out best practice and is collaborating with the finance department to enhance the quality of reporting. The final discussion point was on the ongoing governance concerns from the history surrounding Mike Lynch at Autonomy and his involvement with Darktrace as a shareholder. He is only an investor in the company and formerly an advisor, but Darktrace has cut those advisory ties with him over the last two years.
Outcome: A positive meeting, which helped improve our understanding of Darktrace's sustainability profile. The company is at an early stage with scoping its best practice reporting. We expect overall disclosure to improve, following the recommendations the company has been receiving from several investors including Quilter Cheviot.

Diageo – Environment
Objective: As part of our thematic engagement on water, we spoke to Diageo, a water-intensive company which scores an 'A' as part of the CDP Water disclosure framework and therefore a useful benchmark for future discussions in the target industry group.
Diageo focuses on its water stressed sites and takes a multi-faceted approach to ensuring regional water resilience in the areas in which they operate. Investment in wastewater processing is combined with water catchment-level projects, community outreach and political advocacy. The company adheres to best practice external reporting and standards on water stewardship (including WRI and CDP) and has an appropriate focus on supply chain water practices, which makes up most of its water 'footprint'.
Outcome: This was a positive conversation, which helped us to better understand Diageo's relatively comprehensive water risk management strategy. The company's water management process is integrated into its overall climate strategy, with water risk being the biggest climate change risk.

DS Smith #1 – Environment
Objective: As part of our thematic engagement on water risk management, we spoke to DS Smith, a global packaging company.
We spoke to the company on its management of water risk, and how it falls within the company's risk matrix. The company explained the paper mills' water usage, the efficiency measures it has in place, and how it uses geospatial mapping to locate the facilities in water stressed areas. Finally, we discussed the water usage reduction targets in place.
Outcome: The company has a best-in-class approach to publicly disclosing water risk and is making good progress towards water reduction targets. An area for further monitoring is the link between board/group awareness of water risk and facility-level performance. Water risk management and mitigation strategies appear to sit at a facility level. While this is perhaps understandable, it is not clear how the plans are driven or coordinated at group level. Given the company's dependence on fresh water and a material number of facilities operating in water-stressed areas, an acceleration in targets towards wastewater processing and usage would be welcome to increase operational resilience. Further, it is unclear how expensive water risk mitigation efforts are or could be. More information on this would be welcome. Water risk is an issue that is not typically well disclosed by companies, but DS Smith is more transparent than most. The company is aware of the size of operations in water-stressed areas and are rolling out water mitigation plans to all relevant facilities.

DS Smith #2 – Governance
Objective: To participate in the DS Smith

consultation on the changes to the remuneration policy, which will be put up for shareholder approval at the 2023 AGM.
We reached out to the Head of Rewards seeking clarification on the policy details.
Outcome: We received a prompt response with additional information. After discussing it with the relevant analyst, we found the rationale to be compelling. We communicated our support to the company.

Emerson – Environment, Social and Governance
Objective: The purpose of the meeting was to discuss Emerson's approach to managing its ESG risks.
The first discussion point was female board representation and gender diversity across the company. Emerson highlighted the company's current goal to double leadership positions held by women. At the board level, there are no strict targets for female board representation, but the company is committed to improving the ratio beyond the current level. Moving on to social risk oversight, Emerson reports on workforce diversity but has not disclosed equal opportunities data in the last three years. The percentage of shares required to call a special meeting at Emerson is 85%, which is significantly higher than the U.S. average. This requirement was enshrined in the company's articles over 30 years ago and any amendment to it would require a vote of 85%. This is not anticipated given the percentage of broker non-votes. The final discussion point was the company's hazardous waste management. The company is reviewing how to best report on this in preparation for the upcoming annual sustainability report.
Outcome: A largely positive meeting where we covered all material issues flagged in our ESG factor dashboard.

Electronic Arts – Governance
Objective: To discuss a shareholder resolution proposing that any severance or termination payments over a certain quantum would require shareholder approval. We spoke with the company to understand Electronic Arts' concerns. Overall, the board considers the proposal too prescriptive and impractical as it would implement a shareholder approval process on severance pay packages. The current double trigger policy provides those ranked as senior vice presidents and above with payments and benefits if their employment is terminated without "cause" or if they resign for "good reason" during the three-month period preceding or 18-month period following a change in control of the company. Electronic Arts explained that this is common amongst its competitors, and it considers it a necessity to ensure it can hire and retain the best talent. It was highlighted that the board has been responsive to previous shareholder concerns regarding say on pay issues, recently reducing overall executive pay significantly and changing the long-term incentive plan.
Outcome: We supported management given that this is the norm within its industry peer group.

Experian – Environment
Objective: We met with Experian to receive an update on its sustainability business strategy. There has been internal evolution to bring more coordination to its sustainability activities. In terms of risk, a data breach is the most material for the business. There has not been a major breach for many years. Experian is working on data that shows the percentage of the revenue that could be linked to Sustainable Development Goals. However, it is hard to audit these numbers. We used this opportunity to ask Experian about its executive remuneration. The company confirmed that executive pension contributions are now aligned with the wider UK workforce.
Outcome: A helpful conversation to understand the evolution of Experian's sustainability strategy.

Foresight Solar Fund Limited – Environment and Governance
Objective: This conversation finalised the thematic engagement on the lifecycle of renewable energy infrastructure assets, specifically wind turbines and solar panels. The purpose of the engagement was to define information and best practices in the sector. We have held preliminary conversations with various companies to improve our understanding regarding best practice for supply chain management and the treatment of assets at the end of their useful life. The discussion focused on the process of sourcing solar panels and mitigating risk in the supply chain. The investment adviser (manager) explained that an evaluation was undertaken, and it believes it is compliant with the EU taxonomy, as renewables are at the centre of this policy. The management uses the Ethixbase platform to screen current and potential suppliers. Among other things, Ethixbase flags fines and violations of local policy,

which Foresight Solar Fund Limited (FSFL) then investigates. The company is also using third-party firms to conduct on-the-ground audits, when possible. It mentioned that China is particularly tricky and there is the danger that pushing too hard could damage relationships. We mentioned that this information is not currently in the sustainability report and that we would welcome its inclusion. FSFL is working on the new annual report and told us we can expect additional disclosures. The manager explained that, in its view, there are no definitive solutions yet. The recycling market is an evolving space. FSFL has been approached by several companies offering recycling services, some of them free of charge. However, FSFL wants to ensure that recycling companies are correctly vetted before committing to anything. FSFL has already committed to ensuring that none of these assets end up in a landfill. The investment adviser mentioned that any decision regarding the disposals will be discussed with the board first.
Outcome: A useful engagement to learn more about FSFL's supply chain and decommission management. There have been many positive developments over the last 12 months, which will hopefully be reflected in the new annual report.

Greencoat UK Wind – Environment
Objective: We continued our thematic engagement on the lifecycle of renewable energy infrastructure assets – specifically wind turbines and solar panels -- the first phase of which is aimed at gaining information and the learning of best practice.
We firstly discussed Greencoat's supply chain policy and supplier due diligence process. When purchasing a wind farm, Greencoat will complete extensive due diligence of the asset's supply chain in sourcing materials, to ensure the process is in accordance with its own internal policy. The investment trust confirmed it is not aware of conflict minerals being present or used in any of its wind farms. Greencoat usually invests in wind farms that have already been constructed, so the key decision point following any due diligence process is whether to invest or not. Reducing carbon emissions in supply chains (scope 3 emissions for Greencoat) was not a key consideration. One identified method for reducing the trust's carbon footprint is working to extend the useful life of assets. The investment trust is also supporting various university initiatives focused on carbon reduction and it is open to using any ideas generated. We discussed the treatment of assets at the end of their useful life. During the pre-investment stage of a wind farm, the due diligence process considers the recyclability of assets; there is an expectation for most materials to be recycled. As blade recycling is a complex issue, with limited technology, Greencoat's board is looking to support relevant research groups that are focused on finding solutions to it. At present, the trust has allocated c.£250,000 to universities for blade research and the ideas generated will contribute to the approach taken towards blade recycling.
Outcome: This was an engagement for information, which we will be using to improve our understanding of best practice within the lifecycle of renewable energy infrastructure assets. However, we found the level of detail provided to be limited, when compared to previous engagement on this topic. As a result, this meeting was unlikely to inform our understanding of best practice in these areas. We will consider whether future engagement is required to improve our understanding of how Greencoat is approaching these issues.

Halma – Governance
Objective: To discuss concerns related to appropriate shareholder outreach following the significant shareholder dissent lodged against the 2021 remuneration policy.
Our proxy advisor recommended voting against the remuneration report and the re-election of the remuneration committee chair at the 2022 AGM. The company's remuneration policy received significant dissent at the 2021 AGM (c.39% against) in light of concerns around the significant increases to both fixed and variable pay. We contacted the company to provide further information, and we believe reasonable efforts have been made to engage with major shareholders since the 2021 AGM. The company ran two shareholder consultation processes, writing to the largest shareholders (representing circa 25%-30% of shareholder capital).
Outcome: On the basis of our conversation, we are comfortable with the company's response and voted to support management on all items.

