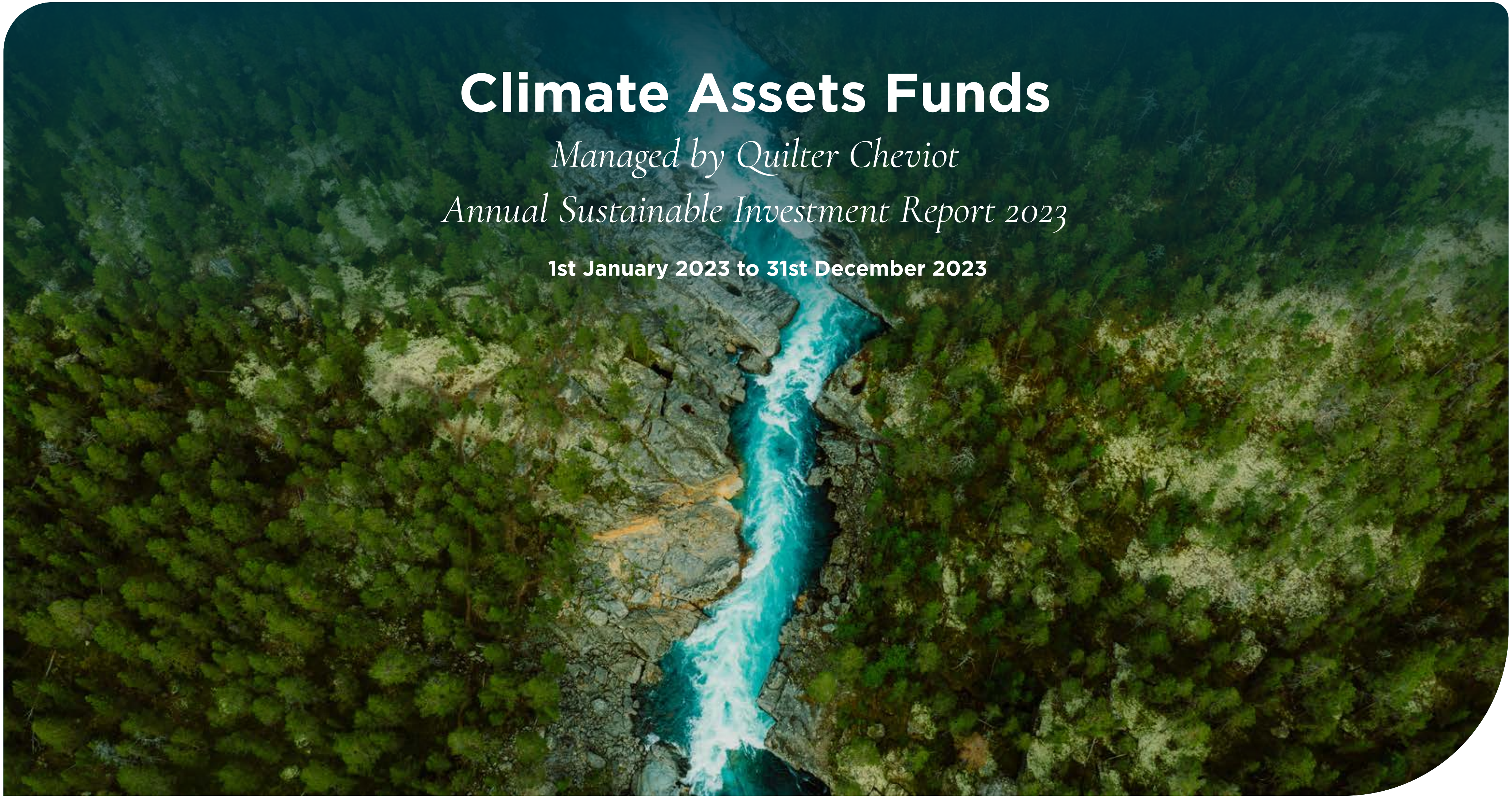
QUILTER CHEVIOT

Climate Assets Funds

Managed by Quilter Cheviot

Annual Sustainable Investment Report 2023

1st January 2023 to 31st December 2023



Approver: Quilter Cheviot Limited 26 March 2024

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.

Foreword

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.

I am delighted to introduce our annual Climate Assets Sustainable Investment Report. We see this as a fantastic opportunity to present our sustainable investment philosophy, to reflect on the past year, and to look forward to some of the exciting opportunities ahead.

After a challenging market backdrop in 2022 and much of 2023 the investment environment became more favourable in the latter stages of last year. We are optimistic that better macroeconomic conditions lie ahead. Inflation has fallen significantly in the UK, Europe, and the US, alleviating the pressure on central banks to continue raising rates. Interest rate cuts are broadly expected in 2024 and this would provide a more supportive environment for sustainable stocks to perform — given companies that provide sustainability solutions tend to have a growth bias with a substantial proportion of their earnings forecast well into the future. Thus, lower interest rates typically provide a significant tailwind in boosting valuations.

Our Sustainable Investment team is proud to have one of the longest track records in the industry of delivering strong returns and pioneering Sustainable Investment. Since we launched our first Climate Assets Fund in 2010, investor appetite for, and knowledge of, sustainable offerings has consolidated and shifted sentiment against fossil fuels. Notably, in June 2023 we welcomed the bold decision of the Church Commissioners for England, which manages the Church of England's endowment fund of over £10bn, to exclude all remaining oil & gas majors from its portfolio. This validated our stance on portfolio construction, that a fossil fuel free investment strategy is right for a sustainable investment strategy.

The world experienced its hottest year on record in 2023, with extreme weather, droughts, wildfires, and flooding. So, it is a critical time for climate finance. We welcomed the outcome of COP28, which cemented the new position that we need to shift the focus from reducing emissions to transitioning away from fossil fuels entirely. The pledge of $700m to the much needed 'loss and damage' fund was also another important development, in our view.

> *“We see our investment philosophy and approach as well aligned with the aims of a ‘Sustainability Focus’ label”*

I was also pleased with the news that Claudia Goldin was the first sole female winner of the Nobel Prize in economics for her work researching and articulating women's century long journey towards equity, a subject close to my heart as one of the few lead female fund managers in the City.

The FCA published its long-awaited Sustainability Disclosure Requirements (SDR) at the end of the year. This policy aims to improve trust and transparency in the market for sustainable investment products, with a package of rules and disclosure requirements. Of particular significance to us, it introduces four sustainable investment labels that may be used to market an investment product, where specific criteria are met.

We are supportive of the policy overall, seeing an increase in transparency for the industry as a necessity. And, as those of you who are familiar with the Climate Assets Funds may expect, we see our investment philosophy and approach as well aligned with the aims of a 'Sustainability Focus' label. We are currently undertaking the work and preparation required to ensure we can use the label for our funds later in 2024.

While we do not expect the advent of SDR to require major changes to our sustainable investment framework, we do expect to make some enhancements to how we articulate and report on our sustainable investment strategy. In this report we seek to describe our investment process and approach clearly and accurately as at the close of 2023, but it is important to note that this may differ in some ways from how we present and articulate it going forward.

At Quilter Cheviot we continue to pride ourselves on our commitment to our role as a "responsible investor." Our carefully considered framework for active ownership and the integration of Environmental, Social and Governance (ESG) factors and ESG screening into the investment process are cornerstones of our approach. This report shines a spotlight on our sustainable investment approach and our management of the Climate Assets Funds in particular. For further information on our approach to being a responsible investor, please refer to our **website**.

I would like to conclude by saying thank you for your continued support of the Climate Assets Funds and welcome any comments or feedback on this report. We are constantly striving to improve and evolve our sustainable investment offering and appreciate the input of our valued clients and advisors.

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

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Head of Responsible Investment

Greg Kearney
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Margaret Schmitt
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Materials Analyst

Jarek Pominkiewicz
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Mamta Valechha
Consumer Analyst

Oli Creasey
Property Analyst

Sheena Berry
Healthcare Analyst

Tom Gilbey
Utilities Analyst

Will Howlett
Financials Analyst

Matt Ennion
Alternatives Analyst

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

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.

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.

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.

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.

To learn more about our investment themes, turn to **page 17**.

Negative Criteria

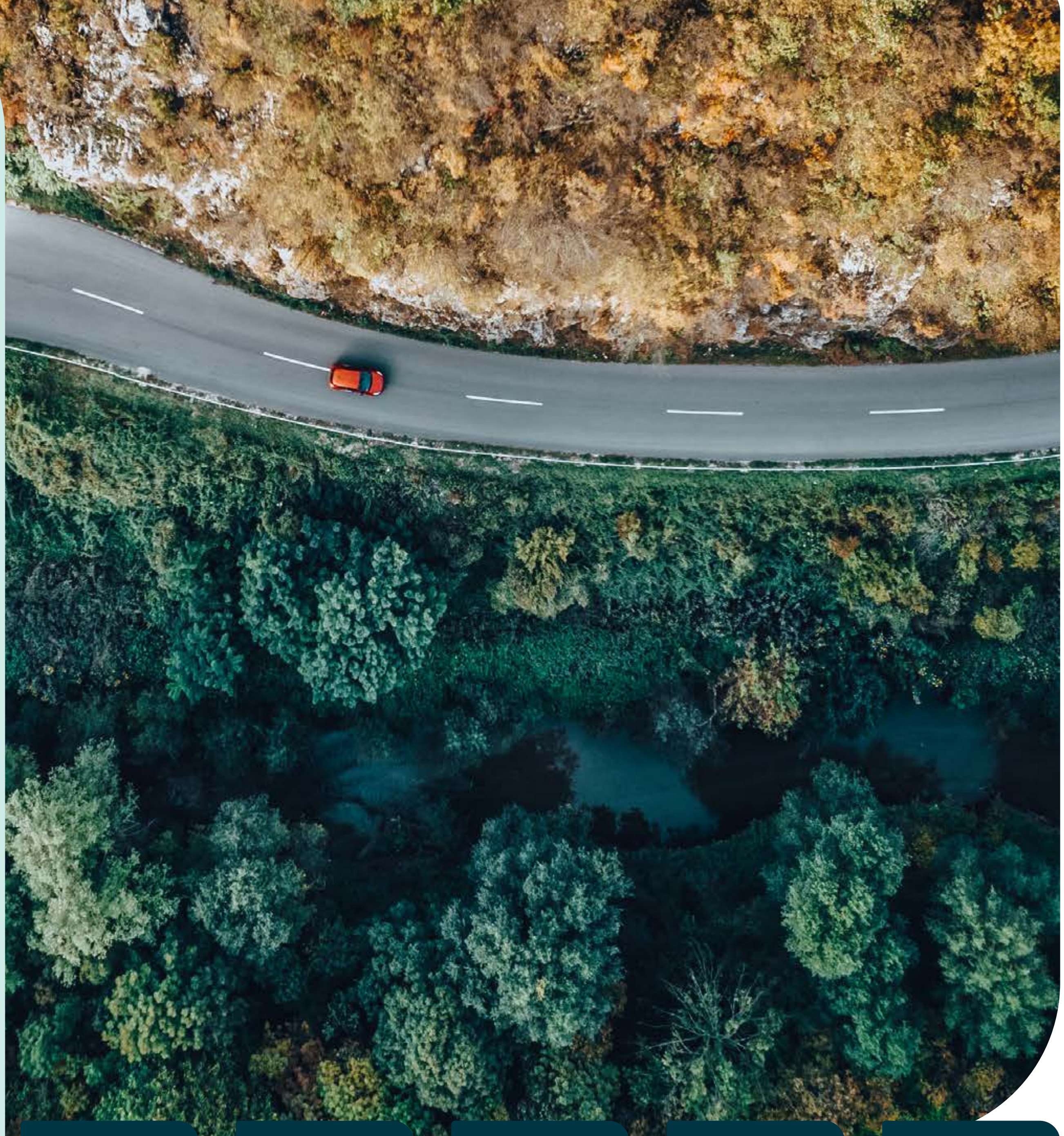
This positive investment approach is coupled with careful screening of companies that generate revenue from controversial sectors of the economy.

