QUILTER CHEVIOT

Climate Assets Funds

Annual Sustainable Investment Report 2022

QUILTER CHEVIOT

Contents

The Climate Assets Balanced Fund and Climate Assets Growth Fund may be collectively referred to as the "Climate Assets Funds".

The Climate Assets Balanced Fund and Climate Assets Growth Fund are sub-funds of The Sun Portfolio Fund (FCA Registered Fund Number 504474).
Thesis Unit Trust Management Limited ("Tutman") is the Authorised Corporate Director of the Funds.

Claudia Quiroz

Head of Sustainable Investment

Claudia is the Lead Fund Manager of our sustainable fund range, the award-winning Climate Assets Balanced Fund, Climate Assets Growth Fund and the Quilter Investors Ethical Equity Fund. She also manages segregated portfolios on behalf of private clients, pensions and charities with a focus on sustainable investment. Claudia holds an MBA from Cass Business School in London and joined Quilter Cheviot from Henderson Global Investors in 2009. She has over 20 years' experience in Sustainable, Ethical & Responsible Investment and is a Chartered member of the Chartered Institute for Securities & Investment.

Foreword

I am delighted to introduce our first Climate Assets Sustainable Investment Report, offering an opportunity to review how far we have come with the Climate Assets Funds, detail our approach to sustainable investment, reflect on the past year and, of course, look to the future.

Our Sustainable Investment team is immensely proud of our track record in pioneering sustainable investment and generating strong returns for more than a decade. The industry has changed considerably over this time and today, I find the increasing understanding of, and appetite for, sustainable investment extremely encouraging.

There is no doubt that 2022 brought a challenging environment for investors. The Ukraine war, supply chain disruptions, rising inflation and steep interest rate rises brought market swings and a fall in valuations. The market rotation from growth to value - with off-limits sectors such as oil & gas, and mining, outperforming all other sectors - proved to be a significant headwind for sustainable investment, our strategy included. As always though, we remained faithful to our investment philosophy throughout this challenging period and, where possible, we took advantage of market opportunities and attractive valuations within our five investment themes - clean energy, food, health, resource efficiency and water. Five themes that have remained at the heart of our investment process since the strategy was launched.

Last year was not all doom and gloom and amidst the challenging backdrop there were some important highlights to recognise. In particular, in October we were extremely proud to launch the Climate Assets Growth Fund. After engaging with financial advisors and clients alike, it was clear there was a desire for a fund with a higher equity content that used the same tried and tested approach to sustainable investment that we have developed over the last 13 years.

In 2022, we also enhanced the Sustainable Investment team by recruiting two new members, taking us to a strong eight-member team with a diverse background, education, and experience. We were also featured for our diversity and inclusion efforts in fund management[1] - of all the funds available to investors in the UK, just 2.4% are run by women.

Going forward, I see many reasons to be optimistic about our Climate Assets Strategy. The momentum in the clean energy transition is supported by policy and investment in both green infrastructure and energy efficiency solutions. An inflationary environment brings an increased focus on resource efficiency across value chains and security of supplies, underpinning our food, water, and resource efficiency themes. The impact of Covid-19 has brought attention to healthcare and data management solutions, and as the value of data continues to grow, patients' information is more precious than ever. With many of the companies we own providing solutions in these areas, we expect these trends to act as a strong tailwind for our strategy.

I am also optimistic about the direction of travel within the fast-growing sustainable investment industry. Regulators continue to clamp down on greenwashing to protect consumers and ensure investors receive what it says on the tin. The final version of the FCA's Sustainable Disclosure Requirements (SDR) is expected to be published in the third quarter of 2023, but the consultation paper introduces a set of 'sustainable categories' for funds to demonstrate alignment with one of three defined approaches to sustainable investment.

The changes in the regulation should help clients and advisers alike to distinguish between funds with a credible approach to sustainable investment from those without. Based on currently available information, our approach to sustainable investment aligns well with the proposed, though yet to be confirmed, 'sustainable focus' category.

Furthermore, at Quilter Cheviot we are committed to our role as a 'responsible investor' and over the years we have built a considered framework for active ownership, integrating an assessment of Environmental, Social, and Governance (ESG) factors and ESG screening. In this report we only aim to shine a spotlight on our approach to sustainable investment and the management of the Climate Assets Funds. For further information on our approach to being a responsible investor, please refer to our website.

Finally, I would like to **thank you** for your continued support of the Climate Assets Funds and welcome any feedback or comment on this report. We are committed to delivering a high-quality sustainable investment solution, and that requires continuous improvement and evolution.

> *"With the energy transition in full swing, I see many reasons to be optimistic about our Climate Assets Strategy."*

1 Women Manage Just 2% of UK Funds **Portfolio Adviser**, March 2022

Sustainable Investment Team


Claudia Quiroz
Head of Sustainable Investment


Caroline Langley
Investment Director


Harry Gibbon
Investment Manager


Toby Rowe
Sustainable Investment Specialist


Drew Beckley
Trainee Investment Manager


Patrick Main
Trainee Investment Manager


Will Quilter
Investment Administrator


Motunrayo Fakorede
Investment Administrator

Responsible Investment Team


Gemma Woodward
Head of Responsible Investment


Greg Kearney
Senior Responsible Investment Analyst


Nicholas Omale
Responsible Investment Analyst


Ramón Secades
Responsible Investment Analyst


Kirsty Ward
Responsible Investment Analyst

Research Team


Chris Beckett
Head of Equity Research


Ben Barringer
Equity Research Analyst


Jamie Maddock
Equity Research Analyst


Jarek Pominkiewicz
Equity Research Analyst


Mamta Valechha
Equity Research Analyst


Oli Creasey
Equity Research Analyst


Sheena Berry
Equity Research Analyst


Tom Gilbey
Equity Research Analyst


Will Howlett
Equity Research Analyst


Matt Ennion
Alternatives Analyst

These members of the Research team directly support the Climate Assets Strategy. The team also includes an additional 9 members.

Investment Process

As part of our sustainable investment offering, there are two Climate Assets Funds, the Climate Assets Balanced Fund and the Climate Assets Growth Fund. Both follow the same investment process.

Investment Themes

To be considered for inclusion in the Climate Assets Funds, companies must offer solutions to the global and emerging challenge of delivering ‘more with less’ for a rapidly growing population with a low carbon footprint.

There are five positive themes at the heart of the stock selection process:

Clean Energy - Companies that provide clean energy solutions, reducing reliance on fossil fuels with additional energy security benefits. This includes companies involved in renewable energy generation, green transport, and technologies for green building design, construction, and energy efficiency.

Food - Companies that provide solutions to the imbalance between the supply of, and demand for, food. This includes grain production and harvesting, food testing, food processing, measurement and control, and high-tech agriculture supplies.

Health – Companies that provide solutions to healthcare challenges. This includes the production of medical supplies and devices, and vaccines and products to fight infectious diseases. We also favour companies specialising in minimally invasive surgery, and those providing medical analysis and testing.

Resource Efficiency - Companies that provide solutions related to the use of finite resources by an ever-growing population. This includes waste management, the production and processing of environmentally friendly materials, companies specialising in converting waste to energy, coastal protection, along with productivity and efficiency solutions such as robotics and automation.

Water - Companies that provide solutions to the increasingly urgent issue of water scarcity. This includes water supply and distribution, water analysis, monitoring and purification, smart water metering, and those developing more efficient methods for crop irrigation.

To learn more about our investment themes, turn to page 15.

Negative Criteria

This positive investment approach is coupled with careful screening of companies that generate revenue from controversial sectors of the economy.

We utilise independent research and analysis from Ethical Screening to ensure we apply our criteria fairly and consistently.

Company assessments may include consideration of both:

- **Strategic Revenue –** we consider whether a particular application of a product or service is a strategic focus for that company or whether it is a minor additional application. For example, radar equipment may be manufactured specifically for military use, or it may be manufactured for multiple civilian applications with some limited use by the military. The former may constitute a strategic focus for the manufacturer.
- **Materiality –** when applying certain exclusions, we also consider the significance of an activity to the company as a whole, currently using a 10% revenue threshold. We may invest in a company if its activity in an area is not part of its core business and only constitutes an immaterial source of revenue.

Exclusion	Policy:	Application:
Adult Content	Companies involved in the production or distribution of pornographic material.	Materiality or strategic revenue consideration does not apply. We exclude any company involved in the production or distribution of pornographic material.
Alcohol	Companies whose primary activity is the manufacture or sale of alcoholic drinks	We consider materiality and strategic revenue, excluding companies that generate revenue from the manufacture or sale of these products when it is material to the company. We would, however, potentially invest in a railway operator that generated a minor proportion of its revenue from selling alcoholic beverages, tobacco products or lottery tickets at train station kiosks.
Gambling	Companies whose primary activity is the operation of gambling facilities	
Tobacco	Companies whose primary activity is the production or manufacture of tobacco products	
Environment	Companies whose activities have a significant negative environmental impact, such as mining and chemicals manufacturing.	We consider both i) whether a company operates within a high impact sector (including mining, transport, heavy construction & industrial engineering), and ii) positive steps taken by the company to minimise any environmental impact and a strong thematic alignment. We usually avoid companies from high impact sectors but in certain rare cases we may invest if that company had an above average approach to minimising its negative impact.
Factory farming	Companies involved in the rearing of animals in intensive conditions	We exclude any company that is directly involved in the i) breeding and rearing of animals for food, or ii) operation of abattoirs or the transportation of animals to a slaughter destination. No distinction is made between animals in the meat and dairy industries, and all commercial farming of fish is regarded as intensive.

Exclusion	Policy:	Application:
Fossil fuels	Companies involved in the exploration and production of fossil fuels, including natural gas, oil, and coal.	Materiality or strategic revenue consideration does not apply here and we have no revenue threshold below which we may invest. We do not invest in any company that is directly involved in the exploration, production or extraction of fossil fuels. We are proudly #FossilFuelFree and in our view this is a crucial component of any sustainable investment solution.
Human rights	Companies where there is evidence that operations, knowingly or unintentionally, cause or contribute to the abuse of human rights.	This also includes companies operating in certain countries, such as North Korea, within which our research provider considers it impossible to undertake business without contributing to, or benefiting from, the human rights abuses associated with the regime.
Military	Companies that manufacture or sell weapons or weapon systems or provide strategic components or services specifically for military use.	We exclude companies manufacturing or selling weapons, or weapon systems, in any capacity. We exclude companies that provide military services or components where that constitutes a material source of revenue for the company.
Nuclear	Companies that are involved in the generation of nuclear power or provide nuclear services to the military.	Companies that are directly involved in the generation of nuclear power are excluded. A company providing a product or service that facilitates the generation of nuclear power would not be automatically excluded if this was not a strategic or material focus of the company's operations.

FAQ – What is your approach to Animal Testing?

We distinguish between the use of animal testing for medical and non-medical purposes.

We **do not** invest in cosmetics or toiletries manufacturers or retailers due to these companies routinely carrying out and commissioning animal testing for non-medical purposes.

We do invest in some companies in which animal testing is used for medical purposes, such as pharmaceutical companies which are legally required to test for product safety and toxicity – with most tests still carried out on animals.

When considering investment in a company that has any involvement with animal testing, we assess whether it can demonstrate strong governance and policies, particularly regarding the 3R principles – reduce, refine, and replace.

Stock Selection Journey

Step 1

The Research team identifies attractive investments based on in-depth analysis, face-to-face meetings with companies, and detailed due diligence. Each research analyst is responsible for a specific industry group based on MSCI classifications.

Step 2

The research analysts also undertake qualitative analysis of the challenges and opportunities associated with ESG factors that are relevant to each potential investment, overlaid with quantitative data analysis. The data are sourced from multiple external providers and presented within industry group-specific dashboards. These dashboards highlight the most relevant data points for each industry group, using the Sustainability Accounting Standards Board (SASB) Materiality Map.

Step 3

The Sustainable Investment team reviews approved investments and assesses whether they are of sufficient market-cap, liquidity, and have some revenue alignment with one or more of the Funds' five investment themes and the UN Sustainable Development Goals. The team often undertakes additional qualitative and quantitative analysis of the companies' ESG profiles.

Step 4

The Sustainable Investment team also checks that exclusions are met by screening potential invstments against the negative criteria using the services of Ethical Screening, another third-party research provider.

Investable Universe

ESG factor analysis

Many companies from the broader investment universe are screened out by the Research team on ESG considerations. The Sustainable Investment team then further screens companies based on our own company ESG factor analysis.

The dashboards, which are used by the Responsible Investment team, the Research team and the Sustainable Investment team, allow us to focus on the most pertinent data points for the industry group within which the company we are reviewing operates. For example, when assessing a pharmaceuticals company, from an ESG factor perspective, we are particularly interested in its strength in ensuring i) access to healthcare for less-privileged communities, and ii) the safety of its products.

When considering ESG factors, a decision to initially invest is not the end of the process. ESG characteristics are broad and dynamic, and a company's profile may change, or new information emerge, which leads us to reassess the appropriateness of our investment. In conjunction with the Research team, twice a year the Responsible Investment team undertakes a review of the categorisation of the monitored investment universe from a responsible investment perspective. Further, an additional ad-hoc review and reassessment may be initiated by the Research team, the Responsible Investment team or our Sustainable Investment team. No matter how it is initiated, when it relates to companies held within the Climate Assets Funds, the three teams work collaboratively to understand and assess the specific issues.