Intermediate Capital Group – Governance
Objective: We held a catch-up meeting with the interim chair.
We covered topics which included diversity strategies, succession planning and the company's

net zero commitments. Our discussion covered a range of topics as this was very much a check-in conversation with no material concerns to raise. Succession planning is underway, with the current chair's position an interim one. The board have a shortlist of candidates and aims to make an appointment by the end of the year. An interesting development at a board level has been the appointment of the Chief People and External Affairs Officer as an executive member of the board. The appointment was made to help focus the board's efforts on talent retention, recruitment and diversity – a skill set it needed. A specialist executive member focus on these topics is not common but good to see. The company has also confirmed its net zero strategy, aiming to reach that target by 2040 and have SBT aligned commitments in place. The funds tend to have relatively low GHG emissions, as they do not have large allocations to energy and mining, which are not seen as their traditional areas of expertise. All funds also exclude companies with significant coal, oil and gas activities. Given the nature of the asset class, engagement is a focus of the responsible investment process. Some investments have limited capacity for engagement, particularly secondaries, where they do not typically hold a board seat.
Outcome: This was a useful catch-up conversation. Chair succession planning is underway and verifiable net zero commitments have been made. We welcome the latest executive appointment to the board and will be interested to see if the additional focus on talent, retention, and diversity a measurable impact has moving forwards.

Intermediate Capital Group – Governance
Objective: To discuss the new remuneration policy to be proposed at the 2023 AGM, with the Interim Chair of the Board and Chair of the Remuneration Committee (RemCO).
To initiate the discussion on the new remuneration policy, Intermediate Capital Group (ICG) provided some background context on the factors that had been considered. Since the last remuneration policy was voted on, the business has experienced a significant increase in scale, while performance has been ahead of expectations. As a result, ICG conducted a pay review of the executive team, which was supported by three external advisors. The review revealed that ICG's executive remuneration was below comparable peers in the private and public market. To address these findings, ICG is proposing a new remuneration policy, which will increase the executives' base salary and variable pay opportunity.
Outcome: From this engagement, we learned that the executive team's base salary and variable pay are the two main components of the remuneration policy being changed. We were comfortable with the rationale for the base salary being increased but expressed some concerns around the complexity of the new 'superstretch' component of variable pay.

JPMorgan – Environment and Governance
Objective: We engaged with the company to discuss several shareholder resolutions on the 2023 AGM agenda. Items of interest were on topics including board chair independence, climate transition planning and political expenditure reporting.
A shareholder resolution requiring an independent board chair has been placed at many US company AGMs in 2023. Given the widespread combined CEO/chair positions at large US companies we typically support management where a strong lead independent director position can be demonstrated. This is the case at JPMorgan. The company has also committed to separating the CEO and chair positions at the next CEO appointment. We discussed items related to shareholders ability to call a special meeting: the current threshold to do so is set at 20% of shares and the shareholder proposal calls on this to be reduced to 10%. Currently, 20% does not appear to be out of line with good US market practice. On a shareholder resolution requiring further reporting on political expenditure, we also believe JPMorgan's practice to be in line if not slightly above the market. JPM publishes all political donations and memberships of trade associations. Finally, we discussed a shareholder resolution requesting further climate transition reporting, specifically on aligning financing activities with 2030 GHG targets. JPMorgan is one of the world's largest financers of fossil fuel companies and projects. It has released carbon intensity reduction targets for activities related to financing of high carbon emitting sectors. It is also a prominent member of the Net Zero Banking Alliance and has committed to aligning lending and investing portfolios to net zero by 2050. While the company has established detailed sector level intensity targets, more focus on how these diverse metrics come together to align with the overall net zero pathway would be welcome.

Outcome: We voted to support management on all items apart from the shareholder resolution requesting further reporting on aligning interim climate transition activities and targets, where we voted against management (and in favour of the resolution).

Mondelez – Environment

Objective: This discussion was part of our thematic engagement on water risk with companies in the food & beverage industries. Mondelez is a water-intensive company with significant links to agriculture, which is also a water-intensive sector. The aim was to learn more about how the company is managing and mitigating water risk, allowing us to set a benchmark for future discussions. Mondelez discloses to CDP on water risk and has water targets in place. Mondelez is in the early stages of its water stewardship journey and its current focus is mainly on the direct operations. More work is required to fully understand what risk lies within the supply chain. Given its history, other areas such as child labour and deforestation, are higher agenda items due to the material reputation impact. These areas of risk management appear more advanced than water management.
Outcome: Mondelez is aware of this and is taking some of the learnings from these projects to strengthen its water management. Mondelez strategy is using some best-in-class practices, such geospatial mapping to identify high-risk sites and integrating some technologies such as water condensation to reuse water in its factories.

NatWest – Environment

Objective: NatWest recently published its Climate Transition Plan and organised a webinar to explain the work that led to these targets.
NatWest is the first major UK bank to have sector level targets validated by the Science-Based Target Initiatives (SBTI). The company mentioned that the engagement with SBTI was challenging. As the first bank going through the process, NatWest hopes this makes it easier for other banks engaging with SBTI. Currently, NatWest is working on creating internal carbon price and climate metrics that are part of the executive remuneration KPIs. The company explained that businesses are putting climate higher on the priority list and higher energy costs have made some transition projects profitable. Therefore, NatWest is focusing on giving businesses and individuals more tools to help their transitions to net zero. NatWest has partnered with Cogo to provide clients with a tool to track their carbon footprint based on their purchases, with 330,000 customers accessing the tool. Additionally, NatWest has also launched a carbon planner-free tool to help businesses identify potential carbon savings. These initiatives are of plan to drive deeper consumer engagement. NatWest stated this is an evolving area and as the science develops, its disclosure will also improve.
Outcome: A useful engagement that helped us to understand where NatWest sits on its transition journey.

NB Private Equity Partners Limited – Governance

Objective: This was part of our broader thematic investment trust engagement. This engagement was also a collaboration with Quilter Investors. The chair explained that when he joined the board, he thought NBPE was a fantastic vehicle to invest in private equity. However, the communication with shareholders was not great, the website was not accessible, and the reports were using US accounting style. Additionally, there were some governance issues, including manager representation on the board. During his tenure, the board has undergone major changes. The trust hired a consultant to change the website and marketing. Additionally, the last non-independent director retired, and the board has moved to a fully independent board. The current disclosures highlight the ESG integration process. However, we feel that further detail could be added. We suggested that the addition of examples can be an effective way of explaining the stewardship process. The board knows it must meet the Parker Review target. Therefore, the chair is considering recruiting another director, temporarily bringing the board to six members, as a successor to the chair of the audit committee. When the current chair of audit eventually retires, the board would look to go back to five directors. An additional challenge is that the current chair of audit is based in Guernsey and the board thinks it can be helpful to have two directors based there. The trust applies its responsible investment policy during due diligence at the point of investment when it has the biggest impact. The board has considered creating an ESG committee at board level. However, it does not think this would add much value as ESG developments are discussed at every board meeting. We agree.
Outcome: We will monitor the board composition as the trust needs to meet the Parker Review

requirements in 2024. We will continue to evaluate the quality of the responsible investment disclosures where we still see room for improvement.

Persimmon – Social and Governance

Objective: As part of the 'Find it, Fix it, Prevent it' collaborative initiative, we met to discuss the company's approach to managing modern slavery risks within its supply chain.
The engagement covered two key areas – managing labour risks in geographies that have a heightened risk of slavery, and plans moving forward. In its modern slavery statement, Persimmon highlights that a small proportion of its goods, such as stone supplies from India and China, originate from locations with a higher risk. In these instances, agency labour and sub-contracted labour are more prevalent and strict controls are required. The company is providing enhanced training to contractors and employees to increase awareness of the signs of modern slavery and ensure there is a robust whistleblowing provision in place.
One area of concern is the lack of training material in local languages, which the company is addressing. Persimmon has a three-line of defence framework. First line (operating company level) is responsible for procurement. Second line (group level) includes the HR department, which checks employment practices and group-level procurement controls supplier assessment and performance. Third line (internal audit) performs annual internal audits. Persimmon relies on audit reports for confirmation that supplier audits have been carried out. There is an absence of a company representative present on the onsite audits, which raises concerns Moving forwards, Permission is focusing on technological innovation through using an app, which will allow employees to provide feedback on areas such as health and safety measures, training, and overall communication channels.
Outcome: Overall, a useful conversation. It is reassuring that Persimmon has identified specific areas with heightened risk and is taking steps to address these, and that key executives are responsible for, and oversee, the company's modern slavery risks.