We utilise independent research and analysis from Ethical Screening (a third-party data provider) 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 are proudly #FossilFuelFree and in our view this is a crucial component of any sustainable investment solution. By this we mean that we do not invest in any company that is directly involved in the exploration, production or extraction of fossil fuels.
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 within 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 investments against the negative criteria using the services of Ethical Screening, another third-party research provider.

Investable Universe

ESG factor analysis

Certain companies from the broader Quilter Cheviot investment universe are considered not investable for the Funds on ESG factor considerations. This may be determined by the Research team when classifying that company in conjunction with the Responsible Investment team, or it may be determined by the Sustainable Investment team when we undertake additional ESG factor analysis.

ESG factor analysis is facilitated by Quilter Cheviot's proprietary dashboards which are managed by the Responsible Investment team and used alongside the Research team and the Sustainable Investment team. They 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.

2023 ESG factor-related engagement activity

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 41** 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 may be to divest.

On a number of occasions in 2023, we engaged with companies to better understand specific issues. Considering the specifics of each matter and the productivity of engagement activity, we did not sell any investments driven by ESG factor-related considerations alone.

For example, concerns including its level of disclosure led us to engage with **Emerson Electric**. We communicated our concerns and were reassured by the plans in place to enhance certain disclosures. We also conveyed our concerns to **Prudential** after an Environmental Investigations Agency report identified a small exposure to two companies that used endangered species within medicinal products. We clarified that the exposure was limited to broad index-based passive investments only and were further reassured by their commitment to us to use their local language channels to engage with the two companies in question on stopping this practice.

FAQ – What is your approach to the Magnificent 7? *

We define sustainable as what a company does, and think of ESG-factor integration in terms of how a company operates.

Using this framework to assess the companies that form the Magnificent 7, we find Meta's 'what' is providing social media platforms (Facebook) and virtual reality services. 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, Meta does not qualify as a sustainable investment eligible for the Climate Assets Funds.

Amazon is an online retailer with a growing business focused on cloud and data storage services. Amazon Web Services, as a cloud business, brings resource efficiency benefits. However, at the moment, the retail business generates most of the revenue and profitability. Whilst the retail business is well managed, it does not provide solutions to sustainability challenges.

Apple designing, manufacturing, and marketing smartphones, tablets, PCs, and wearable devices means it is essentially a luxury consumer goods brand. Although there are some efficiency arguments to what Apple does, its alignment is limited.

Two stocks that fit thematically in 'what they do' but we currently exclude based on ESG factor analysis ('how they do it') - are Alphabet and Tesla.

Alphabet (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. Where Alphabet falls short for us is its poor business ethics and governance. Controversies include being anti-competitive, using tax optimising strategies (taking advantage of 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 Climate Assets Funds at the current time.

Similarly, 'what' Tesla does, designing and producing electric vehicles, advanced driver technologies and renewable energy products is particularly well aligned with the funds' clean energy and resource efficiency themes. However, we currently have concerns regarding workplace culture, human rights breaches within its supply chains, and occupational safety.

CEO Elon Musk is a polarizing personality, and he creates controversies too which makes this an extremely unusual investment proposition. Thus, at the moment we favour investing in the electric vehicle space by tapping into companies involved in the supply chains of these businesses.

Microsoft and Nvidia on the other hand have a high alignment to resource efficiency and pass our 'how' ESG hurdles so these are eligible stocks for the Climate Assets Funds.

Microsoft is known for Windows, the Office suite including Teams, Azure cloud services and LinkedIn. This year the company has been in the headlines for, its AI innovation and its role as the largest investor in OpenAI, ChatGPT's founding company. Nvidia designs and sells high-end graphics and mobile processors. Its dominance in the AI chip market led it to be much the best performing S&P 500 stock of 2023. Microsoft is held in both the Climate Assets Growth Fund and Climate Assets Balanced Fund, whereas Nvidia is held in the Climate Assets Growth Fund only due to its significant price volatility.

This 'what' and 'how' framework has become a useful way to distinguish the sustainability justification from the ESG rationale for all our investment ideas, not just the Magnificent 7.

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.

*Magnificent 7 is a term that has become commonly associated with the most valuable high-profile US stocks driven by secular technology growth trends: Alphabet (formerly Google), Amazon, Apple, Meta (formerly Facebook), Microsoft, Nvidia and Tesla.

Investment Themes

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 are influenced by 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.

In the table to the right, 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 21.0% and 9.7% respectively.

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.

Resource Efficiency - One key reason for the Growth fund having a larger alignment to the 'Resource Efficiency' theme is due to a larger weighting to technology holdings where efficiency, products and data management systems enable consumers to do more with less.

Climate Assets Funds' Investment Theme Alignment

	Balanced	Growth
Clean Energy	16.3%	19.2%
Food	5.6%	4.6%
Health	24.2%	21.4%
Resource Efficiency	25.8%	38.3%
Water	7.4%	6.8%

(Source, Quilter Cheviot as at 31 December 2023)

Clean Energy

"Renewables are forecast to become the largest source of global electricity generation by early 2025, surpassing coal."*

International Energy Agency

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.

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. Encouragingly, the International Energy Agency forecasts that renewable energy will become the largest source of global electricity generation by 2025, overtaking coal.[1]

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.

Over the last half decade cumulative economic and geopolitical shocks such as the trade war between the US and China, the Covid pandemic, and the outbreak of wars in both Ukraine and more recently the Middle East have brought the issue of energy security to the fore, and renewables must play a key part in that conversation.

* **International Energy Agency**

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. 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.

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.

Company Examples

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

TRIG The Renewables Infrastructure Group

The Renewables Infrastructure Group

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.

7 AFFORDABLE AND CLEAN ENERGY

edp Renewables

EDP Renováveis

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.

7 AFFORDABLE AND CLEAN ENERGY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Clean Energy

What problems are we currently facing?

2.3bn people still rely on unsafe and polluting fuels for cooking

675m people remain unconnected to the grid

80% of the people who still live off-grid are located in sub-Saharan Africa

Public financing available for clean energy infrastructure in developing countries

$28.4bn in 2017

$10.8bn in 2021

this figure is still falling

What if no action is taken?

1 in 4 people will still be using unsafe or inefficient **cooking systems** by 2030

660m people will still be **living without electricity** by 2030

<30% of our electricity will be from **renewable energy** sources

But these renewable energy sources will...

provide **power** for only **4%** of our **transport sector**

and only **10%** of our **heating**

How has the situation improved around the world?

	2015	2021
Global electricity access	87%	91%
Access to clean cooking fuels and technology	64%	71%
		2020
Total energy generated from renewable sources	17%	19%

The challenge

3,200 GW (gigawatts) of global wind power capacity is needed by 2030. In 2021 the world's total wind power capacity was 837 gigawatts

At least... **107 PV (photovoltaic/ solar panel)** gigafactories must be in operation around the world by the end of 2024 in order to leave the fossil fuel era behind by 2035

Source: UNStats.un.org, Sdgs.un.org, LUT/Energy Watch Group, euronews.green, GWEC

Food

"13.3% of the world's food is lost after harvesting and before reaching retail markets, and an additional 17% is then wasted at the consumer level."*

UN Department of Economic and Social Affairs

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.

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. There can be no credible net zero strategy that does not target significant GHG reductions across the food system.

* **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.

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.

2 ZERO HUNGER

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Food

What problems are we facing?

30% of the global population is regarded as either moderately or severely food insecure

HELP

nearly **67%** of our calories come from only four sources: rice, wheat, maize and soybeans

nearly **33%** of global greenhouse gas emissions are produced by the agricultural industry

70% of the world's freshwater withdrawals are for agricultural uses

Why we need to take action to improve food production capacity and technology

72% of global production of staple crops takes place in just 5 regions

78% & **59%**

wheat rice

78% of the world's wheat & 59% of all rice is produced in regions which are at extremely high risk of water insecurity by 2050

How are we making progress at the moment?

Water desalination technology

22% of the desalinated water in Spain has been used for irrigation for over 10 years

Increased efficiencies in micro-irrigation technology improve water efficiency by up to **90%**

and increase crop yields by **45%**

In India, it has been estimated that switching from rice to millet production during the monsoon season, and from wheat to sorghum in winter could result in a...

32% reduction in water waste

39% improvement in calorie production

140% increase in profits for farmers

What if no action is taken?