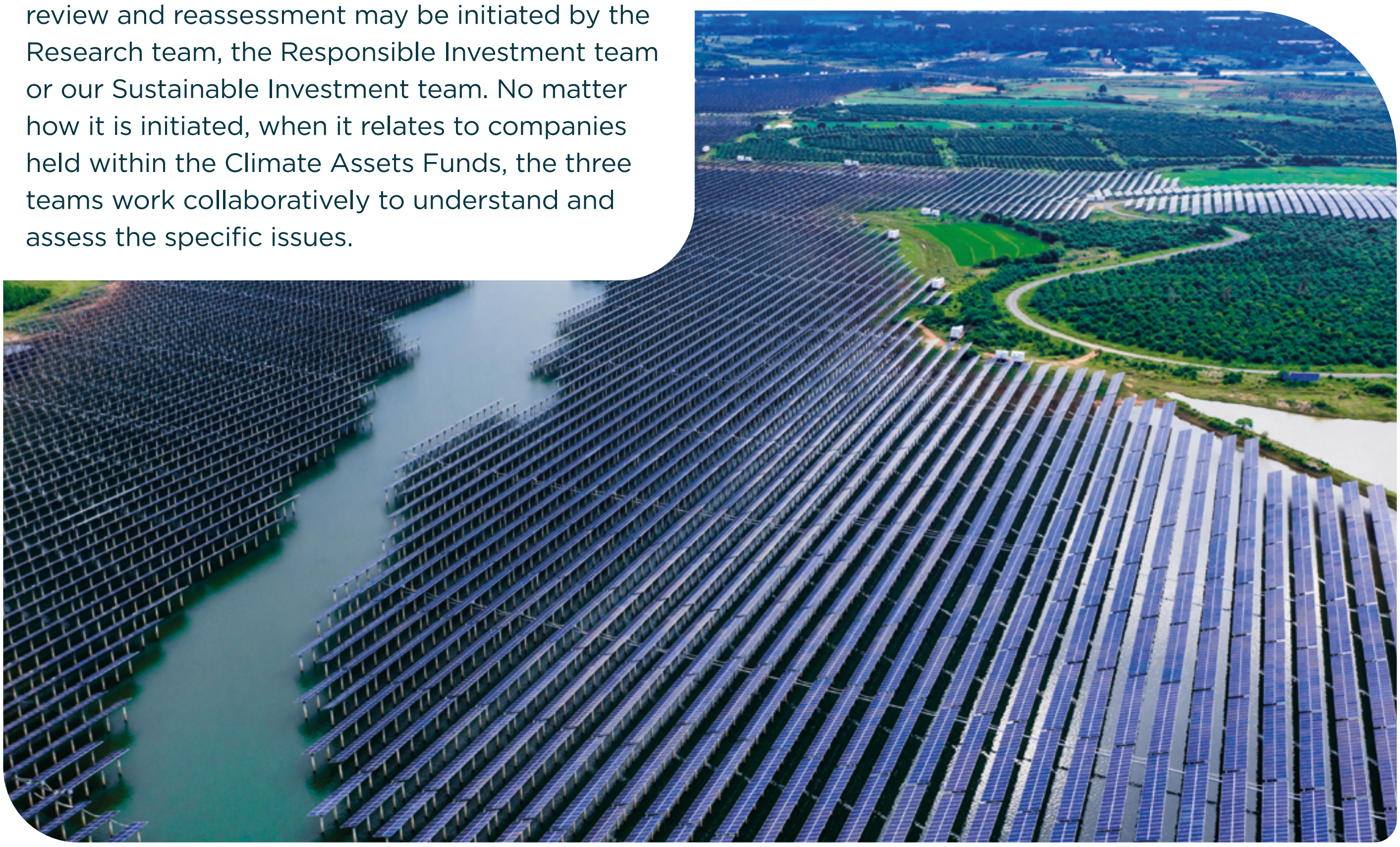
2022 ESG factor-related divestments

Where a specific issue or controversy is identified, our favoured approach is to engage with the company to better understand the issue and steer the company towards what we believe the 'right' course of action may be (see page 38 for further information on our approach to stewardship).

Of course, engagement does not always achieve the desired outcomes and so in certain cases the appropriate course of action for the Climate Assets Funds is to divest.

In 2022, escalating product safety concerns led us to sell our position in **Royal Philips**. Several product issues, including in relation to its respiratory care devices, were uncovered, and we did not see evidence of a well-executed product recall or a sufficiently strong governance structure in place. Following a review, we also divested from Taiwanese bicycle manufacturer, **Giant Manufacturing**, due to certain concerns in relation to its governance structure and level of disclosure.

We initiated a review of our water utility holdings, including data on each company's water leakage record in comparison to peers, along with their performance against defined regulatory water leakage targets. Following this review, we sold our **Thames Water** and **Southern Water** bonds.



FAQ – What is your approach to FAANGs?*

We define sustainable by **what** a company does and think of ESG integration in terms of looking at **how** a company operates.

Using this framework to assess the FAANG companies, we find Facebook's **what** is 'providing social media platforms', expanded to also include virtual reality services after its rebrand to Meta. While Netflix's **what** is an 'on-demand TV streaming service'. These activities are not relevant to our concern for our planet, and the problems around resource scarcity, climate change and population growth. Thus, in our assessment, Facebook and Netflix do not qualify as sustainable investments eligible for the Climate Assets Funds.

Amazon Web Services as a cloud business brings resource efficiency benefits but its retail business is not aligned to providing solutions to sustainability challenges. Apple designing, manufacturing and marketing smartphones, tablets, PCs, portable and wearable devices is essentially a luxury consumer goods brand. Although there are some efficiency arguments to **what** Apple does, its alignment is limited.

That leaves us with Alphabet, Google's parent, which presents the best thematic fit. Google gives us information at a click. It has transformed the efficiency of how people access and use data, and some of its products and applications have even clearer sustainability benefits such as Nest thermometers and Google maps. A negative is the central role of advertising, but we also accept it has to make its business model pay. Where Alphabet falls short for us is its poor business ethics and governance. It has a raft of controversies including: being anti-competitive, tax optimising strategies (low global tax rates), violating labour laws and gender pay discrimination claims. Additionally, its share structure favours its founders, limiting the voting power of holders of the other share classes. So, while Alphabet's **what** being 'to organise the world's information' may be judged to align, **how** it operates and manages its ESG risks, prevents us from including it in the funds at the current time.

* FAANG is an acronym for five of the best-performing tech-centric stocks of the past decade: Facebook (now Meta Platforms), Amazon, Apple, Netflix and Google (now Alphabet).

Caroline Langley

Investment Director

Caroline has nearly 20 years of investment management experience, and she has worked at Quilter Cheviot since 2006. She is the Deputy Fund Manager for the award-winning Climate Assets Funds. She also manages private client portfolios. Her investment qualifications and experience earned her the position of Fellow of the Chartered Institute for Securities & Investment (CISI).

As a Chartered Accountant (FCA), Caroline is a Fellow of the ICAEW. She also has a Master's degree (distinction) in Environmental Technology from Imperial College specialising in Global Environmental Change and Policy.

Climate Assets Funds Investment Theme Alignment

Five positive investment themes sit at the heart of the stock selection process and companies must offer solutions that are aligned with one or more of the themes to be considered for investment. All equities and corporate bonds are allocated to one theme.

Thematic allocations naturally follow sectoral asset allocation decisions and our view on the most attractive investment opportunities. While investments are spread across the five positive investment themes, allocations are not weighted equally. Both Funds are currently weighted towards Clean Energy, Health, and Resource Efficiency following the attractive investment opportunities in those areas. We monitor investment trends across our themes and are poised to invest when appropriate for our strategy and, as such, thematic allocations continuously change.

For the below table, along with our Sustainable Development Goal analysis later in this report, we exclude UK sovereign debt and cash from the calculations, as we view these as 'neutral' assets. The neutral component of the Climate Assets Balanced and Growth Funds is 18.2% and 13.1% respectively.

Climate Assets Funds Investment Theme Alignment

	Balanced	Growth
Clean Energy	28.3%	24.9%
Food	7.6%	5.7%
Health	27.3%	23.3%
Resource Efficiency	27.1%	38.4%
Water	9.7%	7.8%

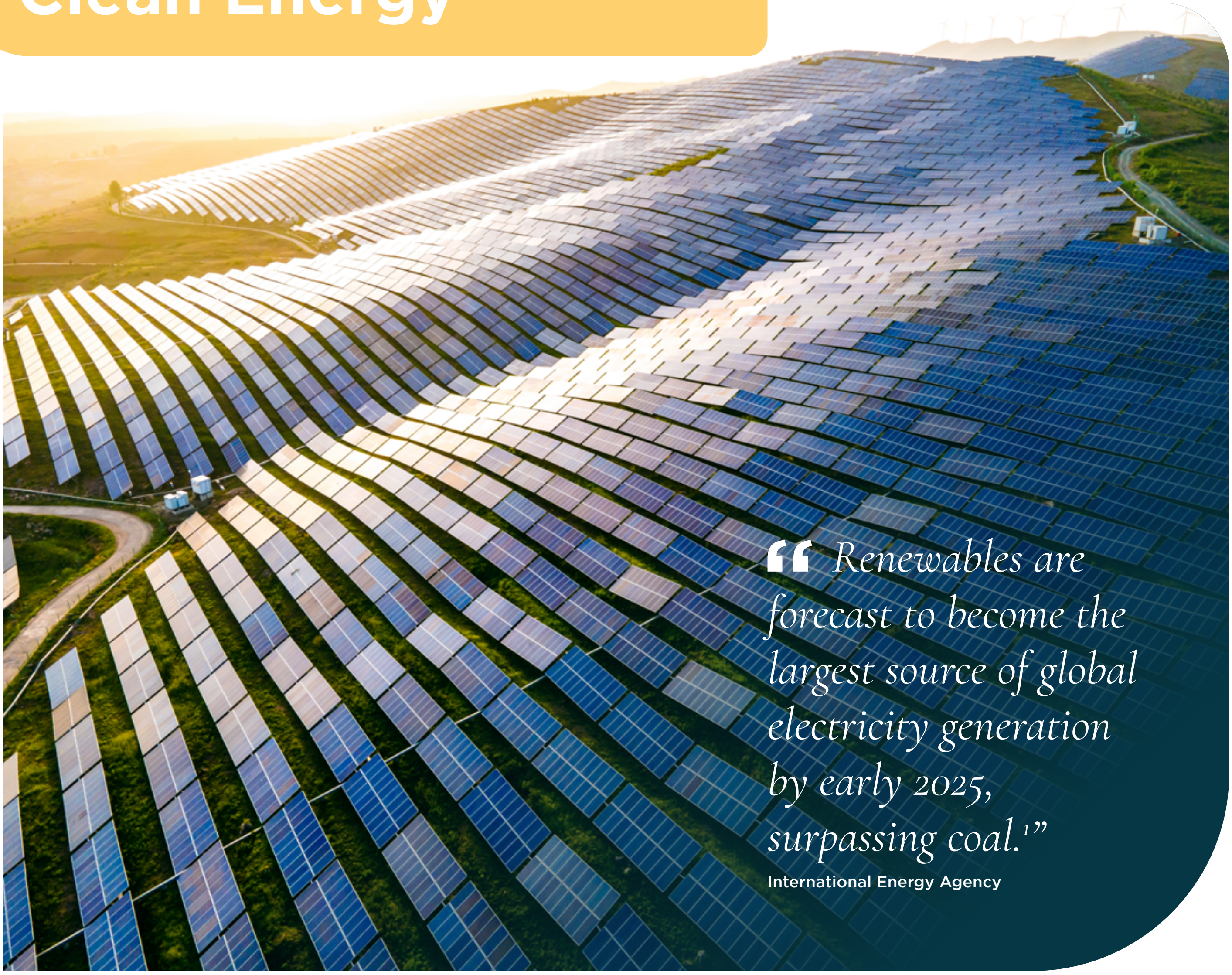
(Source, Quilter Cheviot as at 31 December 2022)

Equity and corporate bond holdings in Climate Assets Growth and Balanced have a high degree of commonality. However, the asset allocation differences between a growth (higher equity content versus a balanced mandate) and balanced (higher fixed income content versus a growth mandate) portfolio explain the variation in thematic alignment between the two Funds, for example:

Resource Efficiency - Growth has a larger alignment to the 'Resource Efficiency' theme due to its higher weighting to US technology names, such as Adobe, Intuit, Microsoft, Nvidia and Palo Alto Networks. These fall within 'Resource Efficiency' due to their focus on innovation and efficiency, enabling customers to do 'more with less'.

Health - One key reason for Balanced having a larger alignment to the 'Health' theme is certain fixed interest holdings. For example, debt issued by Motability Operations Group, which is a not-for-profit company providing finance for disabled people to acquire suitable vehicles by helping them to exchange their mobility allowances for a new car, mobility scooter or electric wheelchair.

Clean Energy



What

We invest in companies that provide clean energy solutions, helping to ensure that affordable, reliable, sustainable and modern energy is available for all. In particular, we focus on companies with activity that contributes to UN Sustainable Development Goal (SDG) 7 - Affordable & Clean Energy, with SDG 9 – Industry, Innovation & Infrastructure, also an important consideration.

Why

Fossil fuels are the most high-profile topic when considering global warming, and for good reason. With approximately 65% of all greenhouse gas emissions released when burning fossil fuels, it is at the core of the global challenge. It is important to remember that fossil fuels have played a crucial role in powering technological advancement for the last 150 years, leading to economic growth and improved living standards for many. This has, however, come at a cost and the link between the emissions released when they are burned, and climate change, can no longer be disputed.

Fortunately, the solution - or part of it at least - is known, and a transition to renewable energy sources, in particular wind and solar, is well underway. While the generation of clean energy is certainly not a new phenomenon, there has been a rapid expansion in recent years. As a core component of many countries' net zero plans, we can expect the pace of adoption to continue to rise and renewables to play an ever more important role in global power supply. Encouragingly, the International Energy Agency forecasts that renewable energy will become the largest source of global electricity generation by 2025, overtaking coal.1 This forecast increase is driven by wind and solar with electricity from those sources set to more than double in the next five years, providing almost 20% of global power generation by 2027.

[1] **International Energy Agency**

The rapid expansion has been partly driven by technological advancements and innovation driving down costs. The cost of generating power from renewable sources has plummeted over the past decade, falling by over 40% for onshore wind and by even more for solar and offshore wind. There has also been significant advancement in battery storage too, considered by many as the key to unlocking the full potential of renewables. Storing green energy to generate electricity when the wind does not blow, or the sun does not shine, is critical to addressing the 'intermittency' challenge of renewable energy.

The geopolitical landscape brought the issue of energy security to the fore in 2022, and renewables should play a key part in that conversation. Although there remains some uncertainty over countries' regulatory approach and future energy prices, the global focus and finance directed towards renewable energy suggests this is a theme that will continue to grow.

How

From a portfolio construction perspective, investors can gain exposure to the clean energy theme right across the value chain, from subcomponent manufacturers to renewable generators.

So-called 'renewable energy infrastructure funds' offer one important investment route in the alternative investment asset class. The broad sector consists of renewable power generators, energy storage, energy efficiency, and energy transition and infrastructure, which combined have a total market cap of over £16bn in the UK. Renewable generators are the most established with a steady growth rate, while energy storage, energy transition, and energy efficiency are less mature. We are selective and look for differentiations between companies, preferring those that, we believe, offer a higher-quality and better-resourced management team. We also prefer a diversified exposure to geographies and technology. Subcomponent manufacturers are another way for investors to access the clean energy theme, particularly semiconductors - a crucial technology that has contributed to improving the efficiency of renewable energy generation in recent years.

We also invest in companies that promote the use of clean energy rather than its generation. This includes exposure to the electric vehicle value chain; companies that are enabling the transition of consumers away from internal combustion engine vehicles to the cleaner alternative.

Company Examples

7 AFFORDABLE AND CLEAN ENERGY

EDP Renewables

Portuguese Renewable Energy Manufacturer and Operator

The company's principal activity is the generation of electricity from renewable sources, including the design, development, management and operation of wind farms and solar power plants. Its activity contributes towards the target of substantially increasing the share of renewable energy in the global energy mix.