Princess Private Equity – Environment

Objective: This engagement was part of the overall investment trust thematic engagement. Additionally, we wanted to understand the board's role on the recent suspension of the dividend and the decision to stop further new investments.
The chair explained that the board was informed of the suspension of the dividend and new investment last minute. He admitted this was a lack of communication from the manager. The board has a non-independent director who works for the investment adviser, it also has two directors who have served terms of over nine years, which is viewed as best practice. Finally, four out of the six directors are based in Guernsey which limits the talent available – the NEDs have limited private equity experience bar the manager's representative.
Outcome: The current board composition does not seem to provide sufficient oversight or challenge to the manager. Additionally, the board is not independent with a director appointed by the manager. Given the aforementioned concerns, Quilter Cheviot has independently taken the decision to escalate the engagement and has communicated its intentions in writing to the board.

Schroder Oriental Income Trust – Governance

Objective: This engagement was part of our overall collaborative investment trust thematic engagement, undertaken with Quilter Investors.
The chair described the investment adviser's approach to responsible investment disclosures. While the approach to ESG integration is disclosed, examples and the detail around engagement and voting is lacking. We also discussed the change in lead portfolio manager and the board's oversight of the investment adviser. Finally, we spoke about the marketing of the trust.
Outcome: This was a helpful conversation with the board. The trust's ESG integration approach is clear, however, we welcome more engagement and voting disclosure. We look forward to continued dialogue with the board.

Shell PLC – Environment

Objective: We joined a group engagement with the chair to discuss progress on the company's climate transition strategy.
The company emphasises the trilemma of energy production: affordability, security, and transition planning. It is apparent that the emphasis on the first two factors of the trilemma is currently more prominent. We raised concerns regarding the balance between significant distributions and accelerating low carbon capital expenditure.

Shell has often highlighted the importance of the fossil fuel activities in generating the returns that would fund the transformation into a lower carbon integrated energy company. In the context of recent elevated profits, this does not seem to be the case. The chair highlighted concerns regarding the return profiles of some utilities-like renewable opportunities, with the return opportunities of continued fossil fuel production looking much more attractive in the short to medium term. Although more ambitious than many global peers, Shell's climate transition plan remains heavily dependent on unproven (carbon capture and storage) CCS technology and nature-based solution targets to meet long-term decarbonisation goals. We also believe the correct balance between shareholder distributions and the opportunity to accelerate energy transition capital expenditure has not been met. Although not explicitly stated, we believe the company may pare back decarbonisation targets to allow for more fossil fuel production (in a similar manner to BP). We will monitor the situation moving forwards to see if this is the case.
Outcome: We voted against management on an item approving progress on the company's transition plan.

Tesla – Environment
Objective: We engaged with Tesla to discuss several shareholder resolutions proposed at the 2022 AGM.
We also raised concerns related to the re-election of two directors and followed-up on items raised during our last conversation in 2021, including carbon emissions disclosures. The shareholder resolutions covered multiple topics including share pledging, diversity & inclusion disclosure and mandatory arbitration, particularly in relation to sexual harassment. On the subject of share pledging – a practice where stock is pledged as collateral for person loans – Elon Musk does not take a salary and, according to the company, does not expect any further compensation from Tesla, but uses this practice to raise cash without selling shares. The company has a share pledging policy in place that limits the total loan value to 25% of shares pledged. We recommended creating an additional policy safeguard of limiting the total percentage of individual shares pledged to 40-50% to allay concerns. Our proxy advisor also recommended voting against both directors up for reelection over concerns around share pledging practices. Given the company's equity dominated remuneration structure and the restrictions currently in place, we will be supporting management in this instance but will monitor progress. Given high profile lawsuits against the company we strongly encouraged further transparency on diversity & inclusion and voted to support the resolution. We also supported further reporting on the use of mandatory arbitration (the practice of being contractually obliged to resolve disputes internally in the first instance). The state of California is bringing in legislation to prevent mandatory arbitration in the case of sexual assault. We suggested a wider review and potential move away from the practice more broadly.
Outcome: We have supported measures for further transparency on mandatory arbitration practices as well as diversity & inclusion. On the basis on the company's equity dominated remuneration structure and current share pledging policies, we are comfortable supporting director re-elections – but have called for tightening restrictions and will monitor progress. We were pleased to see the company now reports scope 1, 2 and 3 CO2e emissions data at a company level.

TRIG – Environment
Objective: We continue our thematic engagement on the lifecycle of renewable energy infrastructure assets – specifically wind turbines and solar panels.
The first phase is based on engagement for information and the learning of best practice. Our first topic of discussion was supply chain management. During the preinvestment stage of a new asset, TRIG will use negative screening to assess the sustainability of a project's supply chain process. This will allow the investment trust to only establish partnerships where there are shared values. After the initial negative screening assessment, TRIG will then complete detailed due diligence of supply chains to verify the origin of assets and ensure they have been responsibly sourced. Our second discussion point was the treatment of assets at the end of their useful life. As part of TRIG's due diligence, it assesses the percentage of assets that can be recycled, and the quality of land being used for the renewable projects. TRIG will also consider how to establish a process to cut down on the transportation of materials to reduce emissions. TRIG has established a process to continuously refine its due diligence and acquisition approach

in the pre-investment stage. The next stage of this refinement will involve the implementation of a circular economy policy to ensure appropriate waste management plans are set out at the project level. The trust will also take the policy to potential partners to manage expectations and help it identify any gaps.

Outcome: This was an engagement for information, which we will use to improve our understanding of best practice around the lifecycle of renewable energy infrastructure assets. From the supply chain discussion, we learned that TRIG uses negative screening, detailed due diligence and engagement to ensure all projects and partners are in line with the trust's core values. From the conversation on the treatment of assets at the end of their useful life, we learned that TRIG will be establishing a circular economy policy and is part of various industry research groups. One of TRIG's projects in France will be reaching the end of its useful life in 18 months. This will provide an opportunity to improve understanding, with more detail to be provided to investors. This was a very positive meeting, and we look forward to learning more from the project that will soon reach the end of its useful life.

Total Energies – Environment

Objective: We engaged the company to discuss the upcoming agenda at the 2023 AGM, particularly progress on climate transition planning.

Over the past 12-18 months the company has added more detail to its climate transition targets and disclosures, including targets to reduce scope 3 oil by 2030 (-30%) and an 80% reduction in methane emissions by 2030. The company has also confirmed it aims to keep worldwide scope 3 emissions constant by 2030 while reducing lifecycle carbon intensity of energy products produced and sold by 25% over the same period. This will be achieved by a focus on increasing production of natural gas while scaling down oil production. In terms of sales mix the company aims to have a 50% gas, 30% oil and 20% low carbon product split by 2030. While disclosing on scope 3 emissions and having some product specific targets, the company is keen to emphasise that this is its clients' emissions and not the company's. This is an obvious gap in the strategy but one that few oil majors have closed. The company has provided a clear picture of the progression of the sales mix through to 2030 and onto 2050, a high-level vision which is positive. There are concerns the company will be unable to align with a net zero 1.5-degree trajectory given its focus on ramping up gas production. The company claims a significant proportion of new gas activities is replacing coal use outside of western Europe, and this is an opportunity is it actively targeting. The two main concerns are the company's lack of focus on scope 3 emissions (although improved disclosure is noted) and the balance of distributions versus capital expenditure to enable the energy transition. On the latter point around a third of capital expenditure through to 2030 will be allocated to low carbon energy and they aim to target a c.10% ROACE (return on average capital employed) on low carbon spending (including trading) over that period. This compares relatively favourably to peers, but there is still uncertainty over whether this spending could have been accelerated given recent windfall profits.

Outcome: On balance we are comfortable with progress made and welcome additional reporting in areas such as worldwide scope 3 emissions. We also welcome the 2050 sales mix vision the company has provided. Concerns remain over the increases in fossil fuel production relative to net zero commitments. We will monitor progress moving forward but will vote to approve a management resolution on climate strategy progress at the 2023 AGM.

Third party manager – Governance

Objective: To understand the approach to ESG integration and engagement and any changes made to the process, now that the fund has been added to the firm's sustainable fund range and classified as Article 8 under SFDR.

We discussed the rationale for classifying the fund as Article 8 and moving it to the sustainable fund range. We discussed the exclusions now in place and how these have had no material impact on the portfolio, with exposures like tobacco sold down in recent years. There is now a requirement for the fund to hold a set proportion of the portfolio in companies that maintain sustainable characteristics and for the rest of the portfolio to show improving sustainable characteristics. We discussed the engagement activity and views on green bonds, sustainability and sustainability-linked bonds, which will be held when seen to be attractive.

Outcome: We have been invested in the fund for several years. This was the first meeting focused on ESG integration / engagement since the fund was moved to the sustainable fund range. ESG and climate risk comes across as being embedded in the fund manager's investment thinking, though the motivation for this to be a sustainable fund also came across as being client demand driven. We will watch for how the portfolio evolves from here, and the enhanced framework that has been put in place for engaging with the issuers with a low sustainable rating that are seen to be 'improvers' in the fund.