183m people will be pushed into hunger

29% is the projected increase in cereal prices by 2050 due to climate change if emissions are not curbed until 2080

$3.1tn in predicted revenue losses for public companies due to both water pollution and shortages relating to agriculture

$117bn is spent annually on agricultural subsidies by governments globally

Source: Citi, World Resources Institute, IPCC, ECMWF

Health

> *Healthcare is one of the largest global expenses at over $9 trillion a year.*"*

World Health Organisation

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 1 - 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 2021) and the amount has been consistently rising, both in absolute and per-capita terms.

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.

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.

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

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.

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

3 GOOD HEALTH AND WELL-BEING

novo nordisk

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 and obesity solutions and these represent 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

3 GOOD HEALTH AND WELL-BEING

ThermoFisher SCIENTIFIC

Thermo Fisher Scientific

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.

3 GOOD HEALTH AND WELL-BEING

10 REDUCED INEQUALITIES

Health

Every
2 minutes
a woman dies from preventable causes relating to pregnancy or childbirth

25m
children missed out on vital routine immunisations in **2021**...

This was
19m
in **2019**, an increase of **32%** in just two years

What problems are we currently facing?

Cases of malaria worldwide increased by
6.5%
between 2019-2021

4.9%
of the world's population has now been pushed into extreme poverty due to healthcare expenses

Why we need to invest in solutions to these healthcare challenges..

$9.8tn
was spent on healthcare globally in **2021**

equivalent to
10.3%
of global GDP

By 2050...

17%
of the global population will be aged over 65...

...in the UK this figure could be closer to
25%

By 2030...

1bn adults
are expected to be classed as obese

By 2040...

There are expected to be
28.4m
cases of cancer globally

a
47%
increase from 2020 levels

How are advances in healthcare progressing?

146 out of **200**

areas or countries have met, or are on track to meet the under-5 **mortality** target

Global AIDS-related deaths have been cut by
52%
since 2010

47 countries
have **eliminated** at least one tropical **disease**

Source: UNStats.un.org, Sdgs.un.org, World Health Organisation, World Obesity, American Cancer Society

Resource Efficiency

> *"The global economy is now only 7.2% circular, down from 9.1% in 2018.*"*
>
> **Circle Economy**

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.

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.

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, and recycling rates remain low, an enormous volume of plastics are sent to landfill - or worse - the sea.

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.

* **Circular Gap Report 2023**

Company Examples

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

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.

8 DECENT WORK AND ECONOMIC GROWTH

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 3: 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.

8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Resource Efficiency

What problems are we currently facing?

The World Economy

continues to recover at a slow pace

Global Annual Growth Rate of Real GDP per Capita (%)

2bn people are expected to be living in slum conditions within the next 30 years

THE ENVIRONMENTAL FOOTPRINT

of high income countries is **x10 LARGER** than low-income countries

CO_2 emissions from global energy use reached a RECORD HIGH of **36.8bn** metric tonnes in 2022

over **40%** of the world's population lives in areas where the amount of **plastic waste generated exceeds manageable capacity**

only **7.2%** of the **global economy** is circular

Issues resulting from our use of plastics are a key example of why we need higher levels of Resource Efficiency

Plastics take **450 YEARS** to **degrade**

98% of plastics produced **are still made using** fossil fuels

9% of all plastic is actually recycled each year

85% of plastic globally goes to landfill or into the sea

How growth and innovation are contributing to increased levels of Resource Efficiency and the wider community

485 › policies have been introduced by 62 countries and the EU to champion sustainable consumption & production

Tripled › the levels of company sustainability reporting since 2016

1.93% › the increase in the proportion of GDP spent on R&D in this space globally

increased from 1.69% in 2015

OVER 95% › of the world now has mobile broadband access

a significant increase from 78% in 2015

Source: UNStats.un.org, Sdgs.un.org, UNEP, Circulatory Gap Report, Circular Online, DW

Water

"At current rates, by 2030, 1.6bn people will lack safely managed drinking water."*

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.

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.

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.

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

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

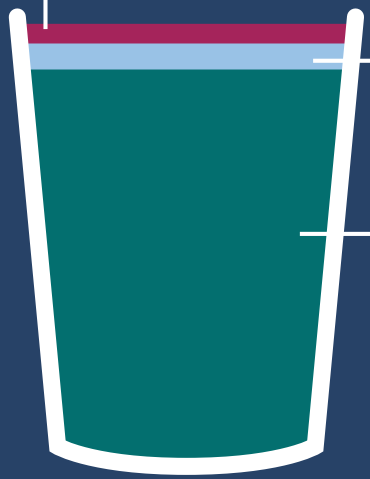
Xylem provides products and services for water and wastewater applications addressing the full water cycle: collection, distribution, use and disposal. Its products include water and wastewater pumps, treatment and testing equipment, valves, heat exchangers and dispensing equipment. Xylem has a leading 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.

6 CLEAN WATER AND SANITATION

Water

Only 1% of all water is drinkable



1.5% of the world's water is located in glaciers, ice caps, and permafrost, or is buried deep in the ground

97.5% of the earth's water is salt water, found in the oceans

6.5bn people currently live in areas facing water scarcity

810m people have no safe drinking water at all

5.7bn people cannot access safe drinking water services

1.8bn people lack even basic sanitation

4.3bn people are unable to access safely managed sanitation

$260bn lost globally each year due to a lack of basic water and sanitation

$18.5bn of potential annual economic benefits if there was universal access to basic water and sanitation

4.1bn people are projected to be living in water-stressed areas by 2025

1.2bn people will lack safely managed drinking water by 2030

$6.7tn of investment in water infrastructure is needed by 2030

$22.6tn needed by 2050

40% the projected shortfall between the supply and demand of water by 2030

Drivers of Change

Global focus on efficiency:

$8.7 billion in water and sanitation-related development assistance received in 2020 alone

20% increase in the proportion of the population using safe drinking water sources since 2020

How do we invest in Water?

1. **Water use efficiency technologies**
2. **Pollution management providers**
3. **Water system infrastructure specialists**

Companies that make a positive impact by ensuring and facilitating the efficient provision and sustainable management of water and sanitation services for all

Since 2015

increase in water use efficiency globally of 12%

Source: UN Water, Water.org, Water UK, World Bank, SDG 6 Data

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 a national 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 2023, 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 SDG 5, 13 or 14.

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".

Our third-party provider's research includes analysis of negative company activity too. As at 31 December 2023, no such holdings were identified for the Climate Assets Funds.

In our previous report we disclosed that an obstruction to SDG 7 had been identified for our **Ares Management** holding. This was due to its role in financing non-renewable energies and represented 2.5% of its total revenue generating activity. We placed the company under review and have since sold the position.

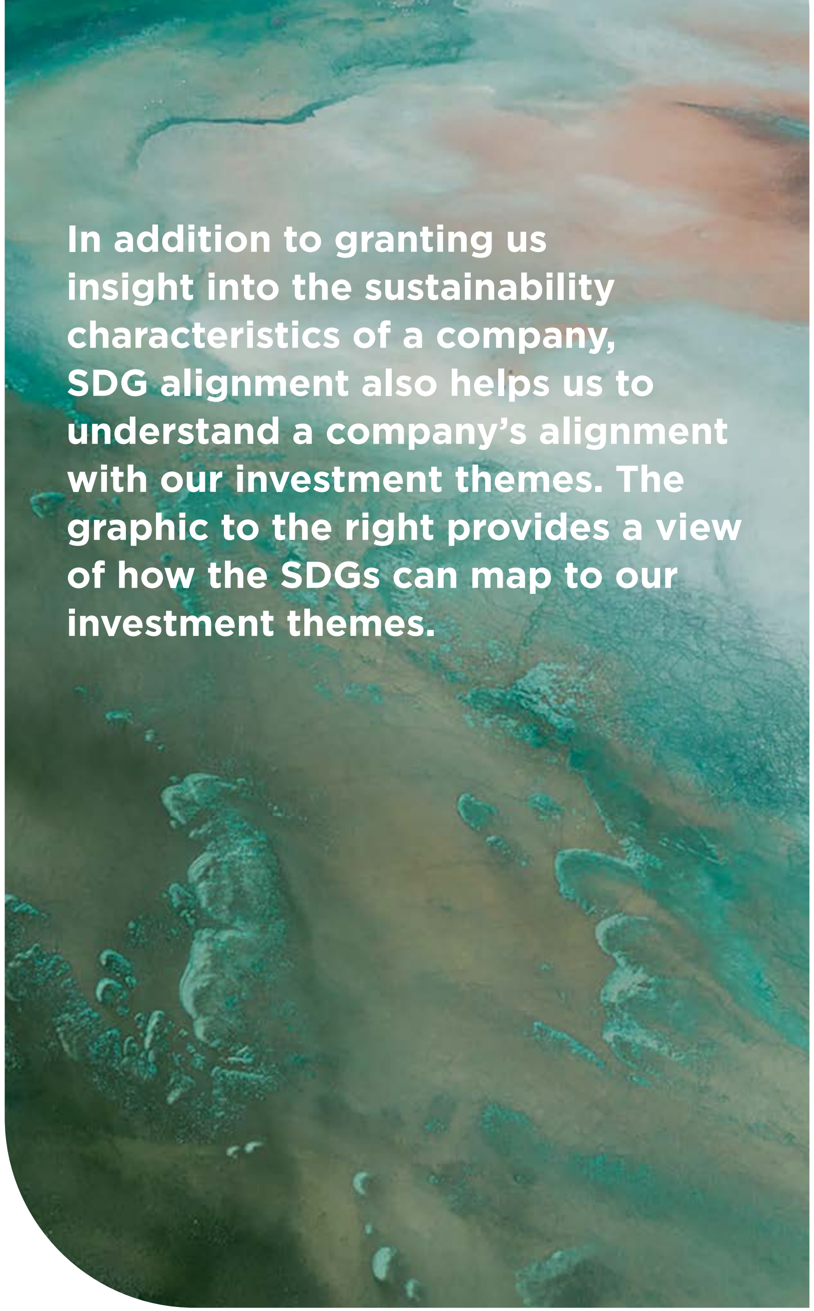
"...only recognise activity that contributes to the specific underlying targets."

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

Our third-party provider'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 our third-party provider'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 to the right provides a view of how the SDGs can map to our investment themes.