SDG 7: It aligns with the goal by promoting access to affordable, reliable sustainable and modern energy for all.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

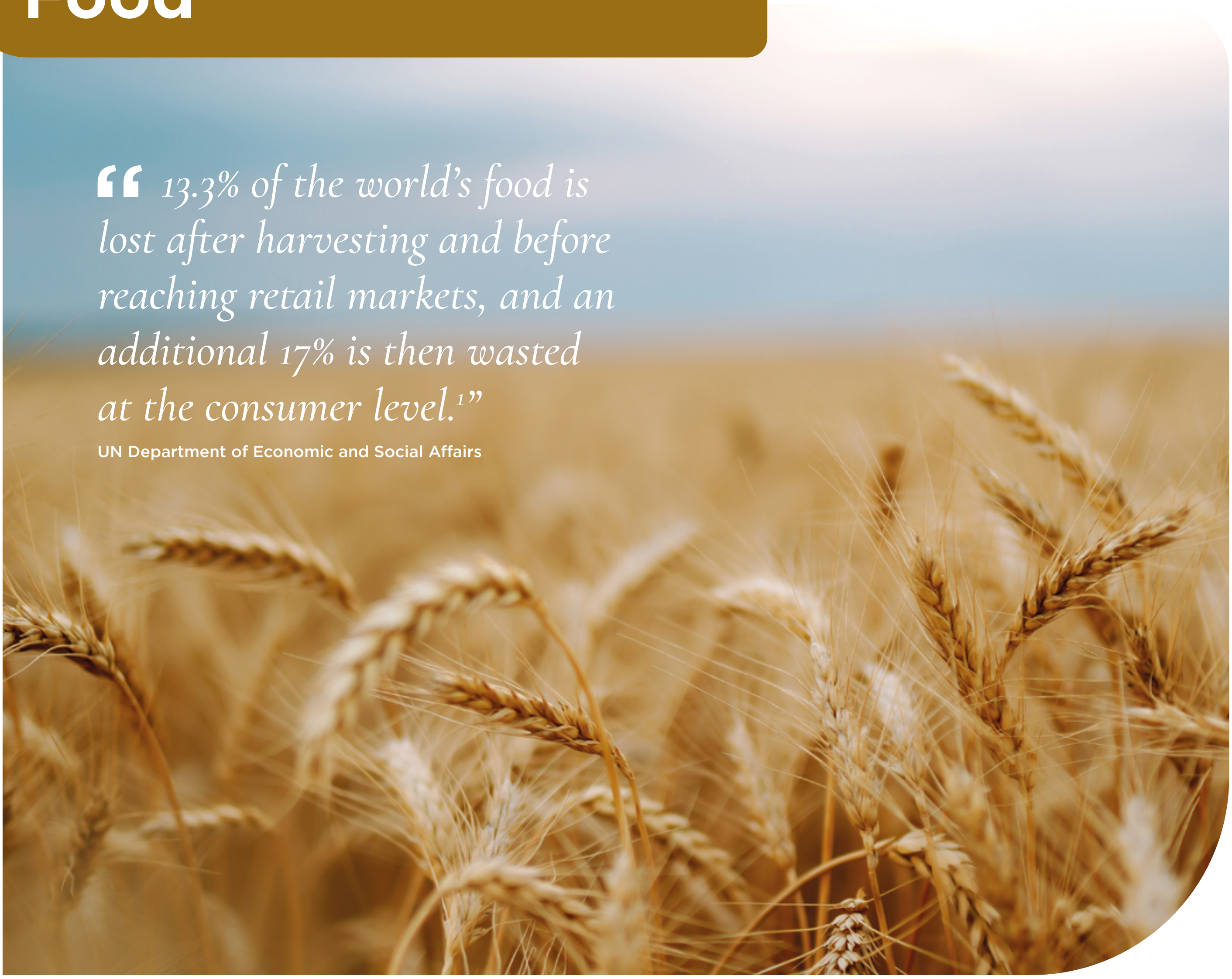
Renewables Infrastructure Group (TRIG)

Renewable Energy Infrastructure Investment Trust

The investment trust invests in a range of assets that generate electricity from renewable energy sources. It is technologically diversified, owning assets including onshore wind farms and solar photovoltaic parks, and geographically diversified, with assets across the United Kingdom and Northern Europe.

SDG 9: It aligns with the goal by investing in infrastructure for the production of renewable energy, supporting the goal to develop quality, reliable, sustainable and resilient infrastructure.

Food



What

We invest in companies that provide food solutions, helping to ensure a sustainable and effective food system. In particular, we focus on companies with activity that contributes to either UN Sustainable Development Goal (SDG) 2 - Zero Hunger, or SDG 12 - Responsible Consumption & Production.

Why

There are many components to ensuring a sustainable and effective global food system. For any population to survive, and indeed thrive, it must be able to access a sufficient supply of food. Sadly, while there have been improvements over the long term, this is not the case for all. Around one in three people still lack regular access to adequate food. Rapid, albeit slowing, population growth continues to increase global food demand and food systems must continuously evolve to meet this demand. Over the shorter term, geopolitical tensions, including the war in Ukraine, have disrupted food supplies and further strained the global food system. Even in the developed world, the cost-of-living crisis has forced many below the food poverty line. A further related issue is ensuring availability of the right types of food, as these are often more expensive. Obesity levels are already on the rise and there is a risk that food inflation may lead some to cheaper, less healthy, processed foods.

There are concrete arguments for ensuring efficient global food systems from both an ethical and economic standpoint. A further crucial consideration, however, is the environmental impact of the global food system, with a strong link to climate change. Agriculture, forestry and land use accounts for nearly a fifth of global greenhouse gas (GHG) emissions, from cows expelling methane to soil decomposition. There can be no credible net zero strategy that does not target significant GHG reductions across the food system.

[1] **Goal 12 | Department of Economic and Social Affairs (un.org)**

How

There are many potential solutions to food sustainability challenges. Some are emerging and evolving while others are more established. Of these growth areas, we consider some currently investable, such as food safety and testing, and climate control and refrigeration systems. There are also areas that we do not yet view as investable for our Sustainable Investment Strategy. We carefully monitor the progress of such areas, however, and are poised to invest once the technology is sufficiently mature.

A critical challenge within the current food system is wastage with 13.3% of the world's food lost after harvesting and before reaching retail markets and an additional 17% then wasted at the consumer level[1]. One solution we support is innovative packaging that can extend the shelf life of foods.

When considering the climate implications of different food types, meat and dairy generate the most GHG emissions for their calorific content and this is leading a trend towards alternative proteins amongst the environmentally conscious. For general efficiency improvements in agriculture, solutions are emerging from technological innovation in farming machinery, to vertical farming, a process which involves using indoor plant farms where crops are grown in vertically stacked layers and lighting powered by solar panels that allow inputs to the farming process to be meticulously monitored and analysed.

Company Examples

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

DS Smith

British Supplier of Packaging

The company provides consumer packaging solutions, offering sustainable, plastic-free packaging, integrated recycling services, and sustainable paper products. It has a leading market position across Europe and a good track record for innovation and forming profitable partnerships with consumer-facing customers.

SDG 12: It aligns with the goal by producing paper-based food packaging designed to extend shelf-life, reducing both food and plastic waste.

2 ZERO HUNGER

Kubota

Japanese Supplier of Agricultural Equipment

The company is a leading global supplier of equipment to the agricultural sector, enjoying a high share of the Asian agricultural market, particularly in Thailand and China. It sells environmentally friendly equipment for use in farming including tractors and combine harvesters, as well as smart and automated equipment with a focus on increasing efficiency while reducing labour intensity. It also specialises in equipment for rice farming, which it sells in developing nations such as Cambodia, Laos, and Vietnam.

SDG 2: It aligns with the goal by helping to end hunger and achieve food security through sustainable agricultural processes.

Health

What

We invest in companies that provide health solutions, helping to ensure healthy lives and promoting well-being for all. This is predominantly through a focus on companies with activity that contributes to UN Sustainable Development Goal (SDG) 3 - Health & Well-being, with SDG 10 - Reduced Inequalities, also an important consideration.

Why

Having a strong and dependable healthcare system which makes essential healthcare available to all, is vital for a sustainable and prosperous world. Unfortunately, it is an incredibly challenging objective as the complex health needs of diverse populations continue to evolve. Healthcare is one of the largest global expenses (estimated at US$9 trillion in 2020[1]) and the amount has been consistently rising, both in absolute and per-capita terms. Demand for healthcare services is increasing and as demand increases, it puts pressure on healthcare systems which have trouble trying to contain costs, when compromising on quality of service is not an option.

This increasing demand is largely explained by demographic factors, with the population both growing and ageing. By 2050, it is estimated that one in six people in the world will be aged over 65, and this ratio may be as high as one in four in the UK.

The ageing population is a result of social and economic developments and improved public health, thanks in part, to medical advancements. While this is a human success story, it also greatly increases the required level of healthcare and will continue to apply pressure to existing healthcare systems. Other trends are also coalescing to further strain healthcare systems. For example, obesity levels continue to rise in the developed world, leading to diverse health complications, as do levels of pollution.

[1] **World Health Organisation**

The healthcare sector was in the spotlight in the fight against Covid-19 and, while a vaccine was developed in a remarkably short time, the pandemic emphasised that the sector must become more efficient. Although the sector is highly innovative, it can often take time for changes to occur, due in part to regulatory hurdles. Innovation in new approaches, new technologies and new diagnostics can enhance offerings and deliver better health outcomes.

How

The healthcare system is transforming in several ways. From medical advances and the availability of data, to evolving consumer behavior, and how individuals feel about, and access, healthcare. Innovation and new technologies are helping change the way healthcare is delivered with a greater focus on patient convenience. It is also paving the way for new drugs, diagnostics, and treatments.

Prevention is one of the best ways to help alleviate pressures on the healthcare system, while a more personalised and convenient offering also has a role to play. Keeping people out of hospitals and serving their medical needs in other more convenient settings, such as at home or in ambulatory surgery centres, can help reduce wait times, provide greater comfort, and lower costs.

For our Sustainable Investment Strategy, we invest in a broad range of healthcare, science and biotechnology stocks that provide solutions to modern healthcare challenges. When assessing healthcare companies, important considerations for us are the strength of their approach to ensuring i) access to healthcare for less-privileged communities, and ii) the safety of products.

Company Examples

Novo Nordisk

Danish Pharmaceutical Company

The company is engaged in the discovery, development, manufacture, and marketing of pharmaceutical products. It is a global leader in diabetes care and this represents a high proportion of its total sales. It was an early mover in integrating consideration of 'Environmental, Social and Governance' criteria across its business and it is widely considered a 'responsible' leader in the pharmaceuticals sector.

SDG 3: It aligns with the goal through specialising in developing treatments for diseases including diabetes

Thermo Fisher

North American Medical Equipment Manufacturer

The company manufacturers and distributes laboratory instruments, equipment and software that contribute to the discovery and development of vaccines and medicines. It is the world's largest manufacturer of analytical and diagnostic instruments, supplying doctors, hospitals and laboratories globally.

SDG 3: It aligns with the goal by ensuring healthy lives and promoting well-being for all ages.

Resource Efficiency

What

We invest in companies that provide efficiency solutions, helping to use resources in a smarter and more effective way. This includes a focus on companies with activity that contributes to a number of the UN Sustainable Development Goals (SDG) from SDG 9 - Industry, Innovation & Infrastructure, and SDG 11 - Sustainable Cities & Communities, to SDG 12 - Responsible Consumption & Production, and SDG 8 - Decent Work & Economic Growth.

Why

Resource efficiency has become an increasingly important sustainability theme as the world's population continues to grow and consume ever more materials and, in many cases, finite resources are becoming increasingly scarce. This contributes to multiple interrelated challenges including climate change, biodiversity loss and pollution.

As set out by the Ellen MacArthur Foundation, our current model of production is predominantly linear and, as such, consumption is fundamentally unsustainable.

There is an urgent need to transition to a circular economy designed around three tenets of i) waste and pollution elimination, ii) keeping products and materials in use, and iii) regenerating natural systems. 'Circle Economy' is a global impact organisation that produces an annual report on the worlds circularity. Alarmingly, the 2023 report shows we are moving in the wrong direction with only 7.2% of the global economy now circular, down from 9.1% in 2018.[1]

Take plastics for example. Global plastic production has been rising exponentially from around two million tonnes a year in 1950 to well over 400 million tonnes today. As plastics are not biodegradable (a plastic bottle takes over 450 years to degrade), and recycling rates remain low, an enormous volume of plastics are sent to

[1] **Circular Gap Report 2023**

landfill - or worse - the sea. As 98% of single-use plastics are made from fossil fuels, the urgent need to rectify this inefficiency is intertwined with the need to reduce greenhouse gas emissions. This broad investment theme includes other forms of efficiency too. Such as efficient solutions for transport, an area that is responsible for over 15% of global emissions, or companies that promote energy efficiency, a critical area if reliance on fossil fuels is to be effectively reduced and the use of renewable energy optimised.

How

The breadth of challenges related to our current use of resources presents a diverse range of attractive investment opportunities. A regulatory push towards higher environmental standards and a focus on ending plastic pollution underpin a wealth of investment opportunities within the waste management and recycling industries. While the transportation sector as a whole is one of the largest contributors to greenhouse gas emissions, railway transportation accounts for only a fraction of these emissions and we embrace rail companies that play a role in reducing global transport emissions. Electrification is an important trend for both managing resources more efficiently and supporting global decarbonisation efforts. We look for companies that support electrification through the manufacture of electrical components, such as semiconductors. Automation is another important trend, which can lead to greater business productivity and efficiency. Investment opportunities include industrials that manufacture machinery which facilitates the automation of production processes.

Company Examples

Daiseki

Japanese Waste Disposal Service Provider

The company provides sustainable industrial waste treatment and recycling solutions. These include processing waste oil, which helps to reduce demand for fossil fuels. It also provides wastewater treatment services, playing an important role in helping to improve water safety and quality.

SDG 12: It aligns with the goal by ensuring sustainable consumption and production patterns.

Taiwan Semiconductor Manufacturing (TSMC)

Taiwanese Semiconductor Manufacturer

The company is the world's largest independent manufacturer of semiconductor wafers and chips for use in electronic applications. It is a leader in using the most advanced technology, producing the most efficient chips. Its products are used in a range of electrical appliances and play an important role in global electrification.

SDG 8: It aligns with the goal by achieving higher levels of economic productivity through diversification, technological upgrading and innovation, all of which help with improving global resource efficiency, promoting well-being for all age groups.

Water

> *"At current rates, by 2030, 1.6bn people will lack safely managed drinking water.[1]"*
>
> UN Department of Economic and Social Affairs

What

We invest in companies that provide water solutions, helping to ensure safe and clean water is available to all. In particular, we focus on companies with activity that contributes to UN Sustainable Development Goal (SDG) 6 - Clean Water & Sanitation.