Third Party manager – Governance

Objective: Follow up to a meeting in which we identified areas for improvement.
The manager outlined how he views the analyst ESG ratings on the firm's proprietary research system, which can be drilled down to sub-categories to help understand specific issues. We discussed the ESG risks for two stocks, a shipping company and a fertiliser manufacturer and supplier, along with how the manager considered the information. He did not feel these risks changed his investment thesis and therefore retained the holdings.
Outcome: The manager remains much more focused on governance in his investment thinking than on environmental or social factors. As an Article 6 fund under the Sustainable Finance Disclosure Regulation, this can be partly justified, given its focus on Asian companies and corporate ownership structures in the region. We will continue to assess how the manager is making use of the ESG data and any training provided.

Third party manager – Environment

Objective: To discuss the approach to considering climate risk in the portfolio and net zero commitment planning.
This was a dedicated meeting to understand the idiosyncratic nature of infrastructure investments when it comes to analysing and reporting on climate risks as well as determining and delivering on net zero commitments. The firm has not yet signed up to the Net Zero Asset Managers initiative (NZAM) however there is detailed work in progress for analysing climate risk within the portfolio. Additionally, work is being undertaken to understand how to navigate net zero commitments for infrastructure investments where challenges include how the investments are structured. We discussed the portfolio's exposure to holdings with transition risk and the expectations for those; the firm considers that overall exposure to transition risk is low.
Outcome: Guidance has recently been published by the Institutional Investors Group on Climate Change (IIGCC) for infrastructure investments which provides a framework for us to assess the firm against.

Third party manager – Governance

Objective: To understand the latest firm-level developments, around ESG integration and data analytics.
We discussed the ongoing work to upgrade ESG data analytics, using mainstream ESG data providers as well as new data sets and climate data, and, also, the addition of proprietary scores. The sustainable investing team has assessed the various strategies through an ESG integration lens; this process will be continued over time to ensure ESG factors are being embedded in decision making. We discussed the current environment where there has been a backlash against 'ESG' and how the firm advocates that responsible investment is linked to fiduciary duty. The firm's net-zero plan has been considering three drivers and the firm was in the process of submitting its NZAM plan to the IIGCC (Institutional Investors Group on Climate Change). The firm has a focused list of engagement targets, which includes Exxon.
Outcome: We were pleased to hear that the firm is expanding its climate analysis resource, as well as working to extend and upgrade the data analytics that are delivered to investment desks.

Third party manager – Environment and Governance

Objective: To gain an overview of the firm's approach to stewardship and voting, as well as the firm's net zero commitment.
The meeting focused on exploring some areas covered in our responsible investment RFI (Request for Information) in more depth. The RFI is a document we send to our third-party managers annually. We discussed whether the same approach is taken for ESG integration within the equities' investment process as for corporate bonds and we understood that there is some work in progress to have a more common approach across the two. We discussed how the firm approaches voting and shareholder resolutions; on the whole the firm tends not to support overly prescriptive shareholder resolutions.
We discussed the firm's approach to climate change and how its net zero commitment will be rolled out across the firm's assets as it currently

only covers the firm's insurance assets. The firm is an active member of Climate Action 100+ and has a clear focus on assessing and engaging its most significant financed emissions. Additionally, the firm is making good progress on considering impacts on biodiversity and is cognisant of the complexities involved.
Outcome: Overall the firm has strong practices in place. We will be expecting the firm to add further assets to its net zero commitment over time.

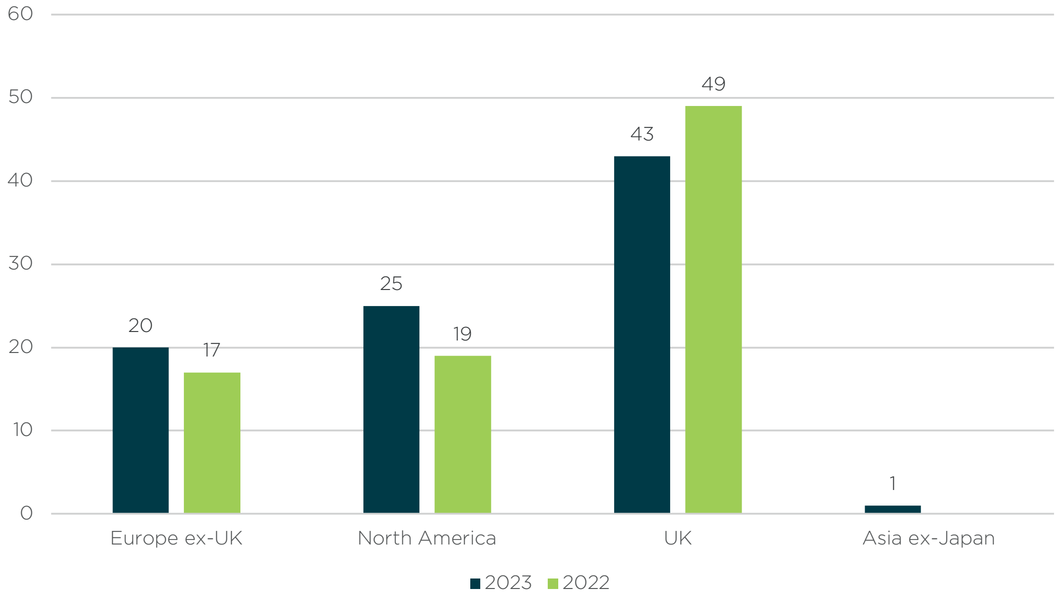
Third party manager – Governance
Objective: To understand whether ESG considerations are feeding into the investment process and engagement for the fund.
This was a meeting with the fund manager to discuss the approach being taken to consider ESG factors within the process, which includes a feed of third-party ESG data. There are some screens that are acknowledged to have minimal impact as the fund is predominantly made up of financials. Although this strategy has very short-term positions, given its mandate), it does have positions with the same issuers, and therefore is in a strong position to engage with issuers. The firm is able to evidence how engagement has driven change at its issuers - for example, proposing and achieving amendments to a bank's coal exclusion policy.
Outcome: ESG factors are being given some consideration, primarily to reduce portfolio risk. The manager also engages with holdings, both at team level and centrally.

Voting record for 12 months to 30 June 2023

We voted at 89 company meetings on 1,532 resolutions.

We voted against management on 71 resolutions (including 9 with-held votes in the US and 1 abstention in the UK); amongst these votes are shareholder resolutions which we supported and where the management had recommended a vote against. Overall, we supported 30 out of the 88 shareholder resolutions which were put forward.

Number of meetings voted at by geography



Examples of where we voted in favour of shareholder resolutions:

Environmental:

2x votes in favour of reporting on plans to align financing activities with GHG targets

We supported these resolutions where we consider additional disclosure about the company's climate transition plan to help shareholders better evaluate the company's strategy around the transition to a low-carbon economy and the company's management of related risks and opportunities.

Companies voted on: Bank of America, JPMorgan Chase & Co

1x vote in favour of reporting on water risk exposure

We supported this resolution as shareholders would benefit from increased disclosure regarding how the company is managing water related risks.

Company voted on: Tesla

Social:

4x votes in favour of reporting on human rights

We supported these resolutions to achieve increased disclosure to better understand companies' approach to forced labour and civil rights; as well as assessing Company's human rights due diligence.

Companies voted on: Amazon(x3), Netflix

3x votes in favour of reporting on lobbying payments and policy

We supported shareholder resolutions calling for additional reporting on companies' direct and indirect lobbying activity and policies as well as expenditure. Increased disclosure allows us to understand which areas a company is focused on and whether this aligns to other public policy statements.

Companies voted on: Coca- Cola, Stryker, Walt Disney

2x votes in favour of reporting on gender/racial pay gap

We supported these resolutions to achieve increased disclosure to better understand companies' effectiveness at addressing racial and gender pay inequality, particularly where targets have been set, would be welcome.

Companies voted on: Apple, Amazon

Governance:

1x vote in favour or requiring an independent board chair

In the US, in contrast to the UK, it is common for the CEO and chair roles to be combined. However, this raises concerns for us about companies' performance and compensation practices being behind peers. We believe the separation of these roles is beneficial to shareholders, particularly in establishing independent oversight. In the absence of an effective lead independent director, we will support proposals to separate the CEO and chair roles.

Company voted on: Bank of America

ESG INTEGRATION AND EQUITIES

Quilter Cheviot invests directly in equities primarily in the UK, North American, and European markets. As part of our research process, we consider environmental, social and governance (ESG) factors. Responsible investment sits alongside the other three fundamental pillars of our equity selection process: quality, valuation and themes.