Positive investment themes mapping to the UN SDGs

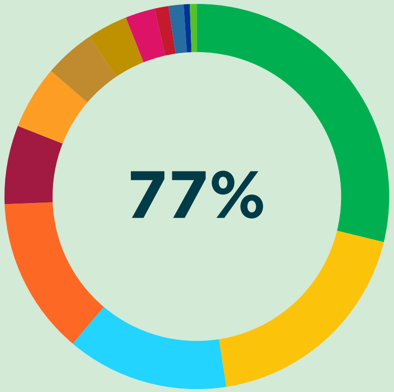
Company SDG Alignment:

77% 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 **21.0%** and **9.7%** respectively.

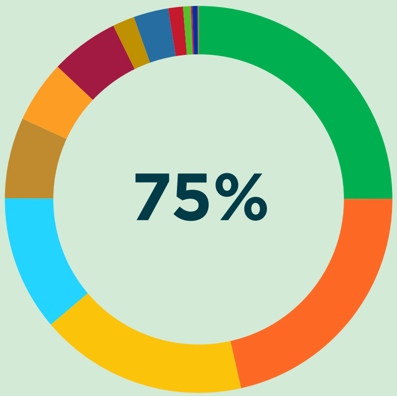
Revenue Alignment To SDGs

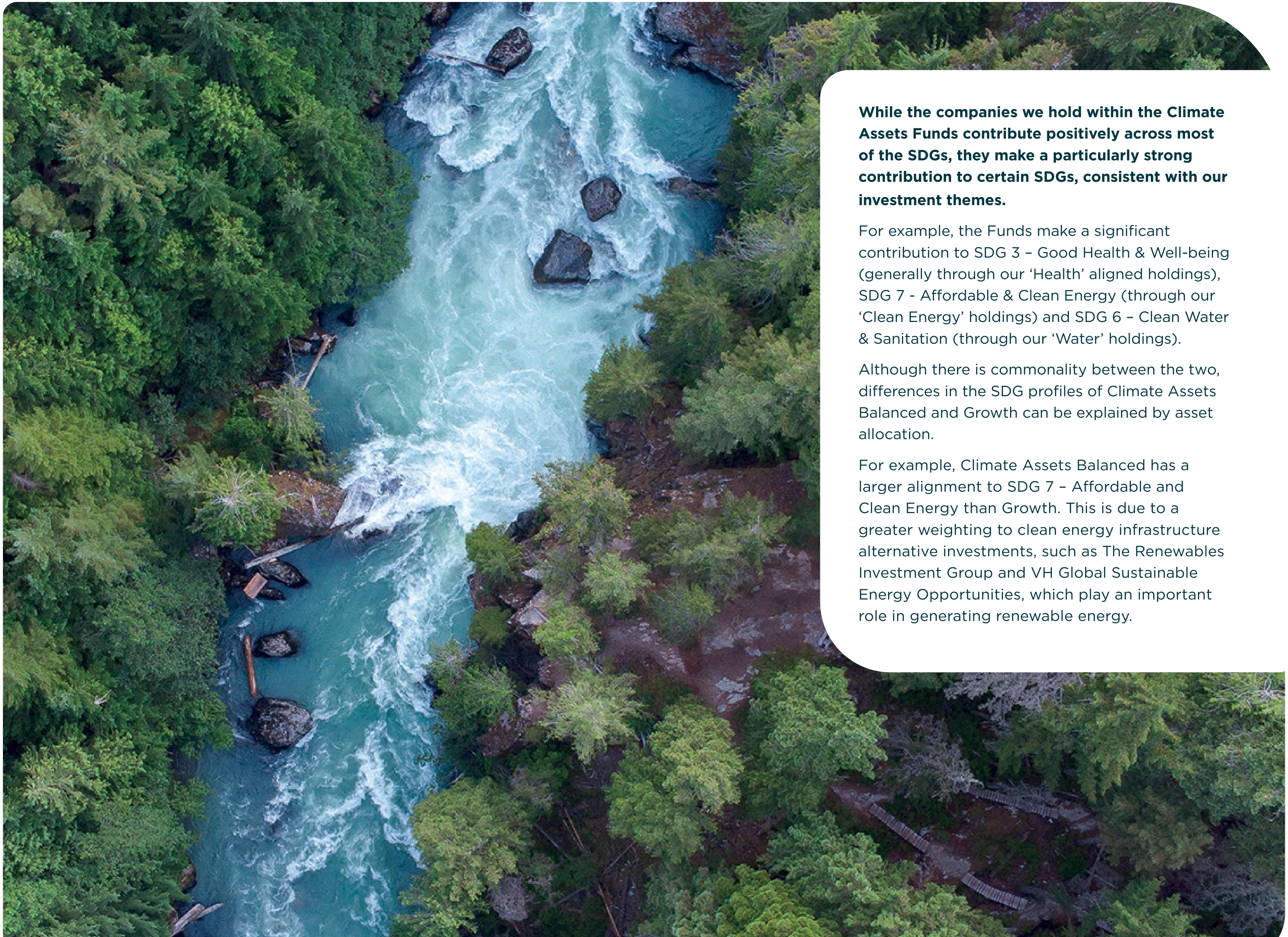
Sustainable Development Goals analysis

Climate Assets Balanced Fund



Climate Assets Growth Fund





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.

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	Climate Assets Growth
79%	77%

79% and **77%** 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 21.0% and 9.7% of neutral assets from each calculation. I.e. for Climate Assets Balanced, this is **79%** of 79.0% of the portfolio, and 62.7% of the whole portfolio when also including neutral assets. For Climate Assets Growth, it is **77%** of 90.3% of the portfolio, and 69.3% of the portfolio as a whole.*

Insights: Managing Director

Nick Holmes

Managing Director

Nick's role is to help ensure Quilter Cheviot continues to grow by seeking out new opportunities to provide the propositions and services that our clients as well as supporting Financial Advisers & Professional Connections want, whilst helping to ensure at all time the firm is "easy to do business with", improving the experience of using and working for Quilter Cheviot. He is the Executive charged with the implementation and embedding of the Consumer Duty regime, and also chairs our High Net Worth Customer Committee (HCC). Nick sits on the Quilter Cheviot Executive Committee, supporting the Chief Executive.

What does sustainable investment mean to you?

In essence, I view sustainable investing as aligning one's capital with companies that make a positive contribution to the world. It differs from traditional investing - with its sole focus on financial risk and return - by taking a broader view of investments, seeking also to identify those that 'make a difference'.

I am proud of the work that our Climate Assets team have carried out for more than a decade, and fully believe there is much more to come. Their five investment themes — Clean Energy, Food, Health, Resource Efficiency and Water — concentrate on the areas that are at the forefront of global sustainability challenges. These are the critical areas where considerable progress is still required if we are to meet the UN Sustainable Development Goals and ensure a prosperous future for all people and the planet. The fact that the themes have remained unchanged since the inception of Climate Assets in 2010 speaks volumes about the knowledge, understanding and foresight of the team.

I believe we should be delivering the very best possible outcomes for our clients. I see Quilter Cheviot's sustainable investment offering as providing suitable clients with a credible way to invest in line with their values and goals through the team's robust, repeatable process which has also shown a strong performance track record over the longer-term.

What is your involvement with the Climate Assets Funds?

I support our Climate Assets team as their sponsor on the Quilter Cheviot Executive Committee. This responsibility involves championing our Climate Assets Funds at the highest levels of our business. As an example – I sponsored Claudia Quiroz and the team on the launch of the Climate Assets Growth Fund in September 2022. This followed client and adviser feedback indicating a strong appetite for a fund containing a higher equity allocation than our Balanced Fund. We are delighted to now offer these two funds that together broaden our target investor market and bring more choice for investors and their advisers.

My ongoing role with the team involves working on the business side of the proposition, looking to grow its scope and reach by guiding the Marketing and Sales professionals responsible for this day to day, as well as ensuring the Fund Managers have the resources they need to continue to deliver the investment mandate.

What changes have you seen within the sustainable investment industry in recent years?

The last decade saw huge inflows into sustainable investments as there was an increased global recognition of the impact humankind was having on the environment. More recent times have been more complex for sustainable investment. After the panic and euphoria of 'making a difference' and making money by making a difference, some challenges to the industry emerged. With such a vast array of products (both new and old) offering investors a 'sustainable' investment option, it has not always been easy to differentiate those with a credible and genuine approach from those that were looking to ride the hype train. This, combined with energy security threats stemming from Russia's invasion of Ukraine, struggles with the cost of living rising and the politically driven US ESG-backlash, led to a dampening of sustainable investment flows.

The increased scepticism over the claims funds and products make brought with it increased scrutiny of potential greenwashing and impact claims, something that we very much welcome. This phase of market maturation and greater sophistication is crucial, as we are keen that investors can easily identify the product that matches their aims and objectives, doing 'what it says on the tin'. We expect the industry will improve quickly in this regard given the necessary changes are separately underpinned by both the Consumer Duty legislation and the Sustainability Disclosure Requirements (SDR), which will apply from later this year.

This is the second year of producing a Sustainable Investment Report for our Climate Assets Funds, which was an important enhancement in terms of ensuring a comprehensive and transparent communication of our philosophy and approach. As to SDR, this will not involve seismic changes to the Climate Assets Balanced Fund and Climate Assets Growth Fund, but we will take the opportunity to further refine and enhance the articulation of our long-established investment process.

What is your view on the future of sustainable investment?

The pressure we are putting on the planet remains and, as we see more examples of the adverse effects of climate change, we are anticipating further tailwinds for sustainable investment in the coming years. With so much at stake, corporates are working hard on sustainable solutions and our research analysts expect the investable universe of companies providing such technologies to increase, and this momentum will also encourage capital into this sector.

The Great Wealth Transfer is starting and will play out over the next two decades, with the post war Baby Boomers passing on their wealth through financial planning or death to their children (Generation X and Millennials) and grandchildren (Generation Z).

There is a strong body of evidence showing that younger generations care significantly more about investing in companies that are contributing positive solutions to the challenges of our times. Having been educated in climate science in school and also emboldened to 'make a difference', they are more conscious, when wealth falls into their hands, of investing positively and also avoiding investing in areas that are causing harm. The Climate Assets investment philosophy and process satisfy their exacting requirements.

At Quilter Cheviot our aim is simply to do everything we can to help our clients reach their investment goals and objectives, and our surveys and conversations inform us that this will increasingly involve sustainable investment. I am proud to say that we have been at the forefront of sustainable investment since launching the Climate Assets Balanced Fund in 2010. But we are not resting on our laurels. We are fully aware of how quickly this area is developing and evolving and will continually strive to offer our clients market-leading propositions to meet their sustainable investment requirements.