Why

It is estimated that around US$850bn is spent on providing and maintaining water resources each year, but this is not enough to meet the world's evolving water needs. Population growth is driving higher water demand, urbanisation is changing water demand patterns, and increasingly climate change and associated extreme weather patterns are challenging the water supply. These factors combined are straining water systems and putting lives and livelihoods at risk. At current rates, by 2030, a 40% gap is expected between demand and renewable water supply. This would mean 1.6bn people lack safely managed drinking water, 2.6bn people lack safely managed sanitation, and 1.9bn people lack basic hand hygiene facilities.[1]

Developing countries must invest in new infrastructure to extend water access and sanitation, whilst developed countries must replace ageing infrastructure and take advantage of new technologies to improve water conservation. In the UK last year, the heatwave and associated drought brought discussion on water wastage to the fore. Water loss through pipe leakage is a major issue; an average of over 3bn litres is lost each day from underground pipes across just England and Wales[2].

There is a strong linkage between the water and food systems. Agriculture accounts for around 70% of all water withdrawals and water supply challenges negatively impact food production. The total amount of water required to produce one kilogram of pork and beef is approximately 5,000 and 15,000 litres, respectively.

[1] **Goal 6 | Department of Economic and Social Affairs (un.org)**

[2] **https://www.discoverwater.co.uk/leaking-pipes**

When it comes to growing cereal crops, farmers using conventional irrigation methods can waste up to 40% of total water withdrawals. These are significant water footprints and therefore less intensive cattle rearing and economic irrigation are fundamental to the conservation of water.

How

The scale and complexity of these challenges present a range of attractive investment opportunities and from a portfolio construction perspective, the diversity of the water industry translates into a diverse return profile among companies in the sector - a useful tool for navigating the economic cycle.

We invest globally in a broad range of water stocks, from defensive utilities to growth companies involved in innovative water technologies, allowing us to position the fund appropriately depending on the economic cycle stage.

Investment opportunities include exposure to smart metering technology to improve water conservation, digital solutions for monitoring and managing the quality of water supplies and efficient pumping systems. When investing in water utilities our analysts seek companies with strong sustainability credentials and favour those that provide water and wastewater services to under-served communities.

Company Examples

6 CLEAN WATER AND SANITATION

sabesp

Companhia de Saneamento Basico do Estado de Sao Paulo (SABESB)

South American Water and Wastewater Utility

SABESP provides water and sewage services to a range of residential, commercial, industrial and governmental customers across the state of Sao Paulo in Brazil. It is one of the world's largest sanitation companies in terms of population served, providing services to over 26 million customers. It plays an important role in providing safe, clean, drinking water and wastewater services, in many cases, to those in under-served communities.

SDG 6: It aligns with the goal by ensuring sustainable management of water and sanitation for all.

6 CLEAN WATER AND SANITATION

xylem Let's Solve Water

Xylem

North American Water Technologies Provider

Xylem provides products and services for water and wastewater applications addressing the full water cycle: collection, distribution, use and disposal. Its products include water and wastewater pumps, treatment and testing equipment, valves, heat exchangers and dispensing equipment. Xylem has a leading market position in a highly fragmented industry and plays an important role in facilitating water sanitation.

SDG 6: aligns with the goal by facilitating the efficient provision of water and sanitation services.

United Nations Sustainable Development Goals

An important component of our sustainable investment process is the UN Sustainable Development Goals (SDGs) framework. We see the framework as an invaluable tool for assessing the sustainability characteristics that a company may have and we have integrated consideration of the goals across our investment process, from stock selection to reporting.

In 2015, the 193 member states of the United Nations adopted a set of 17 Sustainable Development Goals. These were an international call to action for all countries – poor, rich and middle-income – to promote prosperity while protecting the planet. Supporting targets - 169 in total - were later defined for each goal, and these are monitored and reviewed using a set of global indicators.

While the framework was initially defined at the country level, it can be applied at a company level too. The proportion of a company – most often using revenue generated as an indicator – that contributes to any of the goals and underlying targets can be determined, and this forms a powerful lens through which the sustainability of a company can be assessed.

When undertaking our sustainable investment research, we utilise company SDG alignment analysis and data from an independent research provider, Ethical Screening. In addition to this research being readily available to us, Ethical Screening also produces portfolio level SDG analysis for the Climate Assets Funds, on a quarterly basis.

Companies making a measurable difference

When analysing SDG alignment at the portfolio level, we include all equity and corporate bonds as well as alternative investments. We exclude UK sovereign debt and cash from our calculations, viewing these as ‘neutral’ assets. As at 31 December 2022, investments within each of the Climate Assets Balanced and Growth Funds collectively made a positive contribution to most of the SDGs. As we explore further in this report, this included a material contribution to certain SDGs and a less significant contribution to others. We assessed no meaningful contribution to SGD13 or SGD14.

In addition to determining whether a company is making a positive contribution to the SDGs, it is also important to consider whether any of its revenue generating activity may actually constitute an “Obstruction to the Goals”.

Ethical Screening’s research includes analysis of negative company activity too and, as at 31 December 2022, one such holding was identified for the Climate Assets Funds. An obstruction to SDG 7 was identified for **Ares Management** (2.5% of its total revenue generating activity) due to its role in financing non-renewable energies. As a result, our holding in Ares is under review.

FAQ – Why do the funds not contribute to SDG 13 - Climate Action?

Ethical Screening’s research team attribute a company’s revenue to an SDG when its activity contributes to the specific - UN defined - supporting targets for that SDG. For SDG 13 this is rare, as the targets have a significant focus on governmental action and structural change.

For example, target 13.2 is to “Integrate climate change measures into national policies, strategies and planning”.

Of course, in practice, many companies held within the Climate Assets Funds provide solutions that play an important role in meeting climate-related objectives. However, when attributing revenue for our SDG analysis, we strictly follow Ethical Screening’s independent research and only recognise activity that contributes to the specific underlying targets.

In addition to granting us insight into the sustainability characteristics of a company, SDG alignment also helps us to understand a company's alignment with our investment themes. The graphic below provides a view of how the SDGs can map to our investment themes.

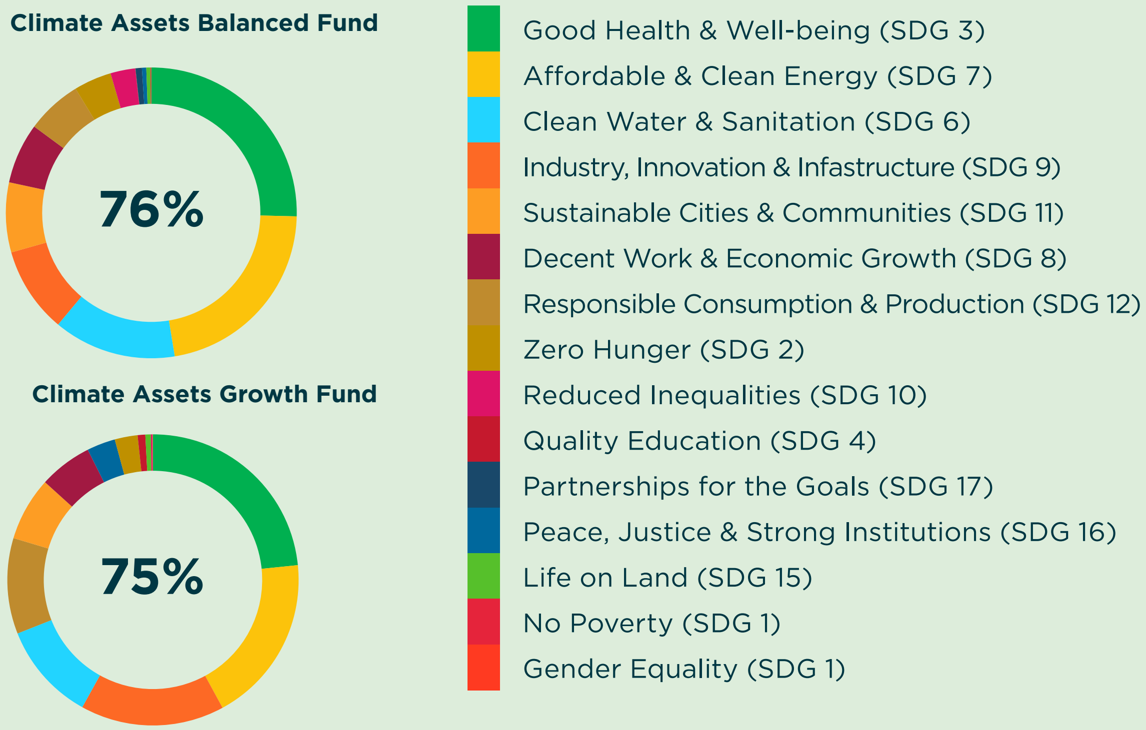
Positive investment themes mapping to the UN SDGS

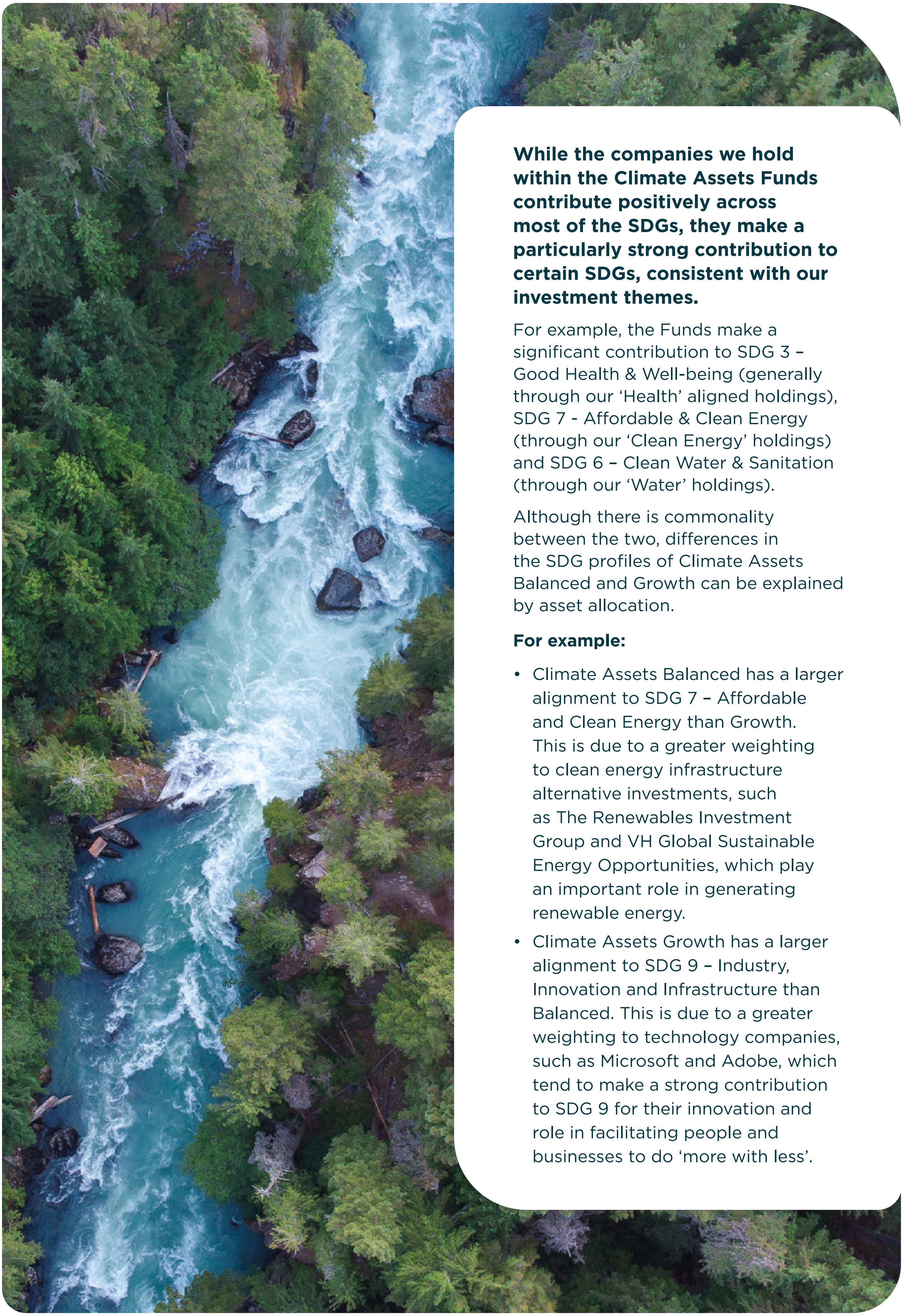
Company SDG Alignment:

76% and **75%** of the revenue generated by companies held within Climate Assets Balanced and Growth respectively, is aligned to one or more of the SDGs. When analysing SDG alignment at the portfolio level, we include all equity and corporate bonds as well as alternative investments, such as renewable energy infrastructure investment trusts. We exclude UK sovereign debt and cash from the calculations, as we view these as 'neutral' assets. The neutral component of Balanced and Growth is 18.2% and 13.1% respectively.

Revenue Alignment To SDGs

Sustainable Development Goals analysis





While the companies we hold within the Climate Assets Funds contribute positively across most of the SDGs, they make a particularly strong contribution to certain SDGs, consistent with our investment themes.

For example, the Funds make a significant contribution to SDG 3 – Good Health & Well-being (generally through our 'Health' aligned holdings), SDG 7 - Affordable & Clean Energy (through our 'Clean Energy' holdings) and SDG 6 – Clean Water & Sanitation (through our 'Water' holdings).

Although there is commonality between the two, differences in the SDG profiles of Climate Assets Balanced and Growth can be explained by asset allocation.

For example:

- Climate Assets Balanced has a larger alignment to SDG 7 – Affordable and Clean Energy than Growth. This is due to a greater weighting to clean energy infrastructure alternative investments, such as The Renewables Investment Group and VH Global Sustainable Energy Opportunities, which play an important role in generating renewable energy.
- Climate Assets Growth has a larger alignment to SDG 9 – Industry, Innovation and Infrastructure than Balanced. This is due to a greater weighting to technology companies, such as Microsoft and Adobe, which tend to make a strong contribution to SDG 9 for their innovation and role in facilitating people and businesses to do 'more with less'.

Target-Level Analysis

Each SDG has defined supporting targets that set out the specific action that is required in order to reach the goals. Our SDG company analysis includes considering the company generated revenue that has been attributed to the specific underlying targets.

In many cases a proportion of a company's activity may be relevant to multiple targets. Below, we show an example target for SDG 3, 6 and 7, along with Climate Assets companies that have activity aligned to each.

Example Targets

3.5 - Reduce by one third premature mortality from non-communicable diseases through prevention and treatment, and promote mental health and well-being.

Example companies: Medtronic and Thermo Fisher

6.4 – Increase water-use efficiency across all sectors, and ensure sustainable withdrawals and supply of freshwater to address water scarcity

Example companies: Xylem and American Water Works

7.3 – Double the global rate of improvement in energy efficiency.