Quality

Management
Industry Group
Credit Rating

Valuation

Industry group-specific metrics
Duration
Currency
Asset-specific metrics
Gross redemption yield

Themes

Secular
Short-term trends
Return diversifier
Income generator
Volatility dampener
Event risk hedge

Responsible Investment

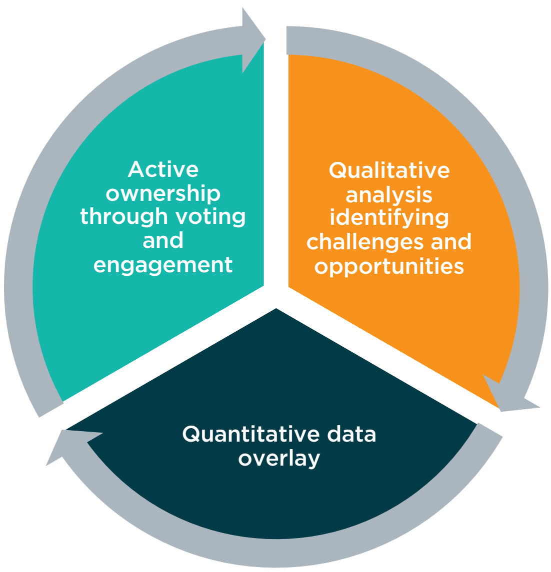
ESG integration
Active ownership

Positive ESG = Better Quality

Positive ESG = Higher Valuation

The equity research team has primary responsibility for integrating ESG considerations into the analysis process. However our overall approach to this is multi faceted.

There are three key elements to integrating ESG factors into equity research:



Qualitative analysis identifying challenges and opportunities

We firmly believe that to integrate ESG into our investment decision making it cannot be outsourced to an external provider or even to another internal team. The analyst is responsible for assessing a company on all the relevant metrics including ESG ones. The qualitative process aims to identify the material challenges and opportunities that a company faces from an ESG perspective. These will vary according to the industry group, the geography, and the company itself. We believe this needs to be looked at in a holistic sense as there is no perfect company – all will have challenges from an ESG perspective to different degrees. Some will have more obvious ESG opportunities, depending on the industry group or activity in which they operate. While this may be an attractive proposition, just because a company scores well on an ESG basis is not enough for us to invest.

Part of the analyst's role is to understand the company's current positioning but also where the company's ambitions lie. This is not something you can discern from data alone. There must be engagement with the management and board. The fundamentals of quality, valuations and themes cannot be overridden by a good ESG story.

Quantitative data overlay

Where we invest directly in equities, the responsible investment team has worked with the equity analysts to develop ESG dashboards for our equity holdings. We use the Sustainability Accounting Standards Board (SASB) framework to identify material issues to track on the dashboards. These incorporate data from Sustainalytics and ISS, Ethical Screening along with previous engagements and outcomes (as well as those that are ongoing). Examples of material ESG metrics include statistics on board diversity, pension and remuneration arrangements, data from the Transition Pathway Initiative, company disclosures and other publicly available data that enables us to identify priorities and materiality as well as thematic areas to focus on. This is in conjunction with the ongoing work being undertaken by the equity research team to identify and consider other ESG factors within their investment thesis.

Active ownership through voting and engagement

As a responsible investor, Quilter Cheviot is committed to its role as a steward of clients' assets to protect and enhance long-term returns.

As part of our ongoing engagement with companies, we seek to link executive remuneration with responsible business metrics. This is a nascent area and is not always easy for companies to successfully integrate into remuneration. However, we believe this will become the norm and we view it as a catalyst for change within the corporate world. The focus on behaviours and corporate culture should be linked to pay to pave the way for better outcomes.

How this works

The equity analysts consider the material ESG factors which are most relevant to their industry group, as industry groups have different challenges and concerns. This is a work in progress and will continually evolve. A one-size-fits-all approach does not work for industries which are diverse in nature and face different material issues. Our equity analysts may implement ratings specific to their industry group to progress peer group comparisons as well as hone their thinking. Regular team meetings combined with the investment committee structure in place at Quilter Cheviot mean that equity recommendations are challenged on ESG issues to ensure all material ESG risks have been considered.

Our view is that considering ESG factors is part of the investment case and therefore it should not be separated from this with a company rating. Additionally, there is a strong argument that it is more important to focus on the journey than the rating provided by an external data source. As part of our process, we consider how responsive companies are to engaging with us and how they improve over time. Engagements are often multi-year events, and a simple number will not always reflect the true picture.

Further framework development

The engagement process is not just about change, but also about information gathering which is an important input into our ESG integration framework. We are developing a materiality framework on a industry group-specific basis throughout 2021 using multiple data sources, not just ratings from a single ESG data provider.

We do not exclude specific activities through this approach. The only firm-wide exclusion currently in place is controversial weapons which includes anti-personnel landmines and cluster munitions. Specific strategies and funds have their own policy. Additionally, clients can determine their own preferences on a bespoke basis.

INTEGRATING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS INTO FUND SELECTION

Quilter Cheviot is one of the largest fund buyers in the UK market. We have a specialist fund research capability responsible for monitoring around 300 closed and open-ended funds. Funds are selected in accordance with Quilter Cheviot's investment strategy, involving both quantitative and qualitative analysis, with significant importance placed on meeting the individual fund managers and their teams.

When we invest via a third-party fund, one of our considerations is how the manager incorporates environmental, social and governance (ESG) factors as well as stewardship practices into their investment process, alongside traditional financial metrics. For us, taking environmental, social and governance issues into account is about ensuring all potential risks to an investment are considered. At worst, not considering ESG factors might lead to reputational and financial damage for companies that are not managing these issues effectively.

Examples of factors we may look for:

HOW DOES THE MANAGER APPROACH THESE FACTORS?

Environmental	Social	Governance
Water & energy: usage/ efficiency/scarcity	Human rights: managing global operations	Remuneration: balancing pay with results
New legislation regarding the use and disposal of plastic	Cyber security: understanding and managing the risks	Board challenge: composition, diversity, succession planning, time served
Commitments to reach net zero greenhouse gas emissions	Business ethics: pay, policies, tax	Share issuance: positive or detrimental
	Safety & quality standards	

These are risks that can lead to reputational and financial damage

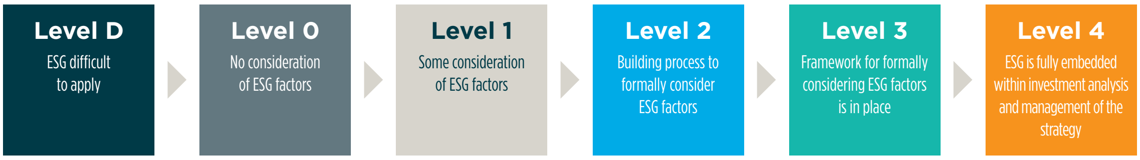
The approach encompasses three key elements:

Our Fund Research team considers the approach taken by fund managers to ESG integration and engagement as part of its research and analysis process for evaluating funds. The analysts draw on various ESG inputs including holdings-based analysis via Style Analytics (a factor and ESG analytics provider) and the responses fund managers give to the responsible investment focused Request for Information (RFI) which has firm-level and fund-level questions on areas including responsible investment resource, integration approach, portfolio risk analysis and voting. A key part of the process, however, is the analysts' 1-2-1 meetings with fund managers and other relevant teams, whether as part of their regular due diligence meetings or as separate dedicated meetings, to discuss the approach taken to responsible investment, including:

- The expertise of the investment team and that of any separate responsible investment team, and how these work together.
- How internal and external ESG data is used within the process.
- How ESG factors are incorporated alongside the various traditional financial metrics the fund manager might use to assess companies.
- The extent to which material ESG risks are incorporated in a systematic way into analysis and decision making.
- The extent to which fund managers are engaging with company management with regard to ESG related issues.

The analysts use this assessment to assign an ESG rating to the fund, which reflects the degree to which they believe ESG risks and opportunities are embedded in investment analysis and decision making within the manager's investment process. We believe that ensuring due consideration is given to ESG factors as part of the investment process contributes towards markets properly pricing ESG risks and opportunities and over time should steer portfolios towards more sustainable companies. The Quilter Cheviot ESG fund rating is an internal measure to enable comparison of managers across sectors and asset classes. Given the fast pace of change across the investment fund industry to integrate ESG factors into the investment process, as well as the fast-evolving nature of ESG-related data, metrics, regulations and risks like climate risk, the fund research team see its ESG assessment of fund managers as an iterative process that will adapt over time. The analysts look to build an understanding of not just how ESG factors are incorporated into investment processes and engagement today but also the direction of travel, with further meetings over time to update and engage on progress made.

The ratings used by the fund research team are given below. Funds that have a bias towards sustainability themes or that target positive outcomes will additionally have a + tag. We seek to apply the ratings consistently across regions and asset classes. The ratings are intended to be dynamic as part of an iterative assessment of fund managers as they continue to make progress on investing responsibly.



The fund research team's engagements are currently focused on process, where the analysts seek to identify managers that are laggards in terms of their progress to integrate ESG factors and encourage them to take steps to improve. To do this, the team uses their discussions with managers on investment process and stock examples to assess a manager's analysis and understanding of the company's sustainability and broader ESG issues. In addition to this, the team regularly meets sustainability and corporate governance teams to discuss their approach to engagement and their involvement in industry groups as well as PRI signatory status where applicable.

We are mindful of:

- The asset class(es) the manager is investing in.
- The strategy that the manager is implementing.
- Adoption of global and local codes or principles.
- Quality over quantity.