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.

Investment Review

Market Review

2023 was a good year for investors as pessimistic expectations were surpassed and financial markets priced-in not only an end to interest rate increases, but significant reductions in 2024.

With 2022 firmly in the rear view, market commentators are quick to laud the fantastic year for markets that was 2023. The Nasdaq Composite had its best year in two decades and bonds had their best month in 40 years. Although it seems to have been forgotten that in 2022 bonds had their worst year ever. 2023 was a strong year for markets, especially the final few months, showing the importance of remaining invested.

A stellar last couple of months meant that global stock markets ended 2023 firmly higher, with the MSCI All Country World Index delivering a c.18% return, in Sterling terms. The Q4 rally was largely based on growing expectations of a significant reduction in interest rates in 2024 as central banks believe they have done enough for now in the fight against inflation. The move in equities was supported by strong gains in bond markets, with UK investment-grade corporate bonds delivering sizable returns of c.9.7% on the year.

The US stock market has been the standout performer, boosted by a handful of large tech companies at the forefront of Artificial Intelligence (AI). The performance of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla has underpinned not only US benchmark returns, but also global indices due to their large weighting to the US (approximately 60%). US stocks ended 2023 c.20% higher, in Sterling terms, with the so-called "magnificent seven" tech companies responsible for roughly half the return and leaving over 70% of stocks underperforming the benchmark.

The US is seen as the key player for global markets and futures are now pricing in a reduction in the Federal Reserve's rate this year to under 4%, from its current 22-year high of 5.25%-5.50%. However, there is a risk that markets have gotten a little bit ahead of themselves in believing that once rates start being reduced, they will continue to do so.

UK bonds had a much more stable 2023 than the previous year, with gilt benchmarks delivering returns of c.3.6%. The expectation that rates will stop rising and reductions are imminent has supported bonds and at current levels they are providing some ballast to portfolios. The long-end of the gilt curve and index-linked bonds underperformed slightly but still delivered positive returns.

Performance Review

Over the year the Funds performed well against their respective comparators. The Climate Assets Balanced Fund was slightly behind by nearly 0.6% and the Growth Fund ahead by over 1%. In particular, the Growth Fund performance was driven by a handful of US technology companies, not the Magnificent 7, that contributed a considerable proportion of the returns. Not having all the Magnificent 7 was the strongest headwind, however the funds recovered towards the end of the year.

A fall in interest rate expectations has the largest effect on long duration growth companies, such as the ones in our universe. It is important to note that we do not invest in unprofitable growth companies, but large profit-making companies that we believe will grow above market.

EDP Renovavies, the European onshore wind farm developer and utility company, and Waters, the US Life Science Tools company had a strong end to the year. These companies struggled in the face of steep interest rate rises over 2022 and 2023 but were rewarded the most when the interest rate narrative turned.

Schneider Electric, the French Industrials group, was a strong contributor outside of the US, across both funds, owing to the company's exposure to the growing megatrends of digitalisation, AI, and decarbonisation.

Our alternatives exposure is underpinned by Renewable Energy Investment Trusts, a sector which fell to a wide discount over the last two years. Again, when we saw a change to the narrative surrounding interest rates these holdings were the best contributors.

Outlook

Looking ahead, there is plenty of political uncertainty on the horizon with Britons set to go to the polls and the US election scheduled for early November. Signs of economic weakness are becoming more prevalent, and we are still mindful that the full effect of higher interest rates may not yet be fully felt. Equity valuations are still reasonable, although there is a concern that markets are still quite optimistic on earnings. Bond yields remain attractive compared to much of the last 15 years and should economic growth slow further then they are well placed to cushion multi-asset portfolios.

Insights: Sustainable Investment Specialist

Toby Rowe

Sustainable Investment Specialist

Toby has ten years of experience in reporting and auditing, with a focus on Investment Management, Product Governance and Responsible Investment. He joined Quilter in 2018 and the Sustainable Investment team in 2022 and is responsible for developing the sustainable investment framework and reporting. 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 are your 2023 reflections?

2023 was an action packed year for us. A number of things stood out for me:

- **Sustainable Investment Report**

We were delighted to complete our first Sustainable Investment Report last year. We set out to complete a comprehensive 'one stop shop' for the Climate Assets Funds, illustrating how we think about sustainable investment and how we operate in practice. The report became an invaluable resource for discussing Climate Assets with clients and investors. We hope this year's report proves just as useful and as ever we welcome any feedback on improvements and evolution for the future.

- **Artificial Intelligence**

You will find few 2023 reflections that don't include reference to Artificial Intelligence (AI). Since OpenAI launched ChatGPT at the close of 2022, it was the hot topic. It garnered an enormous amount of attention, celebration, critique, and market reaction. Given the importance of this trend, and some of the potential pitfalls, we set out to explore the extent to which AI may be considered compatible with a sustainable investment strategy such as ours.

We concluded that, in our view, AI should be embraced due to its incredible potential for sustainability benefits. From climate change, to healthcare, to managing our finite resources more effectively, it is too powerful to ignore. We recognised the well documented challenges, but remained cautiously optimistic that in time appropriate safeguards will be implemented to allow businesses and individuals to innovate and harness its power for good, whilst limiting harms to an acceptable level.

For further insight on this, our report can be accessed here.

- **UN Sustainable Development Goal Progress**

July marked the halfway point for the UN's 2030 Agenda. The agenda launched the UN SDGs in 2015 as a plan of action for achieving a prosperous future for all people and the planet by 2030. Unfortunately, despite some important progress, at this halfway checkpoint the overall status is disappointing. Over half of the SDG targets show 'moderate or severe deviations from the desired trajectory' and, worse still, 30% show either no progress or regression since the 2015 baseline.

The agenda was always an ambitious one requiring sustained international collaboration and cooperation and the mobilisation of vast sums of capital. Even so, progress so far makes for grim reading and further highlights the need for investment and innovation in a number of areas, including those related to our five investment themes: Clean Energy, Food, Health, Resource Efficiency and Water.

For those that wish to delve deeper, the UN Special Edition Report can be downloaded here.

- **Water Deep-Dive (pun intended)**

Caroline led a deep-dive into our Water investment theme. Assessing the challenges of water scarcity, progress toward UN SDG 6 "Clean Water and Saniation for All", and the investment implications of the water associated risks and opportunities. Caroline's work was capped off by welcoming Feargal Sharkey OBE to share his thoughts on our webinar in October. Feargal has been a tireless campaigner on water quality and scarcity issues and it was fascinating to hear his reflections.

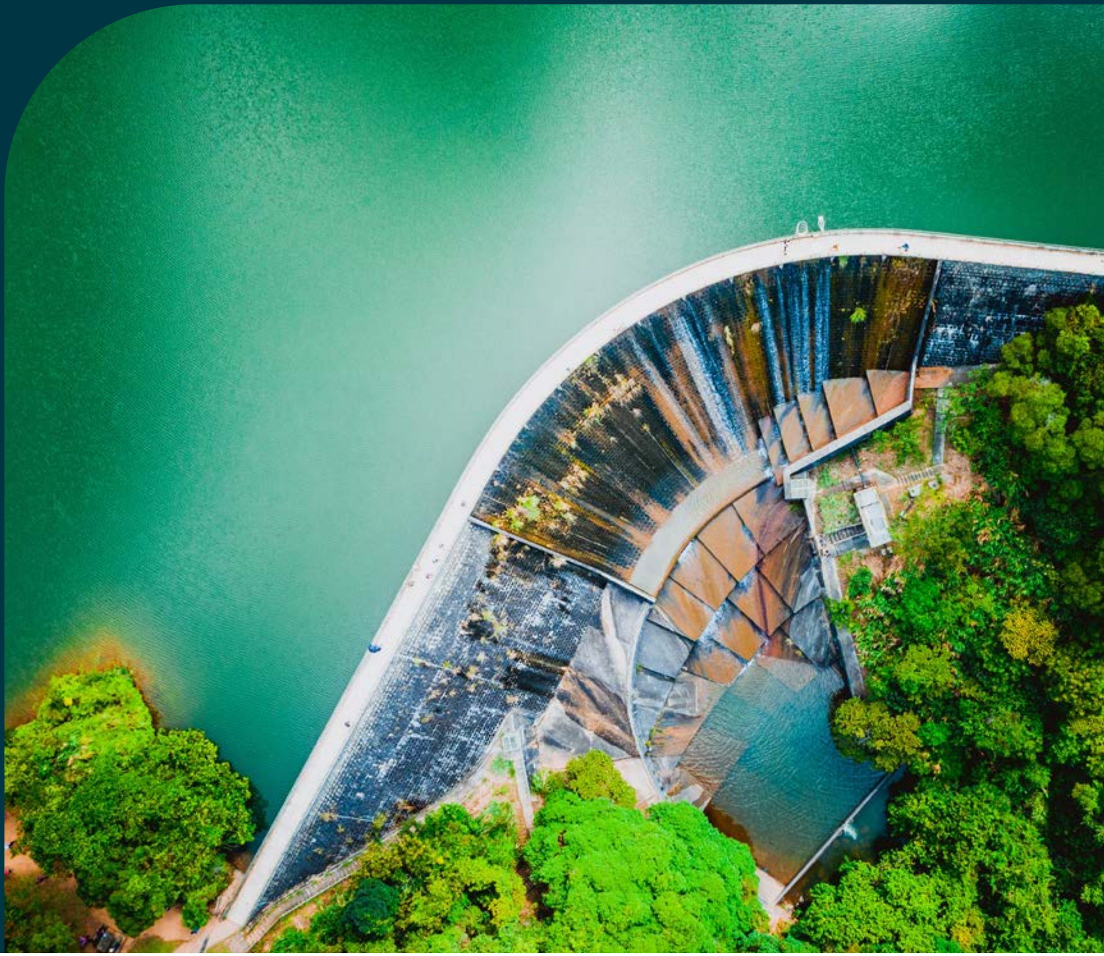
You can read some of Caroline's observations and access the webinar here.

- **COP28**

2023 closed with COP28, and for us, whether it was a success or not would very much depend on who you ask. Reaching consensus was an uphill battle and many wish a bolder agreement had been achieved. However, the final deal did go further than ever before by referencing a transition away from fossil fuels.