Example companies: EDPR and TRIG

Majority Companies

The Climate Assets Funds invest primarily in companies for which their core purpose is aligned to one or more SDGs, with some further investment in companies for which a smaller proportion of its business directly contributes to an SDG.

We do not invest in any company that does not positively contribute to at least one of the SDGs.

Climate Assets Balanced

83%

Climate Assets Growth

82%

83% and **82%** of Climate Assets Balanced and Growth respectively, is invested in companies for which **over half of their generated revenue** is aligned to one or more SDG.

This is calculated as the % of holdings in each Fund that is invested in such companies, again, excluding the 18.2% and 13.1% of neutral assets from each calculation. I.e. for Climate Assets Balanced, this is ***83%*** *of 81.8% of the portfolio, and 68% of the whole portfolio when also including neutral assets.*

For Climate Assets Growth, it is ***82%*** *of 86.9% of the portfolio, and 71% of the portfolio as a whole.*

Insights: Sustainable Investment Specialist

Toby Rowe

Sustainable Investment Specialist

Toby has nine years of experience in reporting and auditing, with a focus on Investment Management, Product Governance and Responsible Investment. Five of those are with Quilter where he has worked since 2018. Toby is a Chartered Accountant and a member of the ICAEW. He has also completed both the CFA UK Certificate in Climate and Investing and Investment Management Certificate.

What is your role at Quilter Cheviot?

I joined Quilter Cheviot's Sustainable Investment team in 2022 to further develop the sustainable investment framework.

My role is varied. I am responsible for reporting in-line with an evolving regulatory landscape along with undertaking company sustainability research and analysis. I have worked to integrate UN Sustainable Development Goal (SDG) analysis throughout our sustainable investment process, from company-level research to portfolio-level alignment analysis.

My areas of focus can be separated into two parts. Firstly, managing how we report on what we do so that we are transparent about our approach to sustainable investment. Secondly, contributing to the continuous improvement of the investment process. As Claudia sets out in the foreword, we are committed to delivering a high-quality sustainable investment solution and that requires continuous improvement and evolution.

Another element of my role is acting as a conduit between the Responsible Investment team and our Sustainable Investment team. For us, being a responsible investor and integrating consideration of material Environmental, Social and Governance (ESG) factors, is the foundation of an effective sustainable investment strategy. It is therefore important that our team leads from the front when it comes to implementing - and acting as an ambassador for - Quilter Cheviot's Responsible Investment framework.

This includes engagement too. Our Responsible Investment team, along with the relevant Research Analyst, actively engages with investee companies on a range of topics. Our Sustainable Investment team contributes to the engagement process where it is a holding within our strategy and we have also led a thematic engagement on the lifecycle of infrastructure assets too. This is an important component of our overall sustainable investment process.

> *Ideally, the majority of a company's activity directly contributes to the goals, suggesting the company's core purpose is well-aligned with sustainable outcomes"*

What do you look for in a sustainable investment?

For us, responsible investment is about both risk mitigation and identifying opportunities through the integration of ESG factor analysis and stewardship within the investment process. This is about how a company does what is does. Our approach to sustainable investment builds on that and is an investment philosophy that is focused on what that company does. Is this potential investment's activity aligned with sustainable outcomes? Does it provide solutions to the important sustainability challenges of our time? Does it help to reduce the global carbon footprint or help to manage our finite resources effectively? Delivering 'more with less' so to speak.

As we set out in this report, the UN SDG framework is one important method for determining a company's sustainability characteristics, while also informing our assessment of its alignment with our five investment themes. We look for companies that contribute to one or more of the SDGs. Ideally, the majority of a company's activity directly contributes to the goals, suggesting its core purpose is well-aligned with sustainable outcomes.

We believe such companies are likely to benefit from long-term structural growth trends, and as such present attractive growth opportunities. For example, the transition to clean energy sources is a crucial component of countries' net-zero plans. Renewable energy generation receives a large amount of focus and finance, both public and private, and has many attractive growth opportunities across the value chain as a result.

As mentioned above, in our view, a strong performance against material ESG factors should be the starting point or foundation of a sustainable investment opportunity. I.e. the ideal sustainable investment should have its own house in order, demonstrating strong management of its environmental and social impact, with a robust governance structure in place. A company having sustainable credentials is not enough; its ESG characteristics have to stack up as well. We cannot only consider the sustainable solutions that a company may provide if, for example, its own operational carbon emissions were unjustifiably elevated.

What do you think will have the most impact on the industry in the coming years?

In terms of sustainable investment trends and opportunities, there are many. From the clean energy transition, to more sustainable farming practices, perhaps even including broader commercialisation of carbon capture and removal technologies. At a more general level, though, I think the biggest shake-up to the industry will come in the form of regulation. Regulation such as the Sustainability Disclosure Requirements in the UK look set to bring about changes to how investment funds are managed and marketed, with potentially broad implications. Further comment on the changing regulatory landscape follows below.

Regulatory Landscape

Our planet faces critical sustainability challenges, from climate change to the ineffective management of finite resources. In recent years, these challenges have increasingly come to the fore, becoming a topic of significant public focus, attention and debate. One important method for progress in facing these challenges is investment, and sustainable investment has seen rapid growth with over US$2.5tn[1] now held in global sustainable funds. Some financial institutions have been racing to meet the growing public demand for sustainable investment solutions, creating products in an array of forms that promise to help meet these sustainability challenges.

This has largely been a positive change, providing a plethora of routes for investors to contribute. However, it has brought challenges with the two most notable being:

- With so many options, how can investors identify funds with an investment approach that is aligned with their values?
- How do investors ensure a fund is doing what it says it is and avoid those that are guilty of so-called 'greenwashing'?

There is a significant risk that those making unsubstantiated claims may be eroding trust in the market, potentially slowing progress and limiting the positive impact that the industry has the capacity to generate.

A regulatory framework can play an important role in bringing much-needed transparency to this fast-evolving and, at times, cloudy area of the investment world. For example, the Task Force on Climate-Related Financial Disclosures (TCFD) product rules require in-scope funds to disclose carbon emission metrics and analysis, giving investors additional data on a fund's environmental impact.

A regime that feels like it is bringing even more of a watershed moment for the sustainable investment industry, however, is the FCA's Sustainability Disclosure Requirements (SDR). The final requirements are not expected until the third quarter of 2023, but a consultation paper was released in October 2022 which is expected to represent at least the core of the framework.

It will introduce a set of 'sustainable labels' for funds that can demonstrate they align with one of three defined approaches to sustainable investment.

The labels will be used to distinguish those funds with a credible approach to sustainable investment from those without. The proposed regulation is strictly focused on strategies that have specific sustainable objectives; however strong a strategy's ESG integration or approach to stewardship, these factors alone would not qualify it for a label.

A suite of disclosures will be required too, to ensure the investment process is clearly and transparently explained to investors. Many of those in the industry - our Quilter Cheviot Sustainable Investment team included - welcome an enhanced regulatory framework and the clarity and tranparency that it should bring investors.

I attended two sustainable investment conferences last year at which the Director of ESG for the FCA has spoken about SDR, and a couple of thoughts struck me. Firstly, he strikes the right tone. He talks about ensuring balance; setting a framework that acts as guardrails to protect investors, while not being overly burdensome on the industry and risk stifling investment. Secondly, it is refreshing for a regulatory body to engage so actively with those affected by a new regime.

He opened himself up to questions and candidly discussed the FCA's approach, challenges, and even lessons learnt from the European Union's implementation of the Sustainable Finance Disclosure Regulation (SFDR). This commitment to engagement was further shown by the FCA's use of advisory and working groups to benchmark proposals with representatives from the industry.

I do not think the proposed regime is perfect (yet?) and Quilter provided feedback to the FCA through the consultation process, focusing on the practical application of the proposals. However, overall, we welcome the important regulatory developments for the clarity, transparency, and comparability they will hopefully bring to the industry.

Once updated, we expect the additional rules and guidance to provide the guardrails required to ensure investors are protected, while supporting the industry to flourish and continue directing capital towards solutions to the critical sustainability challenges we face. When the time comes, we look forward to proudly displaying our sustainable investment label.

[1] Morningstar as at 31st December 2022

Insights: Chief Investment Strategist

Alan McIntosh

Chief Investment Strategist

Alan became the company's Chief Investment Strategist on the merger of Quilter and Cheviot and is responsible for global equity strategy. He chairs the UK and international stock selection committees and sits on the asset allocation and funds committees. Alan is responsible for investment oversight of the Climate Assets Funds and has worked with Claudia Quiroz since the Fund's inception in 2010.

Prior to Quilter Cheviot, Alan was a founding partner of Cheviot Asset Management where he was chief investment officer. Previously he worked for Laing & Cruickshank Investment Management and Credit Suisse Asset Management as senior strategist. This followed a 12-year career as an institutional fund manager.

What does sustainable investment mean to you?

I see sustainable investment as allocating capital in a targeted manner to try and achieve specific positive goals. In my view, it is the natural progression from traditional investing, going beyond a solely financial-return perspective. It involves identifying companies that 'make a difference', as we do with our Climate Assets approach of identifying companies that provide solutions in the areas of: Clean Energy, Food, Health, Resource Efficiency and Water.

In my experience there have always been a group of investors wanting to do "good", but interest in investing sustainably has rapidly developed in recent years and now forms a crucial segment of the investment world. I believe this has largely been driven by a more mainstream acceptance of climate change linked to the severe adverse impacts that we are already seeing occur. This goes beyond climate change though, as was shown by the Covid-19 pandemic, where the critical importance of effective and efficient healthcare systems was brought to the fore.

What is your involvement with the Climate Assets Funds?

I have an oversight role for the Climate Asset Funds, helping to ensure that they perform as expected. I'm not involved in the day-to-day running of the funds, leaving that in the more than capable hands of Claudia, Caroline and the rest of the team.

I count myself fortunate to have been in a position whereby I have seen at close hand the success of our Climate Assets Strategy. Since the launch of the original 'Climate Assets Fund' in 2010 - long before sustainable investment products established themselves within the mainstream – it has generated strong returns, continued to grow, and won several awards along the way. This success led to the launch of the Climate Assets Growth Fund last year, which follows the same sustainable investment process but contains a higher equity content.

It says a lot about the knowledge, understanding and foresight of the team that the five positive investment themes have remained unchanged since launch. The team has expanded, and the process has evolved, but Climate Assets follows the same, proven, investment thesis as it did at inception.

What is your view on the future of sustainable investment?

There is no doubting the increase in awareness in recent years regarding the impact of our actions on the planet. However, with the effects of climate change accelerating fast, rather than rising linearly, there is some way to go in terms of recognition and acceptance. Continuing at the current rate, the impact will begin to permeate every facet of life, further affecting things like food production and causing mass migrations as areas become uninhabitable.

Aside from climate change, supply chain issues, exacerbated by pandemic lockdowns and reopening patterns, are another obvious example of sustainability challenges, demonstrating the need for further investment in improving resilience. Russia's invasion of Ukraine has highlighted Europe's reliance on imported fossil fuels to meet energy needs and amplified the necessity to move towards alternative sources of energy. Looking ahead, I'm concerned about the almost blasé attitude held by many that technological developments will bail us out in terms of mitigating, and adapting to, climate change. While progress has been made, actions thus far have been insufficient, and the goal of limiting global warming to 1.5°C by 2050 looks increasingly improbable.

> *"I count myself fortunate to have been in a position whereby I have seen at close hand the success of our Climate Assets Strategy."*

The Inflation Reduction Act (IRA) in the US was a step in the right direction and I believe further government actions are both necessary and likely. While it has irked many on this side of the Atlantic, the IRA is a decisive move forward and if European governments respond in kind, as I expect they will, then a cascading effect will be set in motion, acting as a tailwind for many companies that are providing sustainable solutions.

An important additional consideration is China and the central role it has to play. It is the largest greenhouse gas emitter, but also the largest generator of wind and solar energy by some distance. Decisions made in Beijing in the coming years could well be a key swing factor in reaching global goals.

Stewardship

As a responsible investor, Quilter Cheviot is committed to its role as steward of our clients' assets to protect and enhance long-term returns – we call this active ownership. As part of our duty, we monitor and engage with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration.

Quilter Cheviot votes and engages with companies on environmental, social and governance (ESG) matters and has integrated ESG considerations into our investment process. Our framework for investing responsibly is set and managed by our Responsible Investment team with the team also developing and undertaking engagement activity alongside the relevant Research Analyst.

In this section of our report, we include some further detail on Quilter Cheviot's approach to being a responsible investor in relation to our Climate Assets Funds. For a comprehensive view of Quilter Cheviot's approach, please refer to our **website** and our 2022 Voting and Engagement **Report**.

Being an active owner 2.0

Engagement
Collaborations Thematic Business as usual Investor statements

Voting
In conjunction with the relevant analyst Informed by our Proxy Advisor but decision is ours

Industry
Active members of industry body committees and working groups

Consultations
Quilter response to FCA consultations

Being An Active Owner Has Many Different Facets

Engagement

This involves speaking directly to the executives and boards of companies and investment trusts about the issues that concern us, with our aim being to understand their approaches to material ESG issues. We focus on concerns that are material to the company or sector being analysed. Examples of these concerns include best practice behaviour (executive remuneration), board composition (here we look at their approach to diversity in a simple sense but also in terms of diversity of thought), climate change (the extent to which companies link environmental metrics to executive pay or we examine their climate lobbying practices or transition plans).