The strategy that the manager is implementing

Depending on the strategy that the manager has adopted, we would expect certain ESG considerations:

	ESG Integration	Engagement & Voting
Active	Consider the extent to which ESG factors are embedded in the analysts' and fund manager's investment decision making	Engagement on ESG issues at firm level and fund manager level. Does the fund manager leave it to others to engage on ESG issues?
Passive	Consider the approach taken if ESG tilts are applied, including the source of ESG data. Any exclusions applied?	How extensive is engagement with companies and is meaningful voting action taken? What do they do where the exposure is synthetic?
Quant / Systematic	Consider sources and quality of ESG data and the approach taken. Are ESG risks integrated into the systematic process or is ESG considered as an additional factor to add alpha?	Are the shares held long enough to vote?
Ethical / Exclusions	Consider the exclusions chosen (e.g. traditional values/unsustainable/a reflection of engagement), exact definitions (e.g. % revenues) and impact (on breadth of investment universe and tracking error) of the negative criteria applied	Engagement on ESG issues at firm level and fund manager level
Sustainable	Consider whether the emphasis is on best in class, sustainable themes, ESG improvers etc. Consider whether the fund has a focus on companies making a positive contribution or a focus on sustainable revenues in more of a financial sense. Consider the degree of positive bias in the portfolio and what exclusions are applied	Engagement on ESG issues at firm level and fund-manager level
Impact	Understand how positive impact is defined, assessed and measured, including how any negative impacts are considered	Engagement on any negative impacts as well as maximising the positive impacts

The asset class(es) the manager is investing in

Different asset classes present different ESG considerations:

	ESG Integration	Engagement & Voting
Equities	E, S and G factors affecting companies	Ability to use voting rights and engage with the board and company management
Fixed Income	ESG analysis for credit issuers similar to equities. Growth of green bonds and newer areas such as bonds linked to the UN Sustainable Development Goals and transition bonds. Sovereign bond analysis can be limited for developed markets but could increasingly incorporate climate risk in future	While they do not have voting rights like shareholders have, large fixed income managers can influence the funding structure of issuers. They can also engage on similar matters to equity investors and reconsider their funding if no progress is made

Property	E & S factors affecting property holdings. Consider BREEAM rating and GRESB benchmarking	Incorporation of ESG issues into ownership policies and practices including measurement of sustainability performance of assets
Infrastructure	Look for ESG factors to be considered across the investment lifecycle	Incorporation of ESG issues into ownership policies and practices including measurement of sustainability performance of assets
Absolute Return / Hedge Funds	Depends on the asset class and strategy	Depends on the strategy and asset classes invested in, whether investments are physical or via derivatives, and the degree of turnover
Private Equity	E& S factors affecting investee companies. Governance structure of investee companies. Approach depends on whether fund of funds or direct	Incorporation of ESG issues into ownership policies and practices

Adoption of global and local codes or principles

We consider whether a firm is signed up to the United Nations' backed Principles for Responsible Investment (PRI) and UK Stewardship code, where appropriate.

From 1 June 2021, any new funds added to our centrally monitored investment universe are expected to have PRI signatory status through their investment manager/adviser. If this is a fund managed by a recently established firm, we would agree a timeline for the firm to sign up to the UN backed PRI. In exceptional circumstances, new funds may be added to our investment universe which are not, and do not have an intention to become a signatory. However, this would be extremely rare and the rationale for not being a signatory would have to be linked explicitly to the specific strategy that the fund was invested in. Any fund being added to coverage in this instance would need to be agreed by the Chief Investment Strategist.

For funds within the current centrally monitored investment universe, we have identified a small proportion which are not PRI signatories. We expect a number of these will attain signatory status in the near term. For those that remain, we will continue to engage with them on this subject to continually evaluate the rationale for not becoming a signatory. We accept that for a very limited number of specific strategies, there is no tangible benefit in attaining signatory status at this stage given the nature of the underlying investments.

Managers may also align their strategy to the United Nations' Sustainable Development Goals (UNSDGs) or support other initiatives. We welcome this but will be sceptical where there is little concrete evidence of how they implement these.

Quality over quantity

In line with best practice, we expect managers to regularly publish details of their voting and engagement. In terms of the latter, we look for quality not quantity. Voting on thousands of resolutions at AGMs may be laudable but we are more interested in the thought process that goes into making these decisions. Often this quantum of voting may simply be the result of an automated voting system which does not lead to engagement with companies on key topics.

Fund research reporting

ESG integration is part of our fund research process. Our fund research is entirely proprietary, therefore we will not usually report publicly on manager-specific matters. We publish our voting and engagement record quarterly. Within this, we will include details of engagement with external managers if appropriate.

As of June 2023, the Fund held 29 funds managed by third party managers. Of these there are 4 which do not have UN PRI signatory status.

ESG Integration and Fixed Income

We invest through direct holdings of government bonds and corporate bonds, as well as funds.

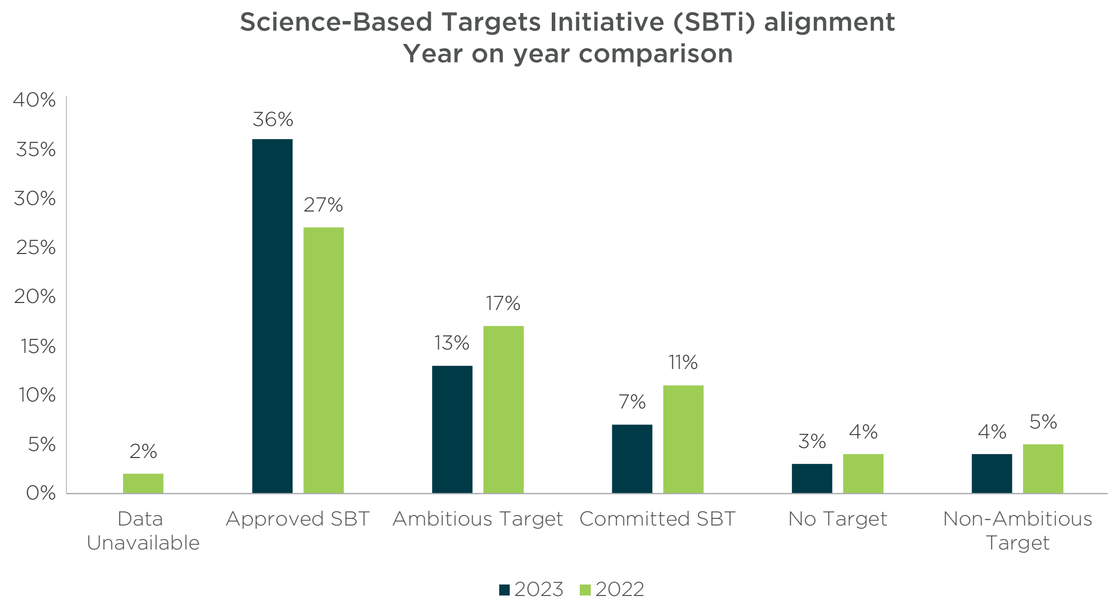
GOVERNMENT BONDS	FUNDS	DIRECT CORPORATE BONDS
Predominantly in UK, EU and US government bonds as well as supra-national issuance. Integrating ESG factors into the selection of sovereign debt issued by developed countries is likely to increasingly incorporate issues such as climate risk over time and best approached by seeking to influence government policy where appropriate. For more detail on this we would refer you to Our approach | Quilter plc.	A significant part of our bond exposure is through third-party funds and therefore the fund research approach of understanding the underlying manager's ESG process applies.	Within our centrally monitored universe we have very limited exposure to corporate bonds on a direct basis. The primary consideration is whether these issuers are senior and BBB rated, and whether the bonds will maintain that BBB rating over the period to maturity. We believe identifying the ESG challenges and opportunities that impact the debt issuer are an important factor in evaluating the likelihood of the bond retaining the BBB rating over its lifetime. The analyst assesses the issuer's ESG credentials, and monitors these on an ongoing basis.

We update our responsible investment policies annually usually in September, the information in this report relates to the policies in place as at 30 June 2023.

CLIMATE

As part of Quilter Plc. we report against the Task Force for Climate-related Financial Disclosures (TCFD) framework. For more information on the report click here.

We are working on our climate action plan across Quilter; we have set targets for our operations and are working through our investment approach currently. As part of this we have begun monitoring which of our direct equity holdings are aligned to Science Based Targets Initiative (SBTi). These targets provide companies with a clearly-defined path to reduce emissions in line with the Paris Agreement goals. There are various levels within the SBTi framework. The first step is to commit to a target and the develop the appropriate target plan. The next step is to submit the target to the SBTi for official validation. Taking the holdings within the Fund as at 30 June 2023 this is the breakdown of the holdings.



Source: ISS, SBTi 30 June 2023

OVERSIGHT

The Fund reports to the investment manager (Quilter Investors is the Authorised Corporate Director (ACD)) on a quarterly basis on its responsible investment activity in line with the template that Quilter Investors has established for all the funds where it acts as the ACD. This is assessed by the Quilter Investors' responsible investment team.