Whilst the final text may not be as ambitious as many had hoped, there were plenty of positives from a sustainable investment perspective. We welcomed the commitment to triple renewable energy generation capacity and increase the rate of energy efficiency improvements. Both of which underpin our work to identify attractive investment opportunities that benefit from efforts to decarbonise the economy, namely across our "Clean Energy" and "Resource Efficiency" investment themes.

You can read our post-COP28 reflections here.



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 it 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-factor 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.

> *"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 is in store for 2024?

2024 is a particularly important year for the industry due to the advent of the now finalised FCA Sustainability Disclosure Requirements. A policy that aims to improve trust and transparency in the market for sustainable investment products with a package of rules, disclosure requirements and, crucially, sustainability labels for those investment products where specific criteria are met.

We are supportive of the policy overall, seeing an increase in transparency for the industry as a necessity. It is our view that our investment philosophy and approach is well aligned with the aims of a Sustainability Focus label, as we invest mainly in assets that focus on sustainability for people or the planet. Through 2024 we will be undertaking the work and preparation required to ensure we are in a position to begin using the label later in the year.

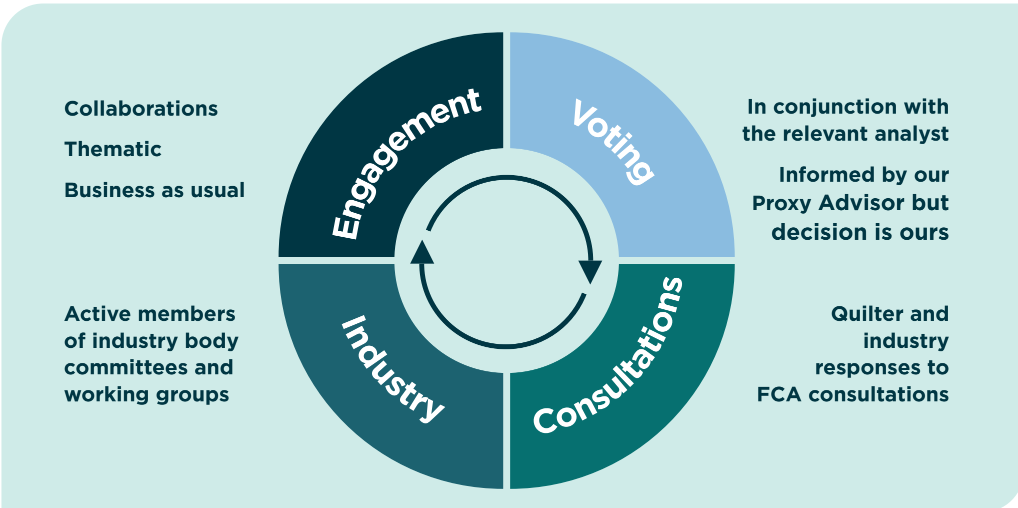
Stewardship

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 2023 Voting and Engagement **Report**.

Being an active owner



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

Engagements are run by the Responsible Investment team 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 2023 we engaged with **14** Climate Assets Balanced companies and **16** Climate Assets Growth companies.

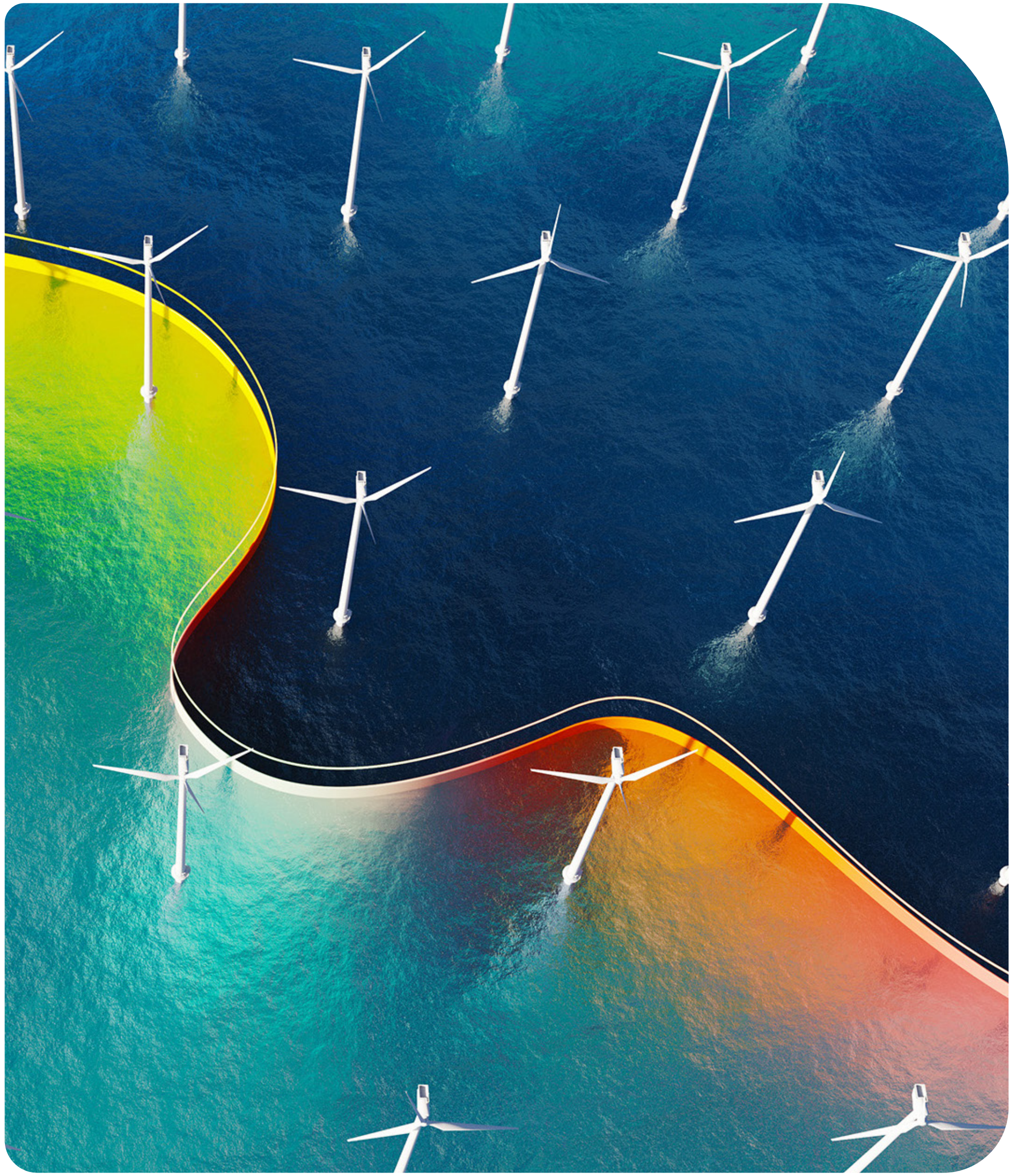
Climate Assets Funds Engagements:

Balanced

14

Growth

16



Engagement Case Studies

The following are examples of Quilter Cheviot engagements with Climate Assets companies from 2023.

Prudential – Environmental

Objective: To further understand Prudential's exposure to companies that use endangered species within medicinal products.

In October 2023, the Environmental Investigation Agency published a report into the use of body parts of threatened leopards and pangolins as ingredients in at least 88 traditional Chinese medicine products. The report identified several banks and financial institutions which have invested in three publicly listed Chinese pharmaceutical groups which manufactured these products. One of the named investors was Prudential, leading us to contact the company to better understand its exposure. Through dialogue with the company, we clarified that the exposure was limited to broad index-based passive investments only. The company made a commitment to use its Asian presence and local language channels to themselves engage with the pharmaceutical groups in question on stopping their use of endangered species ingredients.

Outcome: We clarified that Prudential's exposure was limited to broad index-based passive investments only and the company committed to engage with the Chinese pharmaceutical groups on stopping its involvement in this controversial practice.

Engagement Case Studies - Continued

American Water Works – Social

Objective: We engaged with the company on a shareholder resolution proposing a racial equity audit. This is the second consecutive year the item has been placed on the ballot and in response to significant support last year the company has held multiple rounds of dialogue with the proponent.

The company has also looked to enhance its current level of reporting on gender and racial equity. This includes launching a diversity specific website showcasing the company's activity and the metrics reported on EEO1 data (this is a mandatory annual data collection for private sector companies in the US), pay gap reporting and racial diversity at all layers of the company.

The company has not agreed to a full audit by a third party, it has conducted a review of potential suppliers however in its view none were quoting a 'reasonable expense'. Given there are no federal requirements or standards on a third-party audit, the company was unclear of the specifications and parameters of such an audit.

Outcome: On the basis of our engagement, we are comfortable with the efforts the company has made to improve disclosure and do not believe it is materially behind market practice. We voted to support management on this item.

Watts Water Technologies – Governance

Objective: To raise concerns related to the re-election of the governance committee members and a request to amend certificate of incorporation to allow exculpation of certain directors on the board.

Our proxy advisor recommends voting against the governance committee members as the company maintains a multi-class structure. The dual voting rights are not subject to expire on a certain date. In this instance, the company highlighted that one shareholder holds the majority of voting rights, and the board does not have the ability to change the current voting structure. Regarding the proposed amendment to the Certificate of Incorporation, the company states it is important for its officers to be protected against the risk of potential financial ruin and the amendment is crucial in attracting and retaining the best talent.

Outcome: Given the specific ownership structure and domicile we decided to support the election of the governance committee members. We voted against proposed amendment, as if passed, the proposal could result in a lack of board accountability.

2023 Voting Activity

Climate Assets Balanced

We voted at:

46 Company Meetings

We voted on

714

Individual Resolutions

This represents 91% of resolutions on which we had voting rights.

For 8 resolutions we voted against management

For example:
Amundi on the re-election of a director

Climate Assets Growth

We voted at:

50 Company Meetings

We voted on

863

Individual Resolutions

This represents 95% of resolutions on which we had voting rights.

For 19 resolutions we voted against management

For example:
Ecolab on remuneration

Key voting activity

2x votes supporting management in approving climate-related disclosures and plans (management items)
We supported climate disclosures where a company demonstrated ongoing commitment to net zero progress and associated targets.
Companies voted on: Amundi, Schneider Electric

1x vote against an independent board chair (shareholder proposal)
In this case the board has a lead independent director with clearly delineated and robust duties, the company has established governance guidelines and there are no concerns regarding board and committee independence or the company's perform.
Companies voted on: Visa

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).