At Quilter Cheviot we separate engagements into three categories:

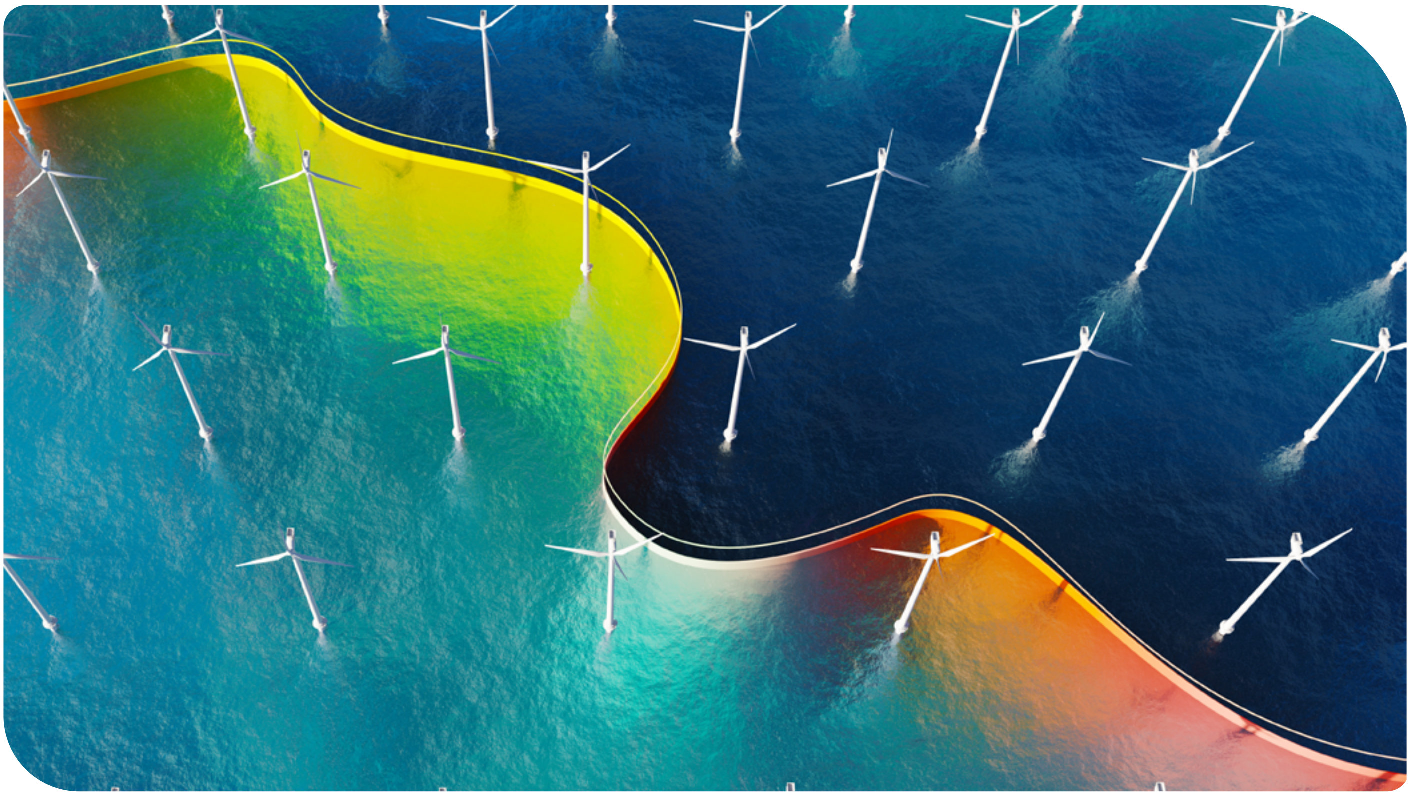
1. **Reactive:** Dialogue held in response to an AGM resolution or recent controversy
2. **Proactive:** Usually taking the form of thematic engagements with companies that are most exposed to certain ESG issues such as climate change, human rights abuses, or water scarcity
3. **Monitoring:** No material concerns are held; these are just regular catch-ups to touch base

Climate Assets Balanced Engagements

16

Engagements are run by Responsible Investment in conjunction with the relevant Research Analyst. When engaging with a company or investment trust that is (or may potentially be) held by the Climate Assets Fund, a member of the Sustainable Investment team may also join the engagement.

In 2022 we engaged with **16** Climate Assets Balanced companies and **4** Climate Assets Growth companies (following its September launch).



Engagement Case Studies

DS Smith – Environmental

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 to 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. We would welcome more information on this.

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 is rolling out water mitigation plans to all relevant facilities.

Engagement Case Studies

Continued

United Utilities – Social

Objective: To explore diversity plans at the board level and progress of both external and internal diversity programmes.

United Utilities performs well on diversity across senior management and the wider workforce. Challenges faced by the company include the geographical location of the head office (Warrington) and the industry being traditionally male dominated. Louise Beardmore was announced as CEO 'designate' and currently sits on the board; she will take over once the current CEO steps down in early 2023. Beardmore was previously Customer Service and People Director and has played a pivotal role in establishing the company's D&I strategy.

The company aims to improve diversity through its talent programme to train and develop women into senior roles. The Aspiring Talent programme focuses on areas such as Operations where there has been persistent underrepresentation of female leaders. Externally, the company works with recruitment agencies that focus on diverse hiring. By partnering with these specialist recruiters, the company works with local communities more effectively to attract female talent and a wider ethnic minority cohort. The company's need for talent with a STEM skill set poses challenges and the company recognises progress is incremental.

The company recently engaged with a D&I specialist provider and conducted an audit of the company's diversity status. United Utilities uses a maturity model to anchor the company's diversity strategy and to measure progress. The company also supports the government's Kickstart programme by providing placements in various roles across the Northwest. This scheme supports groups in local communities that are traditionally overlooked.

Outcome: Overall, United Utilities has demonstrated a cohesive approach to diversity. The company provides ample examples of where diversity is considered at every level throughout the company and there is a robust D&I strategy in place. We welcome ongoing monitoring of both internal and external diversity programme outcomes.

Aptiv – Governance

Objective: To discuss concerns around executive pay and to seek more information on the supply chain management processes.

This was a high-level engagement on supply chains and remuneration. A more detailed conversation is needed, and we look forward to receiving more specific information on supply chain management auditing. Detail on supply chain management was light, although the company does audit any new supplier. This process includes an auditing of ESG risks and use of third-party data providers to assess suppliers.

We also raised concerns that the CEO pay ratio to the median employee is one of the highest in the S&P 500. The company reports that since 2018, CEO pay has increased by 4% relative to a 37% increase for the wider workforce. A significant amount of the company's workforce is based in Mexico where median salaries are lower. Given the material shareholder opposition to the CEO salary at the previous AGM, we encouraged the company to provide more information on how they are addressing this disparity and considerations around the living wage levels in Mexico.

Outcome: This was a high-level preliminary conversation on supply chains and remuneration; therefore, a further detailed conversation is required. We look forward to receiving more specific information on supply chain management auditing.

Thematic Engagement

Lifecycle of Renewable Energy Infrastructure Assets

In addition to the thematic engagement led by the Responsible Investment team, during the last quarter of 2022, our Sustainable Investment team focused our thematic engagement on the lifecycle of renewable energy infrastructure assets.

Harry Gibbon

Investment Manager

Harry joined Quilter Cheviot's internship programme in May 2018 and moved to work with Claudia Quiroz and Caroline Langley later that year. He has since been promoted to Investment Manager and assists with the management of the Climate Assets Funds as well as portfolios for private clients, pensions, trusts and charities. Harry is a Member of the Chartered Institute of Securities and Investments and he has completed the CISI Chartered Wealth Management qualification and the CFA Certificate in ESG Investing.

SDG Alignment

Renewable energy infrastructure investment trusts are an important component of our 'Clean Energy' investment theme. The trusts own and operate renewable energy assets, such as wind farms and solar power plants, and sell the energy generated. They are a strong source of income as they pay out their profits. They also act as a portfolio diversifier as their performance is not expected to correlate closely with equity or bond markets.

In the summer of 2022, we undertook a review of our renewable energy investment trust holdings. We planned an engagement project focusing on sustainability considerations across the lifecycle of their infrastructure assets, with a particular focus on supply-chain management and the approach to disposing assets at the end of their life. We began this engagement in Q4 2022 alongside our Responsible Investment team and our Alternatives Analyst, and the engagement was concluded in Q1 2023.

We were keen to look under the bonnet and better understand these companies' approach to certain sustainability challenges. This included delving deeper into their supply-chain policies and understanding their use of data and 'Key Performance Indicators'. It was important for us to determine which trusts had a strong approach to mitigating risk in their supply chain – including ensuring solar panels are not built in regions associated with human rights abuses, or wind turbines built using conflict minerals. We also sought to understand whether trusts had a robust approach to defining sustainable end-of-life plans for their assets, focusing on minimising the proportion of solar panels or wind turbines that may be sent to landfill. In many ways, this is an evolving theme and one we expect to receive increased focus in the coming years as a significant wave of renewable energy assets reach the end of their useful life. It is also likely that we will see additional technological advancement that enables the complete recyclability of these assets in a commercially viable way, something that isn't currently the case.

There are different ways that a manager of a renewable energy investment trust can operate their assets and different methods for adding value for shareholders. Some managers buy into existing assets, others take on some construction risk and build the asset themselves, which adds to returns when executed successfully. A fund manager can employ an operations manager that is responsible for managing the power generation across their portfolio. Others may buy an asset with an operations manager in place. While some may just buy minority stakes in projects and leave the management to a controlling partner. There are many roads that lead to Rome and by investing in trusts with a range of approaches the portfolio diversification benefits are enhanced.

We began our engagement project by meeting with a well-established wind turbine manufacturer, whom we consider possesses a credible focus on sustainability, to discuss their approach and research into the recyclability of turbines. It was no surprise to hear that the company's own supply chain management policies and due diligence processes were market leading too. We had a positive conversation with this manufacturer, which provided a benchmark for our later discussions. Hearing the extent to which 'end-of-life' was increasingly considered within turbine manufacture was particularly encouraging.

We then initiated conversations with the six renewable energy investment trusts within our investment universe, four of which we currently hold within the Climate Assets Funds. We found our conversations extremely valuable in forming an opinion on how focused management really were on these important sustainability and ESG themes. On supply chain management, all trusts outlined their approach to ensuring they only work with suppliers clearly aligned with their views. Due diligence was taken seriously across the board, and it was pleasing to see that sustainability values and considerations were an important component of such assessments. When it came to end-of-life asset considerations, it was understandable that not all trusts had a formal process in place for defining a sustainable plan for assets. Some would not need to decommission any assets for another decade or more, at which stage technological capability and capacity for recycling assets is likely to have greatly evolved. Instead of only considering formal process, we often focused on management's engagement with the topic, as well as

their plans and ideas for building out their framework and reporting in the future.

Our Alternatives Analyst delayed sharing his views on the strength of each trust's management as he did not want to colour our view ahead of the meeting. It was encouraging to see a strong correlation between his pre-existing view of the strength of management overall and our view of management's approach to these specific sustainability topics. This both reinforced that our Analyst's detailed research on the quality of management was likely accurate and reiterated the value that ESG and sustainability related analysis can have when assessing the quality of a company or trust.

Unfortunately, not all the meetings went as we had hoped and for one trust in particular, while they were able to demonstrate they had the bones of a framework in place, it was clear that the manager did not take the sustainability themes as seriously as we would expect. We plan to escalate this matter with the trust's board in conjunction with a separate Quilter Cheviot thematic engagement project on investment trusts (focused on the board and responsible investment activity and disclosure) in the coming months.

At the conclusion of our engagement, we saw news that the wind turbine manufacturer we spoke with back in September 2022 had announced a breakthrough in producing recyclable turbines, its "circularity solution to end landfill for turbine blades". This is a significant step in the right direction and pleasing that renewable infrastructure assets will have a circular ecosystem in the not-too-distant future.

Overall, while there are certain areas for improvement, we found the meetings to be positive. Trusts demonstrated a mature approach to considering sustainability within supply chain management, and most had a proactive approach to asset disposal. In many cases, conversations were collaborative, with trusts eager to benchmark themselves to their peers and obtain our views on best practice and developments in this area. It has been satisfying to see the desire for improvement and we look forward to working closely with the managers to help drive value for our unitholders.

Climate Assets Balanced 2022 voting activity

We voted at:

We voted on

641

Individual Resolutions

This represents 87% of resolutions on which we had voting rights.

For 25 resolutions we voted against management

For example:

- Koninklijke Philips NV on
- Remuneration
- Novo Nordisk A/S on
- Director Re-election

We vote on all UK, European and North American equities (including UK investment trusts). For further information please refer to the Quilter Cheviot Voting Policy.

Key voting activity

2 votes in favour of reporting on a third-party racial equity/ civil rights audit (shareholder resolution)

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

Companies voted on: American Water Works, Waste Management

2 votes supporting management in approving climate-related disclosures and plans

We have supported climate disclosures where the company can demonstrate ongoing commitments to advisory votes, its 'net zero' commitment, progress, and associated targets. Additionally, where a company's disclosure adheres to TCFD standards.

Companies voted on: Amundi, United Utilities

Climate Assets Growth 2022 Voting Activity

(since September 2022 launch)

We voted at:

3
Company Meetings

We voted on
41
Individual Resolutions

This represents 100% of resolutions on which we had voting rights.

For 0 resolutions we voted against management

It is important to note that on a number of occasions, having engaged with the relevant company, we did not follow the recommendation of ISS (our proxy voting service provider).

Collaborative engagement

Quilter Cheviot is a signatory of the United Nations' Principles for Responsible Investment, which is a global, investor-led, initiative to promote and support the integration of ESG considerations into investment research and ownership practices.

In our first submission for 2019 as a group, we achieved an A for strategy and governance. As part of Quilter plc, we are a signatory to the UK Stewardship Code 2020.

Quilter Cheviot is a member either through Quilter plc or in its own right of several formal or informal groups which may facilitate collaboration with other investors, including:

- The Investment Association
- Investor Group of the 30% Club
- UK Sustainable Investment and Financial Association - UKSIF
- The Institutional Investors Group on Climate Change (IIGCC)
- CDP
- FAIRR Initiative

> "*Quilter Cheviot is a signatory of the United Nations' Principles for Responsible Investment."*

We participate in collaborative engagements alongside other investors. In 2022, Quilter Cheviot participated in the following:

CDP Non-Disclosure Campaign – Environmental

Objective: We joined 263 investors from nearly 29 countries to urge companies with a significant environmental impact to disclose data through CDP, the global non-profit that runs the world's leading environmental disclosure system.

Over 1,400 of the world's highest-impact companies will be engaged in this campaign. These companies cover over US$24 trillion (as of 22 June 2022) in global market capitalisation and are estimated to collectively emit more than 4,800 mega tonnes (Mt) of carbon dioxide equivalent (CO_2e) annually.

The campaign aims to increase environmental disclosure among companies that either have never disclosed or have stopped disclosing through CDP. Transparent corporate disclosure is crucial to directing capital towards the transition to a net-zero, nature-positive future. For us, the focus is on the companies we hold within our centrally monitored equity universe.

Outcome: Climate change, deforestation and water security have become material issues to many industries. Therefore, consistent, comparable data is key to addressing the associated risks and opportunities. We believe increased corporate transparency on environmental impact is a key enabler to improve company performance and create a more resilient economy. The campaign in 2021, which we were not party to, saw 25% of companies engaged via the campaign responding to at least one CDP questionnaire.

CDP Science-Based Targets Campaign – Environmental

Objective: To accelerate the adoption of science-based climate targets in the corporate sector, by collaboratively engaging companies on this matter. The latest Intergovernmental Panel on Climate Change report makes it clear that without immediate and deep emissions reductions across all sectors, limiting global warming to 1.5°C will be impossible. Science-based targets provide a roadmap for reducing emissions at the pace and scale that science tells us is necessary to avoid the most catastrophic effects of climate change.

Outcome: We have joined a coalition of 274 financial institutions representing US$36.5 trillion to ask specific companies to commit to a target. Of the companies targeted, 47 are holdings within our direct equity centrally monitored list.

Modern slavery in the UK – Social

Objective: The purpose was to engage companies that would have not met reporting requirements under the 2015 Modern Slavery Act. In 2021, we joined a group of UK investors led by Rathbones through the UN-backed Principles for Responsible Investment platform.