The Fund's Advisory Board receives responsible investment updates at its meetings. Over the past year the Advisory Board received a deep dive presentation from the Quilter Cheviot responsible investment team which focused in particular on the equity ESG dashboards.

The Advisory Board

Peter Cazalet

Shonaig Macpherson CBE FRSE

Chair of the Advisory Board

Helen Simmons

OUR RESOURCES

The Fund team

Howard Jenner
Manager of the Fund

Charles Mesquita
Charities Director

Claire Carter
Charity Fund Administration

James Harvey
Investment Adviser

The wider charity team

William Reid
Head of Charities

Suneet Kumar
Investment Manager

Sarah Osato
Investment Manager

Daniel Gamester
Client Administration

Maria McLeod
Client Administration

Darlene Bowen
Charity Business Development

June Streeton
Team Secretary

The Responsible Investment team

Gemma Woodward
Head of Responsible Investment

Greg Kearney
Senior Responsible Investment Analyst

Nicholas Omale
Responsible Investment Analyst

Margaret Schmitt
Responsible Investment Analyst

Ramón Secades
Responsible Investment Analyst

Kirsty Ward
Responsible Investment Analyst

OF FURTHER INTEREST

New Model Army

William Reid, Head of Charities, Quilter Cheviot

The latest attempt by Andrew Bailey, governor of the Bank of England (BoE), to defend the bank's record on tackling inflation before the Treasury Select Committee was unlikely to prove a satisfactory day out for any of the participants. However, the more concerning revelation came from Huw Pill, the BoE's chief economist. Basically, he said, the economic models used to forecast inflation have stopped working. Students of economics, and in particular the Phillips curve (an economic model that predicts an inverse relationship between inflation and unemployment), were less surprised.

The BoE inflation models have failed to adjust to the aftershocks of the pandemic and the impact of the war in mainland Europe. This echoes the many threats facing the global, rules-based economy, that until now has increased prosperity for multiple generations since the last World War and, at least for many Western civilizations, kept a lid on the inflation genie. With profound changes underway in the structure of the labour market, combined with a litany of global challenges on the doorstep, now is the time for the modelling committee to reflect on the words often attributed to John Maynard Keynes, "When the facts change, I change my mind."

This is equally relevant today when considering the China question – a topic increasingly raised in trustee meetings over recent months. We are now in a multipolar world, in which two thirds of the globe appear to have picked sides, whilst a third watch from the side lines, eager to try and accommodate the demands and favours on offer from competing power blocks. A case in point, Saudi Arabia has elected to favour Chinese assistance, over its more established North American ally, in its dealings with Iran.

Whilst the current military focus is on tanks to aid the Ukrainian war effort, perhaps the greater threat is to maritime trading routes and the freedom of navigation on the high seas – a subject close to my heart. The Royal Navy may have two extremely capable aircraft carriers (and even better submarines) but note, the Chinese Navy is adding the equivalent of the French Navy to its flotilla every year. An attempt by the current regime to reunify Taiwan with mainland China, is a question of when, not if, with a naval and air blockade probably the most likely course of action. This is potentially a more challenging scenario than invasion for Western allies to confront.

From an investment standpoint, remove the threat of conflict and Asian and Emerging Markets, in particular China and companies situated elsewhere but benefitting from trading across the region, offer many exciting opportunities. They may well prove over the next two decades to be as crucial to investors' success, as North America has been over the last two.

Calculating a charity's response to the current US-China trade war, increasing global tensions, and potential conflict is complicated. Do you avoid investment directly in China? Do you avoid companies producing goods in China, that are sold elsewhere overseas? How will your day-to-day operations be impacted, especially if sanction creep results in forgoing the use of Chinese manufactured goods or services? I cannot see a hospital, for example, deciding to strip out medical equipment containing Chinese components – although maintenance of equipment would require innovative solutions.

As William Hague commented in the Times, it is not only the established world order and economic policy tools that are currently under pressure. The Covid-19 pandemic has affected actuarial models used to predict retirement ages and longevity due to falling life expectancy, although this has been complicated by an unexpected increase in those electing to retire early.

Against this, the failure of and challenges facing financial models and doctrine that have served investors over recent decades, may result in many working for longer, even the French, if they fail to deliver the equivalent returns of the last 40 years.

Cassandras, with a dystopian streak, have been quick to raise concerns over the disruptive nature of Artificial Intelligence (AI); perhaps a force for good, but also for many the latest evil in Pandora's box. Never have I been so wary of ordering paperclips produced by AI – worth Googling whilst also recapping on the Greek mythology references.

For now, training delivered by an artificial human online is not an overwhelming experience. It does, though, save costs and is the face of things to come. Octopus Energy also cites that their AI bots are processing the work equivalent to 250 staff, predominantly replying to customer emails – with apparently higher levels of customer satisfaction.

Fundraisers, too, are faced with navigating the benefits and pitfalls of this new technology. An AI program only needs three seconds of your speech to be able to effectively mimic you in real life. The first scams using this technology, alongside altered video imagery, are underway. As we become increasingly wary of how and who we are talking too, unless face-to-face, I suspect that many of the current methods of communication are now redundant, through lack of trust; we are instinctively taught not to click that email link; to wonder if it really is the bank on the phone; to question if that text really came from a charity we support.

So, what to do.

The immediate challenge is to revisit the presumptions, models, and forecasts on which much of the activity of your charity is based, both from the makeup and shape of the beneficiary base to the operational requirements, challenges, and costs in delivering the benefaction. This is already in evidence across the education sector, as public schools contemplate the impact of a change of political regime. From experience, away days, outside of routine board meetings, have often proved the most productive for trustees to challenge the current strategy, for which they are ultimately charged.

Going full circle and back from whence we came, I will leave William Hague to sum up; 'The failure of the 30-year inflation model is a lesson to us all. As old models collapse, across many walks of life, we will need, more than new models, a new mindset.

OUR APPROACH TO FAITH-BASED INVESTING

Eoin McBennett, Investment Manager, Quilter Cheviot

Laudato Si' – on care for our common home **was published in 2015 by Pope Francis, urging every single person to listen to the "cry of the Earth and the cry of the poor". Climate change is increasingly impacting more and more lives, with the adverse effects often falling disproportionately on those already worse off.**

The connection between faith and investing dates back centuries and the institutions and individuals involved in this area have been among the first to consider how their financial decisions can impact society and the environment. The social teaching principles of the Catholic Church are built upon protecting and promoting every single person's worth and investments are increasingly viewed as an inseparable extension of this mission.

Faith-based investing reportedly can be seen as far back as the early 1800s when Quakers and Methodists avoided certain companies identified as pursuing business practices not in keeping with their beliefs, such as the sale of alcohol or tobacco. Roman Catholic organisations spoke out publicly against apartheid in South Africa in the late 1960s, with Catholic nuns advocating that firms withdrew direct exposure to South Africa and using their pooled retirement assets to file shareholder resolutions against companies identified as not promoting equality and inclusivity.

The level of interest and awareness in responsible investment in recent years has undergone a monumental increase. Breaking into the mainstream, while undoubtedly positive on the whole, has not come without issues arising from this success.

Before going further, it is important to define what I mean by responsible investing, and how it relates to Environmental, Social and Governance (ESG) factors. Responsible investment is a strategy and practice that incorporates ESG factors in investment decisions and active ownership.

The ESG acronym has clearly played a role in the rapid development in this space, regularly popping up in a wide range of places in recent years. Perhaps due to this proliferation, ESG is often misused as a catch-all term. It is essentially a framework designed to enable investors to assess how a company operates and the impact of its actions.

To be clear, there is no such thing as a perfect company. Responsible investing is designed to aid investors in identifying how a company's business operations impact areas they care most about, allowing them to then construct their portfolios accordingly.

Pushback in the US

Given its seemingly inexorable rise in recent years, it is not too surprising that there has been a growing amount of pushback against responsible investment of late, pushback that has been enhanced by the market declines of the last 18 months. Recently the negative narrative has become focused on its so-called "woke" agenda. This is particularly so, but not exclusively the case, in the US with Florida and Texas banning pension funds from investing with assets managers basing decisions on ESG factors.

It should be said that these are not asset managers whose sole investment criteria relates to building a better planet. Rather, they are mainstream and household names, with the likes of Blackrock, JP Morgan, abrdn and Schroders in the firing line. Simply put, these firms have been incorporating ESG factors and stewardship, no doubt to differing degrees, within their investment process.

Taking a step back, in basic terms, following a responsible investment approach can fall into two, broad categories:

1. Risk mitigation and identifying opportunities: the integration of ESG factors and stewardship within the investment process.

2. Specific responsible investment related objectives (like those in faith-based investing): this builds on the first element and relates to linking products or strategies to specific responsible investment related outcomes or objective.

For most of the aforementioned asset managers their strategies will fall in the first bucket of risk mitigation. This can cause problems as this is too dangerous, or "woke", for certain US states, while for others it is not enough.

This delicate balancing act can feel like walking a tightrope for many asset managers as they attempt to articulate clearly what they are doing and what they hope to achieve. Certainly, the slap dash labelling of everything as "ESG" has not been helpful and resulted in a muddle. The different approaches to being a responsible investor tend to get lumped together into an amorphous blob, and we have come to a juncture where we need to think about the approaches we take.