We vote on all global* equities (including UK investment trusts). For further information please refer to the Quilter Cheviot **Voting Policy**.

* As far as reasonably possible given the local regulations regarding share voting. Other infrequent instances of non-vote placement may include where Crest Depository Interests (CDIs), ADRs or GDRs are held. Ability to vote on these holdings differs on a case by case basis.

Quilter Cheviot Collaborative Engagement

Climate Action 100+

In December 2023 Quilter Cheviot joined Climate Action 100+ as an investor participant. Climate Action 100+ is an investor led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Being an active participant in collaborative engagement initiatives is an important element of our overall stewardship agenda and we are pleased to be a member of the National Grid engagement working group.

Net Zero Engagement Initiative

The Net Zero Engagement Initiative aims to enable net zero portfolio alignment by supporting investor engagement and seeking the disclosures investors need from companies to determine if they are aligned with net zero. This engagement will therefore seek Net Zero Investment Framework (NZIF)-aligned transition plans from companies. We are part of the working groups for two target companies, Tesco and Siemens.

Nature Action 100

In 2023 Quilter Cheviot joined Nature Action 100. This is a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. The initiative engages companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030. Quilter Cheviot is part of the engagement working group for a global diversified mining company.

30% Club UK Investor Group: 'Fix the Exec'

Quilter Cheviot is a member of the UK investor branch of the 30% Club, a campaign to boost the number of women in board seats and executive leadership at listed companies in the UK. More specifically we are also member of the 'Fix the Exec' working group which will engage some of the worst performing listed companies in the UK in terms of women representation at executive and senior management level.

This is a summary of collaborative engagement activity undertaken by Quilter Cheviot's Responsible Investment team. Some of the engagement initiatives relate to sectors and specific companies outside of our Sustainable Investment Universe.

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.

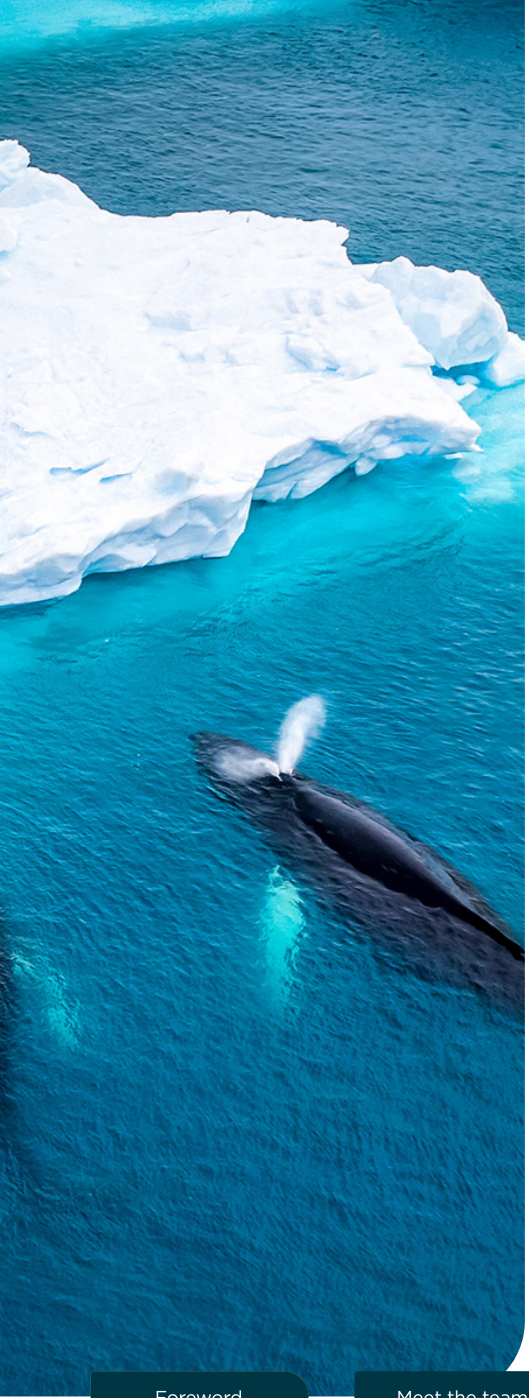
We usually avoid companies from high impact sectors but in certain rare cases we may invest if it had an above average approach to minimising its negative impact. Positive steps that we look for include having an independently approved Science Based Target and having a detailed, transparent, and credible 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 MSCI on 08/02/24 using Fund holdings as at 31/12/23. Where prior year comparisons have been included, the data were calculated on 08/02/24, using historical data and Fund holdings as at 31/12/22.

Please note that:

- The prior year metrics differ from those reported in our previous report as those were calculated by a different research provider based upon a different set of data and in some cases using a different set of assumptions.

- Greenhouse gas emission reporting within this section may differ from Task Force on Climate-Related Financial Disclosures (TCFD) reporting. This is due to timing differences for the calculations and the currency used. Within this report we have calculated revenue alignment metrics in GBP.



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 revenue. We monitor the WACI of the Funds, allowing us to compare and assess portfolio exposure to carbon intensity against benchmark. This includes all company emissions, both direct and indirect (Scopes 1, 2 & 3). Encouragingly, as at the end of 2023 both Balanced and Growth display a significantly lower carbon intensity at **35%** below their respective benchmarks.

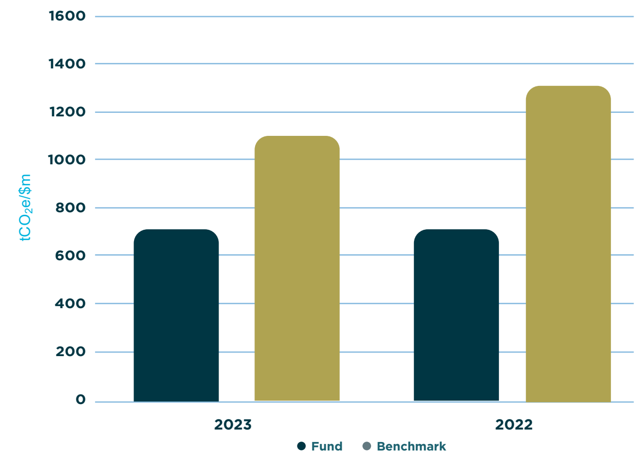
The WACI of both Balanced and Growth did increase year on year, by 2% and 8% respectively. This increase can largely be explained by a significant increase in the reported scope 3 emissions for a single company held in both funds. The company has been included within the scope of the below mentioned thematic engagement to better understand the reasons for this increase.

Portfolio emission exposure is concentrated for both Balanced and Growth in a few higher-emitting companies. 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.

We are currently planning a thematic engagement with eight higher emitting Climate Assets holdings. With c.80% Climate Assets financed emissions[1] from direct equities associated with these companies, they are an important area of focus for us. The objective of the engagement is to better understand their climate transition plans and progress, and attempt to positively influence their activity if any areas of concern are identified.

1 Assessed by measuring a company's Scope 1 & 2 emissions weighted by level of ownership, known as 'emissions exposure'

WEIGHTED AVERAGE CARBON INTENSITY BALANCED



Source: MSCI, as at 31/12/22 and 31/12/23.
For data coverage, please refer to the table on page 50.

WEIGHTED AVERAGE CARBON INTENSITY GROWTH

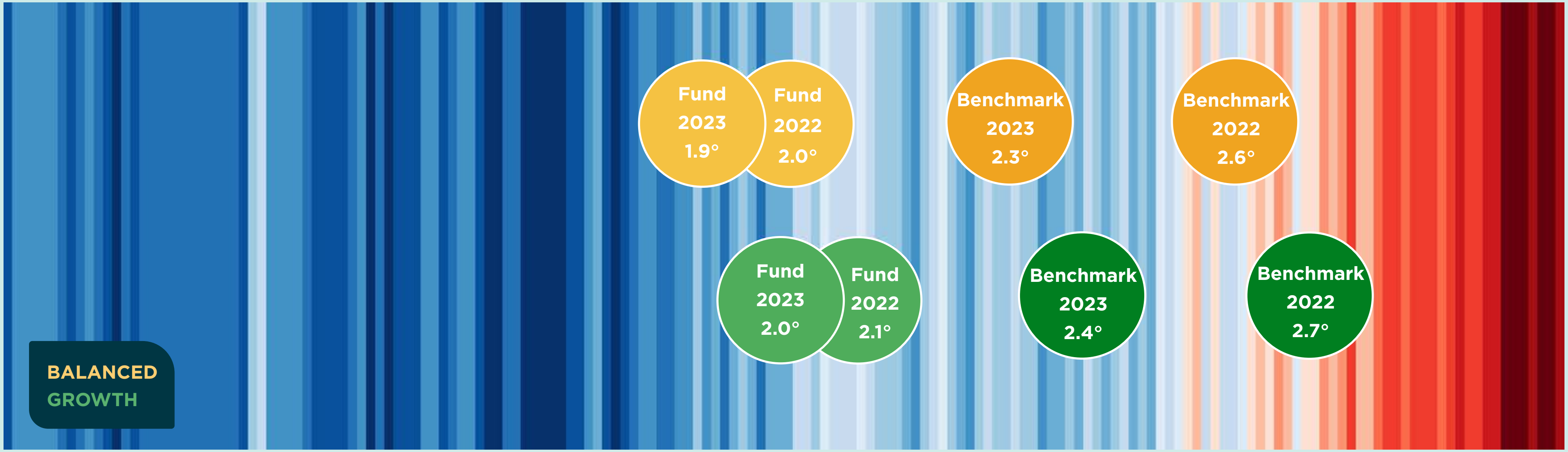
Source: MSCI, as at 31/12/22 and 31/12/23.
For data coverage, please refer to the table on page 50.

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.

The below chart displays the Implied Temperature Rise (ITR) of both the Climate Assets Funds, against their respective benchmarks at the close of both 2023 and 2022. At the close of 2023, Balanced was aligned with a **1.9°C** warming scenario, and Growth, **2.0°C**. Encouragingly, both Funds, in each year, have a portfolio temperature alignment notably below the respective benchmarks. It is also encouraging that each Fund's temperature alignment decreased year on year. The temperature alignment of each Fund can decrease further though. This further highlights the importance of focusing on the climate action plans of our highest emitting companies in our 2024 thematic engagement.