Outcome: All 44 target companies responded and as at September 2022 there are eight companies that will be releasing new statements and three companies that are amending statements to become fully compliant.

30% Club Investor Group Executive Search firms in the UK – Governance, Social

Quilter Cheviot co-lead this engagement. The findings will be published in 2023.

Find it, Fix it, Prevent it – Social

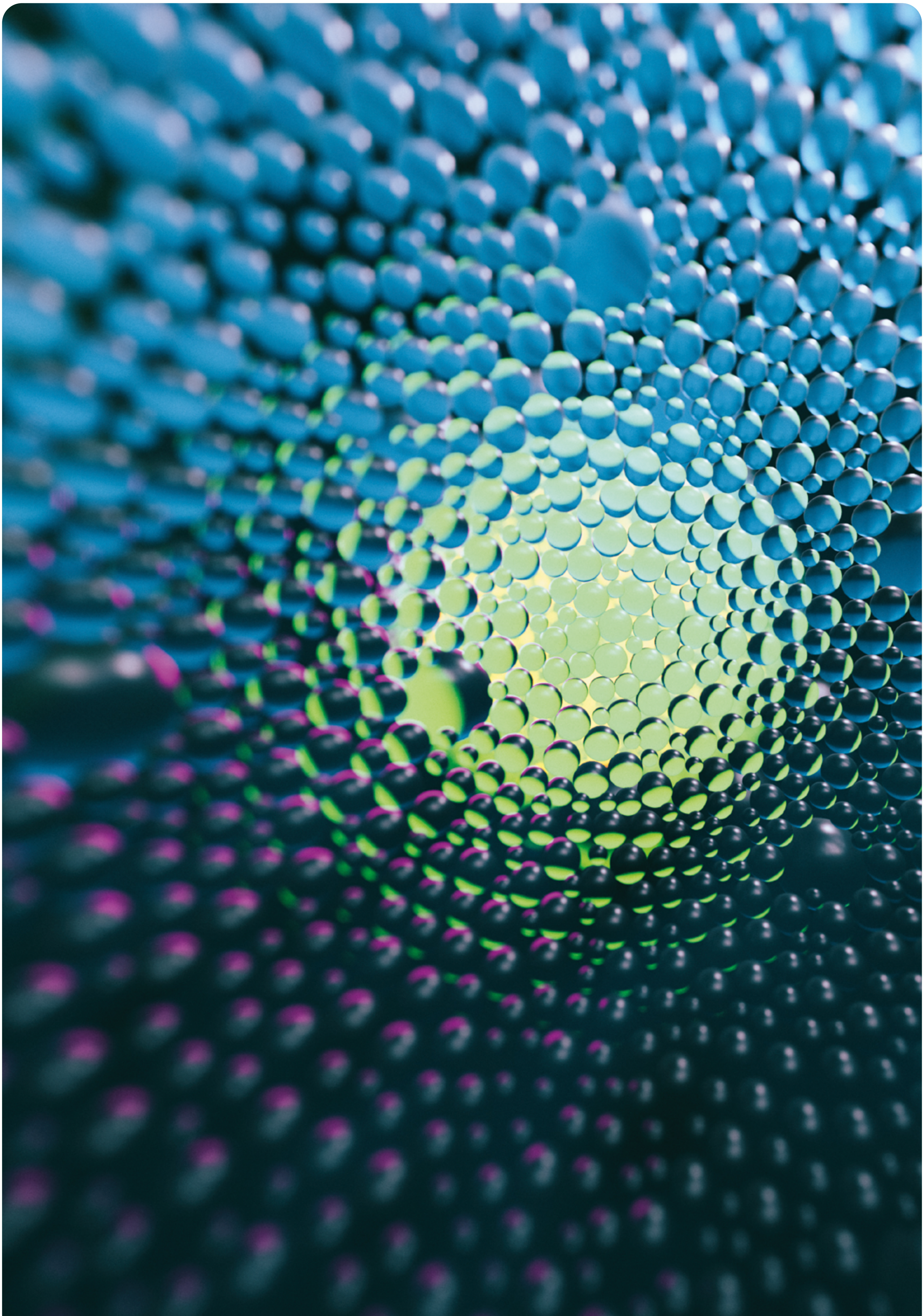
The prohibition of slavery is one of the world's most widely asserted norms. Regulation outlawing forced labour, human trafficking and slavery is to be found in international human rights law and in the legislation of many sovereign states. Further, eradicating modern slavery is one of the UN Sustainable Development Goals. This collaborative engagement will focus on UK-listed companies in specific industry groups which have been identified as being higher risk in regards to modern slavery.

Investor Statement on the Seasonal Worker Scheme – Social

As an adjunct to the Find it, Fix it, Prevent it campaign, CCLA brought together ten long-term institutional investors with £806bn assets under management and advisory with investments across UK-listed retail, hospitality and food production. The statement outlined our concern that migrant workers in the UK, recruited and employed through the government's Seasonal Worker Scheme (SWS), are being obliged to pay excessive fees to agents and middlemen in addition to other fees, travel and visa costs for crucial, but temporary roles, supporting the UK's food sector. This results in a high risk of debt bondage, one of the key indicators of forced labour.

PRI Advance endorser – Social

As part of Quilter, we are an endorser of the UN-backed Principles for Responsible Investment Advance programme. This is a stewardship initiative where institutional investors work together to act on human rights and social issues. Investors use their collective influence with companies and other decision makers to drive outcomes for workers, communities, and society.



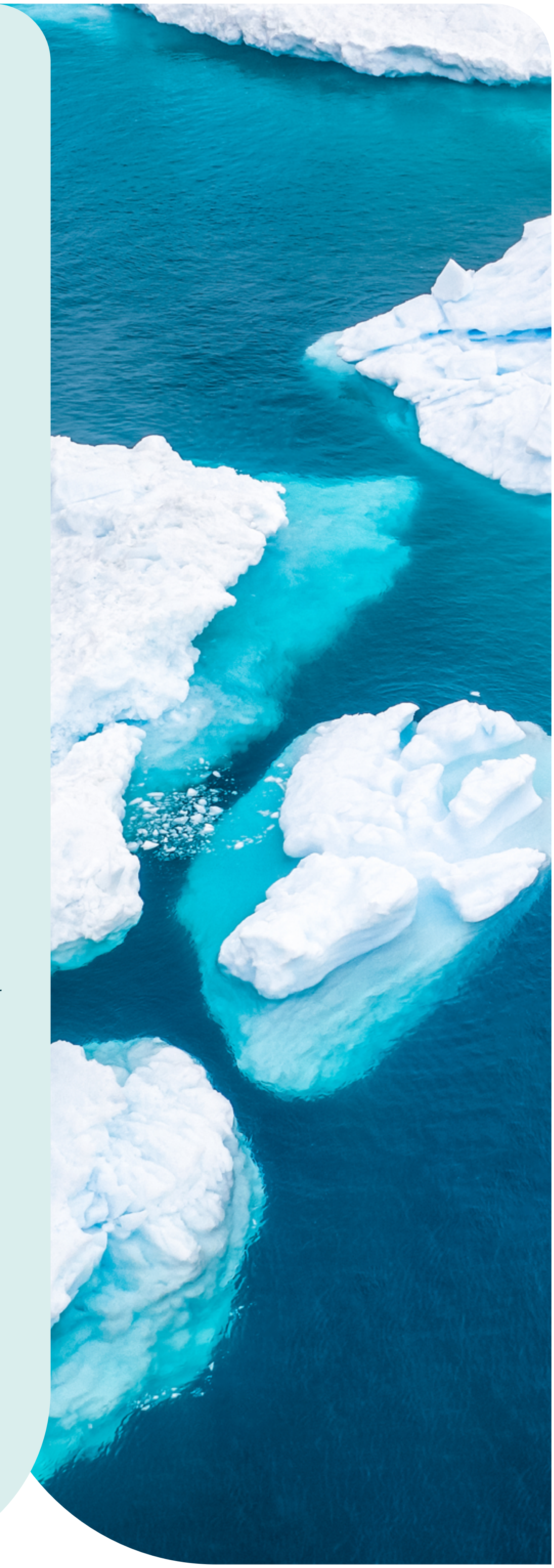
Climate Change

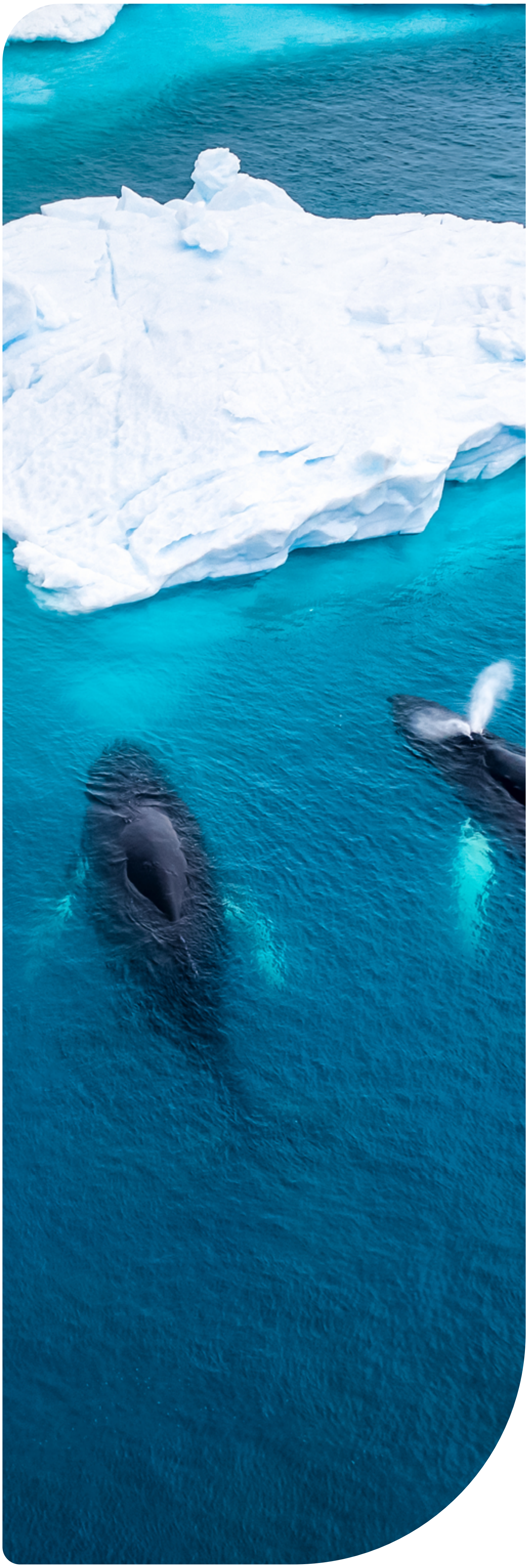
Climate change mitigation solutions are at the heart of our investment thesis.

While the Climate Assets Funds are not managed to defined greenhouse gas emission targets or, for example, a 1.5°C portfolio temperature increase target, we consider an assessment of the climate impact of investee companies as fundamental to our analysis. We consider both i) whether a company operates within a high impact sector (including mining, transport, heavy construction & industrial engineering) and ii) positive steps taken by the company to minimise any environmental impact.

We usually avoid companies from high impact sectors but in certain rare cases we may invest if it had an above average approach to minimising its negative impact. Positive steps that we look for include having an independently approved Science Based Target and having a detailed, transparent, and credible climate action plan.

When assessing climate impact at a company and portfolio level, we consider data from multiple independent research providers. Data included within this report was calculated by ISS on 24/01/23 using Fund holdings as at 31/12/22. We have reported revenue alignment metrics in USD to ensure consistency with Quilter Plc. Task Force on Climate-related Financial Disclosures (TCFD) reporting. For climate analysis, we use MSCI PIMFA Balanced (for Climate Assets Balanced) and MSCI PIMFA Growth (for Climate Assets Growth) as benchmarks with similar asset allocation to enable analysis of, and comparison to, the constituent holdings. These differ from the Funds' financial performance comparator benchmarks (Investment Association Mixed Investment 40-85% shares, for Climate Assets Balanced and Investment Association Global, for Climate Assets Growth) as those are peer group comparators and are thus not appropriate for portfolio climate analysis.





Portfolio Carbon Exposure

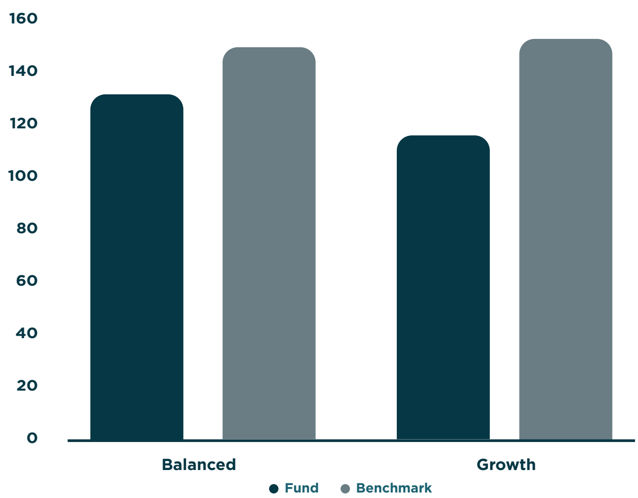
Weighted average carbon intensity (WACI) measures a portfolio's exposure to carbon intensive companies, expressed in tonnes of greenhouse gas converted to carbon dioxide emissions, per $1m USD revenue. We monitor the WACI of the Funds, allowing us to compare and assess portfolio exposure to carbon intensity against benchmark. Encouragingly, both the Funds display a lower carbon intensity, with Balanced 10.5% lower and Growth, 23.5%.

A key explanation for Growth's comparably lower emissions is its larger allocation to technology holdings which tend to have lower operational greenhouse gas emissions than other sectors.

Portfolio emission exposure is concentrated for both Balanced and Growth, with over 80% generated by five companies for each Fund. Importantly, while the level of emissions generated by these companies is elevated, ISS rated their carbon risk as 'Outperformer'. ISS's independent carbon risk rating methodology assesses a company's exposure to climate risks and opportunities and provides insight into its preparation for a transition to a low carbon economy. A rating of Outperformer is achieved with a score of between 50 and 74 (out of 100), indicating an above average performance from a climate risk perspective.

We consider the role that each company plays in enabling sustainable outcomes. These companies' operations range from waste management, to sustainable packaging manufacture, and railway transportation. While elevated emissions can never be disregarded, when considering each company's activity, its alignment with our investment themes, along with how it manages its environmental impact, we assessed each as suitable for the Climate Assets Funds.