What we do

At Quilter Cheviot we have adopted the Investment Association's responsible investment framework and our three main responsible investment approaches can be categorised as:

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

Our stewardship involves engaging with companies to discuss ESG issues, aiming to improve how they handle and disclose such issues. This may be carried out individually or in collaboration with other investors. It includes voting, either in person or by proxy, to express approval or disapproval on resolutions. We also facilitate client-instructed voting, giving clients the ability to exercise their own stewardship.

- ESG screening: *"Excluding entire sectors, activities, companies or countries from a fund or portfolio based on ESG criteria, more or ethical view, or religious beliefs." Quilter*

We have a firm-wide restriction on investing directly in cluster munitions and anti-personnel landmines. We also monitor any potential indirect exposure to these areas on an ongoing basis. Clients can also express preferences through screening on a bespoke basis.

- ESG integration: *"The systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions." UN Principles for Responsible Investment*

Our approach goes beyond excluding activities to also seek to understand ESG-related challenges and opportunities. This is a key factor in risk mitigation, as ESG considerations are a component within the investment process, although they are not necessarily the overriding consideration. We treat this as an integrated part of the investment process and our research teams are responsible for incorporating it into their ongoing analysis.

Discretionary fund managers such as Quilter Cheviot find themselves in a relatively advantageous position as a designated Investment Manager can specifically tailor holdings to suit a client's particular needs.

GREENWASHING

Gemma Woodward, Head of Responsible Investment

The Financial Conduct Authority (FCA) is undertaking a number of consultations on a wide variety of responsible and sustainable investment-related issues. It is anticipated that a new anti-greenwashing rule will come into effect in the third quarter of 2023. The term greenwashing was coined in 1986 by the environmentalist Jay Westerveld in his essay highlighting the introduction of the practice by the hotel industry in the 1960s. We have all seen the signs in our hotel room asking us to reuse towels in order to save the environment. The only thing that was saved was money hotels spent on laundry.

The UK government's Greening Finance publication[1] defines greenwashing as:

When misleading or unsubstantiated claims about environmental performance are made by businesses or investment funds about their products or activities. This can lead to the wrong products being bought – undermining trust in the market and leading to misallocation of capital intended for sustainable investments.

There have been a number of recent incidents where financial service firms have been found to be greenwashing.

In 2022 the UK's Advertising Standards Agency banned two HSBC[2] adverts focused on sustainability. The reason why? The adverts only focused on the positive and did not mention that the bank finances fossil fuel projects or point out its links to deforestation. This is the first time UK adverts have been banned on account of greenwashing.

In 2022 the US equivalent of the FCA, the Securities and Exchange Commission (SEC) fined the Investment Adviser division of BNY Mellon[3] US$1.5m. The firm was found to have misstated the extent to which ESG (environmental, social and governance) investment considerations were taken into account for the mutual funds it managed. BNY Mellon had suggested that all investments had undergone an ESG quality review, however that was not always true. The SEC found that the division had "failed to adopt and implement policies and procedures. To prevent the inclusion of untrue statements of fact".

Also in 2022, Goldman Sachs[4] was fined US$4m by the SEC. It was found to have misled customers about its ESG approach. The issues were broadly two-fold: ESG analysis was undertaken after the investments were made (contravening the stated approach) and written policies and procedures regarding the evaluation of ESG factors within its investment process were only introduced sometime after the strategy was adopted.

Greenwashing is not just about the exaggeration of claims. There are different ways to greenwash. Here are some examples.

Irrelevant claims / information

This is when irrelevant information is included to make a product or strategy sound 'greener' than it is. An example would be when a technology fund proudly states that it does not invest in fossil fuels. It would likely not invest in fossil fuels regardless, as this is not in line with its mandate, but by stating that it does not invest in oil & gas makes it seem more climate-conscious than it perhaps is.

Focusing on the positives and ignoring the negatives – greenlighting

In the HSBC example, the adverts only focused on the good and did not give a balanced picture. This can be more difficult than it might first appear, as no company is perfect – there is always a trade-off. This is why understanding and evaluating all the ESG factors as well as any sustainability attributes is important within the investment decision making process. In Europe the SFDR (Sustainable Finance Disclosure Regulation) includes the principle of Do No Significant Harm (DNSH for short). At the moment the UK looks unlikely to add this into its rules, although it is looking to include disclosure around unexpected investments – this

1 Greening Finance: A Roadmap to Sustainable Investing (publishing.service.gov.uk)
2 HSBC adverts banned after greenwashing complaints - FTAdviser
3 SEC fines BNY Mellon over ESG in first case of its kind | Financial Times (ft.com)
4 Goldman Sachs to pay $4mn penalty over ESG fund claims | Financial Times (ft.com)

is something that has yet to be defined, as what is unexpected to one person, might not be to another.

Downplaying 'green' credentials – green-hushing

In early 2023 Morningstar[5] reported that in Europe around 40% of funds had been reclassified by the fund manager (not by Morningstar), to a less stringent sustainability category. The decision had been to move them from the EU's Article 9 to Article 8 (the difference being that Article 9 funds have to have a sustainable investment objective whilst Article 8 funds promote environmental or social characteristics).

This could be seen as firms looking to avoid the regulator's scrutiny by avoiding the disclosures required for an Article 9 fund. Funds and strategies that have sustainable investment objectives need to be able to prove these and report against them. Another interpretation is that the lack of clear guidance meant that the classifications were not well understood and therefore as more information emerged, funds took the opportunity to reclassify themselves.

Product names and labels – green-labelling

We have seen a huge rise in the launch of funds containing words like ESG, responsible and sustainable; or old funds being repurposed and renamed. As a result of this we have seen reclassifications of these from service providers as well as from the fund houses. In early 2022 Morningstar removed 1,200 funds (worth US$1.4tn) from its European sustainable investment list. It had delved into the funds' documentation and as a result "Morningstar data analysts have revisited these disclosures and tightened their criteria to tag funds as sustainable investments in the database."

Creating misleading links to the UN Sustainable Development Goals – rainbow-washing

Funds with sustainable investment objectives use a framework to report against, in order disclose how they are meeting those objectives. One of the frameworks that might be used is the UN Sustainable Development Goals (UN SDGs). An example of how this can be abused would be if a fund or strategy is misrepresenting or exaggerating its alignment to the UN SDGs, which are often used as a framework for sustainable investment outcomes. This is called rainbow-washing as the UN's 17 SDGs are all different colours.

How do you mitigate the risk of being greenwashed?

1) What are you looking for?

There are two distinct approaches to being a responsible investor:

- Risk mitigation and identifying opportunities: the integration of ESG factors and stewardship within the investment process
- Specific responsible investment related objectives: this builds on the first element and relates to linking products or strategies to specific responsible investment related outcomes or objectives.

It is important to understand and have clarity about which approach is being taken. If a strategy or fund has specific responsible or sustainable investment outcomes and objectives than that is very different to being concerned about mitigating risk or identifying investment opportunities.

2) Do not fall for ESG

There is no such thing as an ESG fund or an ESG company, just as there is no such thing as the perfect company: all will take different approaches so direct comparisons are not possible. An investor is always going to have to weigh up the different elements of the ESG triangle of environment, social and governance factors. Using the term ESG investing is misleading – what is actually of interest and what is the investment doing? Responsible investment is an umbrella term for different investment activities including:

- Active ownership I.E. voting and engagement
- The integration of ESG factors
- Screening out activities
- Sustainability focused investment
- Impact investing

Because many things are often lumped under 'ESG' there is often no delineation between different approaches, making it difficult for investors to understand which approach is being taken. Investing for impact is very different to investing in a strategy that is focused on voting,

5 ESG Fund Downgrade Accelerates | Morningstar

engagement and integrating ESG factors within the investment process.

If an investor is concerned about avoiding certain exposures, they should seek a fund or strategy that excludes those areas. End consumers all have their own view about what 'ESG' means to them and in the absence of clarity from the investment industry, clearly stating what fund or strategy does what, it can become confusing.

3) Identifying clients' responsible investment preferences

One of the ways we look to mitigate greenwashing is by ensuring we are reflecting clients' responsible investment preferences in the way we invest. We have three responsible investment client preferences: Aware, Focused and Dedicated. These are three very broad categories that we use across Quilter. Within these, we have defined different investment solutions to meet clients' preferences. Within our suitability and advice processes we seek to capture clients' preferences by discussing with them how important responsible and sustainable investment is to them.

CHARITY CHATS

Charles Mesquita, Charities Director, Quilter Cheviot
Catherine Rustomji, Head of Charities, Shakespeare Martineau LLP
James Saunders, Partner, Moore Kingston Smith

As part of our educational programme for charities, we have created a series of short "chats" with a panel of experts exploring topical issues in the charity sector.

WATCH NOW

RI REELS

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

WATCH NOW

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. All images in this document are sourced from iStock

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