WEIGHTED AVERAGE CARBON INTENSITY

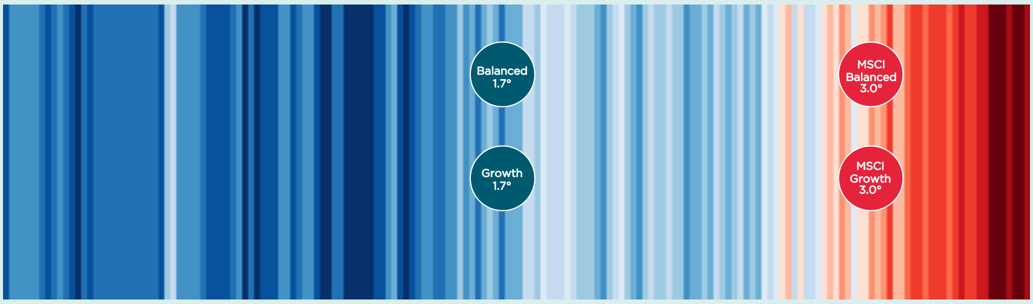


Source: ISS as at 31 December 2022.

Portfolio Temperature Alignment

Whilst the Funds are not managed to a specific temperature alignment metric, we consider scenario temperature alignment analysis. This compares current and future portfolio greenhouse gas emissions with the carbon budgets for defined sustainable scenarios. It is a methodology for assessing the global temperature increase that the Funds are aligned with, and we compare each with that of its respective benchmark. A 1.5°C increase is the ambition, consistent with the Paris Agreement; the legally binding international treaty on climate change with the goal of limiting global warming to well below 2°C, and preferably 1.5°C, compared to pre-industrial levels.

Both the Climate Assets Funds are aligned with a **1.7°C** warming scenario. It is positive that this is far below the respective benchmark's **3.0°C** warming scenario and our investee companies climate action plans will continue to be a focus of our analysis and engagement.



The background shows Global temperature change (1850 – 2021), Ed Hawkins, National Centre for Atmospheric Science, University of Reading. **Show Your Stripes.**

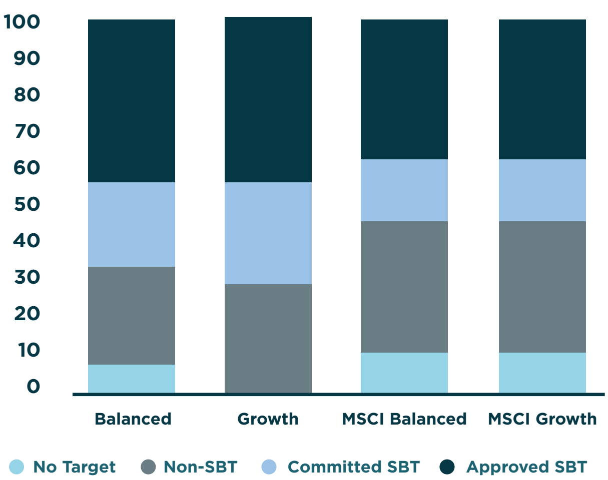
Science Based Targets

For us, a crucial consideration is companies setting science based targets (SBT); a clearly defined pathway for them to reduce greenhouse gas emissions. A target is considered 'science based' if it is consistent with what the latest climate science deems necessary to meet the goals of the Paris Agreement. We are particularly encouraged when a company has an SBT that has been formally approved by an independent organisation, such as the Science Based Targets Initiative (SBTi).

For the SBTi to approve such a target, its team of experts review a submission and validate it against defined science-based criteria. This includes; ensuring that i) the target is appropriate for the company's sector, ii) an appropriate near-term time frame is used, and iii) absolute emissions are also considered. Importantly, in most cases, a company must consider its scope 3 emissions, which often account for the majority of a company's emissions.

The below chart shows a breakdown for each Fund and respective benchmark by the SBT status of holdings. It shows the percentage of each portfolio that had: i) an approved SBT, ii) formally committed to a SBT, iii) defined a greenhouse gas emission reduction target that isn't science-based, or iv) no set target.

As at 31 December 2022, **65%** of Balanced and **71%** of Growth had either committed to a SBT or had one approved. This compares favourably with the **53%** such companies for both benchmark portfolios.



Source: ISS as at 31 December 2022.

Portfolio Analysis

When calculating the above data, ISS coverage of the portfolio was **68.8%** for Balanced and **78.5%** for Growth. The proportion of the portfolio not included largely relates to UK sovereign debt and cash and so overall we consider the analysis sufficiently representative and informative.

We do, however, highlight that **9.2%** and **7.6%** of the two Funds respectively, relates to renewable energy infrastructure investment trusts such as the Foresight Solar Fund and VH Global Sustainable Energy Opportunities for which climate data is not available. With the primary purpose of these investment trusts the generation of renewable energy and achieving sustainable outcomes, it is likely that the climate characteristics of the Funds would further outperform the benchmarks had these holdings been included within the coverage.

"They call it the investment opportunity of our generation. It has been our careers. We've been investing sustainably since 2010 and have the experience and passion to make the opportunity really count in the decades ahead."

Claudia Quiroz and Caroline Langley
Fund Managers to the Climate Assets Funds

Investing with us

Keeping you fully informed

- We host a quarterly update webinar
- You can receive a monthly Climate Assets Funds e-newsletter
- You can find further insights, information on the costs and charges as well as the key investor information documents (KIIDs) by visiting: **www.quiltercheviot.com/climate-assets**

Investing made easy

The Funds have both income and accumulation units available.

There are several ways you can invest:

- Via a third-party platform
- Directly with Quilter Cheviot
- Bespoke mandates

Appendix One: Fund Holdings

Climate Assets Balanced Fund Holdings as at 31 December 2022.

Holding	Country	Theme	Primary UN SDG	Weight %
Union Pacific	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	2.7
Novo Nordisk	Europe	Health	SDG 3 (Good Health & Well-Being)	2.4
Waste Management	North America	Resource Efficiency	SDG 12 (Responsible Consumption & Production)	2.3
The Renewables Infrastructure Grp	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.3
Novartis	Europe	Health	SDG 3 (Good Health & Well-Being)	2.3
American Water Works	North America	Water	SDG 6 (Clean Water & Sanitation)	2.3
Medtronic	North America	Health	SDG 3 (Good Health & Well-Being)	2.3
Schneider Electric	Europe	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.2
Thermo Fisher Scientific	North America	Health	SDG 3 (Good Health & Well-Being)	2.2
Assura	United Kingdom	Health	SDG 3 (Good Health & Well-Being)	2.2
Linde	North America	Clean Energy	SDG 9 (Industry, Innovation & Infrastructure)	2.2
Waters Corp	North America	Health	SDG 3 (Good Health & Well-Being)	2.1
Greencoat UK Wind	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.1
Amundi	Europe	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	2.0
Fresenius	Europe	Health	SDG 3 (Good Health & Well-Being)	2.0
United Kingdom 0.75% Snr Bds 22/07/2023	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	2.0
Ecolab	North America	Health	SDG 3 (Good Health & Well-Being)	2.0
United Kingdom 0.125% Snr Bds 31/01/2023	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	2.0
Compass Group	United Kingdom	Food	SDG 2 (Zero Hunger)	2.0
Foresight Solar Fund	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.9
Edp Renovaveis	Europe	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.8
London Stock Exchange Group	United Kingdom	Resource Efficiency	SDG 12 (Responsible Consumption & Production)	1.8
VH Gbl Sustainable Energy	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.8
GCP Infrastructure Investments	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.8
Visa	North America	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.7
Jlen Environmental Assets Group	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.7
Emerson Electric	North America	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.7
Fanuc	Japan	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.6
Halma	United Kingdom	Health	SDG 3 (Good Health & Well-Being)	1.6
Xylem	North America	Water	SDG 6 (Clean Water & Sanitation)	1.6
Sonoco Products	North America	Food	SDG 12 (Responsible Consumption & Production)	1.6
Ares Management Corporation	North America	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.5
United Kingdom 1.5% Snr Bds 22/07/2047	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.5
Advanced Micro Devices	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	1.3

Continued

Climate Assets Balanced Fund Holdings as at 31 December 2022.

Holding	Country	Theme	Primary UN SDG	Weight %
United Kingdom 0.875% Snr Bds 22/10/2029	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.3
Kubota	Japan	Food	SDG 2 (Zero Hunger)	1.3
Geberit	Europe	Water	SDG 6 (Clean Water & Sanitation)	1.2
United Utilities	United Kingdom	Water	SDG 6 (Clean Water & Sanitation)	1.2
Infineon Technologies	Europe	Clean Energy	SDG 11 (Sustainable Cities & Communities)	1.2
Rockwell Automation	North America	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.1
Motability Operations Group 3.625% Gtd Snr EMTN 10/03/2036	United Kingdom	Health	SDG 10 (Reduced Inequalities)	1.1
Bupa Finance 1.75% Gtd Snr Nts 14/06/2027	United Kingdom	Health	SDG 3 (Good Health & Well-Being)	1.1
London & Quadrant Housing Trust 2% Snr Sec EMTN 31/03/32	United Kingdom	Resource Efficiency	SDG 11 (Sustainable Cities & Communities)	1.1
Cia Saneamento Basico De Sao Paulo	Emerging Markets	Water	SDG 6 (Clean Water & Sanitation)	1.0
Smiths Group	United Kingdom	Resource Efficiency	SDG 16 (Peace, Justice & Strong Institutions)	1.0
Smith(DS)	United Kingdom	Food	SDG 12 (Responsible Consumption & Production)	0.9
United Kingdom 0.125% I/L Snr Bds 22/03/2029	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.9
United Kingdom 4.5% Gilt Snr 07/12/2042	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.9
Aptiv	North America	Clean Energy	SDG 11 (Sustainable Cities & Communities)	0.8
Persimmon	United Kingdom	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	0.8
Daiseki	Japan	Resource Efficiency	SDG 12 (Responsible Consumption & Production)	0.8
United Kingdom Idx/Lkd Snr Bds 22/11/2036	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.7
Horiba	Japan	Resource Efficiency	SDG 11 (Sustainable Cities & Communities)	0.7
Motability Operations Group 4.375% Gtd Snr EMTN 08/02/27	United Kingdom	Health	SDG 10 (Reduced Inequalities)	0.7
Anglian Water Services 6.625%-Var Gtd Snr Nts 15/01/29	United Kingdom	Water	SDG 6 (Clean Water & Sanitation)	0.7
Taiwan Semiconductor Manufacturing	Emerging Markets	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	0.7
United Kingdom 1.75% Snr Bds 07/09/2037	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.6
Unite Group	United Kingdom	Resource Efficiency	SDG 4 (Quality Education)	0.5
East Japan Railway	Japan	Resource Efficiency	SDG 11 (Sustainable Cities & Communities)	0.5
United Kingdom 0.125% Idx/Lkd Snr Bds 22/03/24	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.5
Segro	United Kingdom	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	0.5
Aptargroup	North America	Food	SDG 12 (Responsible Consumption & Production)	0.5

Climate Assets Growth Fund Holdings as at 31 December 2022.

Holding	Country	Theme	Primary UN SDG	Weight %
Thermo Fisher Scientific	North America	Health	SDG 3 (Good Health & Well-Being)	3.0
Waste Management	North America	Resource Efficiency	SDG 12 (Responsible Consumption & Production)	3.0
Union Pacific	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	2.7
American Water Works	North America	Water	SDG 6 (Clean Water & Sanitation)	2.6
Ecolab	North America	Health	SDG 3 (Good Health & Well-Being)	2.5
Intuit	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	2.5
Emerson Electric	North America	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.4
Waters Corp	North America	Health	SDG 3 (Good Health & Well-Being)	2.4
Medtronic	North America	Health	SDG 3 (Good Health & Well-Being)	2.4
Microsoft	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	2.2
Assura	United Kingdom	Health	SDG 3 (Good Health & Well-Being)	2.2
Aptiv	North America	Clean Energy	SDG 11 (Sustainable Cities & Communities)	2.1
Foresight Solar Fund	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.0
Adobe	United Kingdom	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	2.0
Trane Technologies	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.0
Rockwell Automation	United Kingdom	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	2.0
Infineon Technologies	Europe	Clean Energy	SDG 11 (Sustainable Cities & Communities)	2.0
The Renewables Infrastructure Grp	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.0
Amundi	Europe	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.9
Siemens Healthineers	Europe	Health	SDG 3 (Good Health & Well-Being)	1.9
Watts Water Technologies	North America	Water	SDG 6 (Clean Water & Sanitation)	1.9
Edp Renovaveis	Europe	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.8
Republic Services	North America	Resource Efficiency	SDG 12 (Responsible Consumption & Production)	1.8
Novartis	Europe	Health	SDG 3 (Good Health & Well-Being)	1.8
American Express	North America	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.8
Gecina	Europe	Resource Efficiency	SDG 11 (Sustainable Cities & Communities)	1.8
Novo Nordisk	Europe	Health	SDG 3 (Good Health & Well-Being)	1.7
Jlen Environmental Assets Group	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.7
Sonoco Products	North America	Food	SDG 12 (Responsible Consumption & Production)	1.7
Greencoat UK Wind	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.6
Schneider Electric	Europe	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.6
Relx	United Kingdom	Resource Efficiency	SDG 4 (Quality Education)	1.5
Xylem	North America	Water	SDG 6 (Clean Water & Sanitation)	1.5
United Kingdom 2% Snr Bds 07/09/2025	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.4

Continued

Climate Assets Growth Fund Holdings as at 31 December 2022.

Holding	Country	Theme	Primary UN SDG	Weight %
VH Gbl Sustainable Energy	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.4
Palo Alto	North America	Resource Efficiency	SDG 11 (Sustainable Cities & Communities)	1.4
Advanced Micro Devices	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	1.4
Segro	United Kingdom	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	1.4
Smith(DS)	United Kingdom	Food	SDG 12 (Responsible Consumption & Production)	1.3
Visa	North America	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.3
Halma	United Kingdom	Health	SDG 3 (Good Health & Well-Being)	1.2
United Kingdom 4.5% Gilt Snr 07/12/2042	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.1
Fanuc	Japan	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.1
Horiba	Japan	Resource Efficiency	SDG 11 (Sustainable Cities & Communities)	1.1
Nvidia	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	1.1
Baxter International	North America	Health	SDG 3 (Good Health & Well-Being)	1.1
Compass Group	United Kingdom	Food	SDG 2 (Zero Hunger)	1.0
Kubota	Japan	Food	SDG 2 (Zero Hunger)	0.9
United Kingdom 0.75% Snr Bds 22/07/2023	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.9
United Kingdom 4.25% Snr Bds 07/03/2036	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.8
United Kingdom 4.75% Snr Gilt Bds 07/12/2030	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.8
GCP Infrastructure Investments	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	0.8
Cia Saneamento Basico De Sao Paulo	Emerging Markets	Water	SDG 6 (Clean Water & Sanitation)	0.8
United Kingdom 0.875% Snr Bds 22/10/2029	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.8
London Stock Exchange Group	United Kingdom	Resource Efficiency	SDG 12 (Responsible Consumption & Production)	0.8
Daiseki	Japan	Resource Efficiency	SDG 12 (Responsible Consumption & Production)	0.7

Our experts are here to help you

Speak to our team today

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