Source: MSCI, as at 31/12/22 and 31/12/23.
For data coverage, please refer to the table on page 50.

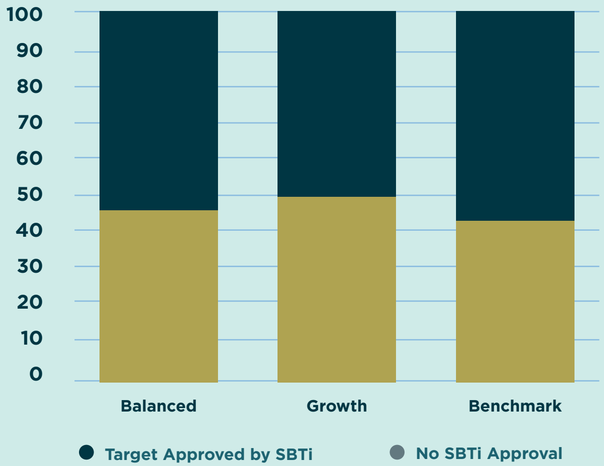
The background shows Global temperature change (1850 – 2021), Ed Hawkins, National Centre for Atmospheric Science, University of Reading. ***Show Your Stripes****.*

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) emissions have been considered in absolute terms. Importantly, in most cases, a company must consider its scope 3 emissions, which often account for the majority of its emissions.

For SBT analysis, we focus predominantly on our equity holdings. As at 31 December 2023, **47%** of Balanced and **50%** of Growth (by percentage holding) companies had a target approved by the SBTi. This compares favourably with the **43%** such companies in the benchmark.



Source: MSCI, as at 31/12/23.

Portfolio Analysis

The table below shows MSCI's data coverage relevant to the WACI and portfolio temperature alignment analysis. Data coverage refers to the percentage of the Funds and benchmarks that MSCI has provided metrics for. For example, coverage when calculating the 2023 WACI for Balanced and Growth was **69.2%** and **81.2%** respectively (when considering scope 1, 2 & 3 emissions). The proportion of the portfolios not covered largely relates to UK sovereign debt and cash and so overall we consider the analysis sufficiently representative and informative.

We do, however, highlight that **9.0%** and **8.9%** 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.

MSCI Data Coverage

	2023			2022		
	Scope 1 & 2	Scope 3	ITR	Scope 1 & 2	Scope 3	ITR
Balanced Fund	69.6%	69.2%	66.7%	68.9%	68.9%	66.8%
Balanced Benchmark	74.4%	74.3%	72.7%	62.1%	61.7%	61.9%
Growth Fund	81.4%	81.2%	80.4%	77.3%	77.3%	77.3%
Growth Benchmark	82.2%	82.0%	81.3%	77.0%	76.5%	76.8%

Data coverage on a Market Cap basis.

Appendix One: Fund Holdings

Climate Assets Balanced Fund Holdings as at 31 December 2023.

Holding	Country	Theme	Primary UN SDG	Weight %
EDP Renovaveis	Europe	Clean Energy	SDG 7 (Affordable & Clean Energy)	3.1
Thermo Fisher Scientific	North America	Health	SDG 3 (Good Health & Well-Being)	2.8
American Water Works	North America	Water	SDG 6 (Clean Water & Sanitation)	2.7
Union Pacific	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	2.6
Infineon Technologies	Europe	Clean Energy	SDG 11 (Sustainable Cities & Communities)	2.6
Waters Corp	North America	Health	SDG 3 (Good Health & Well-Being)	2.5
Medtronic	North America	Health	SDG 3 (Good Health & Well-Being)	2.5
Relx	United Kingdom	Resource Efficiency	SDG 4 (Quality Education)	2.3
Emerson Electric	North America	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.2
The Renewables Infrastructure Grp	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.1
Aptiv	North America	Clean Energy	SDG 11 (Sustainable Cities & Communities)	2.1
Intuit	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	2.1
Microsoft	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	2.1
Halma	United Kingdom	Health	SDG 3 (Good Health & Well-Being)	2.0
Equinix	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	2.0
United Rentals	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	2.0
Rockwell Automation	North America	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.9
Foresight Solar Fund	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.9
Siemens Healthineers	Europe	Health	SDG 3 (Good Health & Well-Being)	1.8
Ecolab	North America	Health	SDG 3 (Good Health & Well-Being)	1.8
Xylem	North America	Water	SDG 6 (Clean Water & Sanitation)	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
Adobe	United Kingdom	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	1.7
Assura	United Kingdom	Health	SDG 3 (Good Health & Well-Being)	1.7

Holding	Country	Theme	Primary UN SDG	Weight %
Gecina	Europe	Resource Efficiency	SDG 11 (Sustainable Cities & Communities)	1.7
Sonoco Products	North America	Food	SDG 12 (Responsible Consumption & Production)	1.6
Segro	United Kingdom	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	1.6
Greencoat UK Wind	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.6
United Kingdom 0.875% Snr Bds 31/07/2033	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.6
Danaher	North America	Health	SDG 3 (Good Health & Well-Being)	1.6
Amundi	Europe	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.5
Salesforce	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	1.5
Novartis	Europe	Health	SDG 3 (Good Health & Well-Being)	1.5
Fanuc	Japan	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.5
American Express	North America	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.4
Trane Technologies	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.4
Watts Water Technologies	North America	Water	SDG 6 (Clean Water & Sanitation)	1.2
Smith(DS)	United Kingdom	Food	SDG 12 (Responsible Consumption & Production)	1.2
Advanced Micro Devices	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	1.2
Novo Nordisk	Europe	Health	SDG 3 (Good Health & Well-Being)	1.2
United Kingdom 4.75% Snr Gilt Bds 07/12/2030	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.2
GCP Infrastructure Investments	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.2
Republic Services	North America	Resource Efficiency	SDG 12 (Responsible Consumption & Production)	1.2
United Kingdom 5% Snr Bds 07/03/2025	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.2
United Kingdom 2.75% Gilt Snr Bds 09/24	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.2
Schneider Electric	Europe	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.2
Alcon	Europe	Health	SDG 3 (Good Health & Well-Being)	1.1
Cia Saneamento Basico De Sao Paulo	Emerging Markets	Water	SDG 6 (Clean Water & Sanitation)	1.1
Palo Alto	North America	Resource Efficiency	SDG 11 (Sustainable Cities & Communities)	1.1

Holding	Country	Theme	Primary UN SDG	Weight %
Daiseki	Japan	Resource Efficiency	SDG 12 (Responsible Consumption & Production)	1.1
Compass Group	United Kingdom	Food	SDG 2 (Zero Hunger)	1.0
Nvidia	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	1.0
United Kingdom 2% Snr Bds 07/09/2025	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.0
Waste Management	North America	Resource Efficiency	SDG 12 (Responsible Consumption & Production)	1.0
Horiba	Japan	Resource Efficiency	SDG 11 (Sustainable Cities & Communities)	0.9
ASML	Europe	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	0.9
United Kingdom 0.875% Snr Bds 22/10/2029	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.8
Prudential	United Kingdom	Health	SDG 3 (Good Health & Well-Being)	0.8
Kubota	Japan	Food	SDG 2 (Zero Hunger)	0.8
United Kingdom 4.25% Snr Bds 07/03/2036	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.6

Climate Assets Growth Fund Holdings as at 31 December 2023.

Holding	Country	Theme	UN SDG* with Largest Revenue Alignment	Weight %
EDP Renovaveis	Europe	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.7
Thermo Fisher Scientific	North America	Health	SDG 3 (Good Health & Well-Being)	2.5
Waters Corp	North America	Health	SDG 3 (Good Health & Well-Being)	2.5
American Water Works	North America	Water	SDG 6 (Clean Water & Sanitation)	2.3
Amundi	Europe	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	2.3
Medtronic	North America	Health	SDG 3 (Good Health & Well-Being)	2.2
United Kingdom 0.875% Snr Bds 31/07/2033	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	2.2
United Kingdom 4.75% Snr Gilt Bds 07/12/2030	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	2.1
Union Pacific	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	2.1
Ecolab	North America	Health	SDG 3 (Good Health & Well-Being)	2.1
Emerson Electric	North America	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.1
Novartis	Europe	Health	SDG 3 (Good Health & Well-Being)	2.0
Segro	United Kingdom	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	2.0
Greencoat UK Wind	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.0
The Renewables Infrastructure Grp	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	2.0
Visa	North America	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	2.0
Relx	United Kingdom	Resource Efficiency	SDG 4 (Quality Education)	2.0
Assura	United Kingdom	Health	SDG 3 (Good Health & Well-Being)	1.9
Compass Group	United Kingdom	Food	SDG 2 (Zero Hunger)	1.9
Halma	United Kingdom	Health	SDG 3 (Good Health & Well-Being)	1.9
Danaher	North America	Health	SDG 3 (Good Health & Well-Being)	1.8
Novo Nordisk	Europe	Health	SDG 3 (Good Health & Well-Being)	1.8
Waste Management	North America	Resource Efficiency	SDG 12 (Responsible Consumption & Production)	1.7
Foresight Solar Fund	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.6
Schneider Electric	Europe	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.6
United Kingdom 0.25% Bds 31/01/2025	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.6

Holding	Country	Theme	UN SDG* with Largest Revenue Alignment	Weight %
Geberit	Europe	Water	SDG 6 (Clean Water & Sanitation)	1.5
Xylem	North America	Water	SDG 6 (Clean Water & Sanitation)	1.5
Fanuc	Japan	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.5
United Kingdom 1.5% Snr Bds 22/07/2047	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.5
Microsoft	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	1.4
United Kingdom 2% Snr Bds 07/09/2025	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.4
Advanced Micro Devices	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	1.4
Jlen Environmental Assets Group	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.4
Sonoco Products	North America	Food	SDG 12 (Responsible Consumption & Production)	1.4
Cia Saneamento Basico De Sao Paulo	Emerging Markets	Water	SDG 6 (Clean Water & Sanitation)	1.3
Equinix	North America	Resource Efficiency	SDG 9 (Industry, Innovation & Infrastructure)	1.3
United Kingdom 0.875% Snr Bds 22/10/2029	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	1.3
Infineon Technologies	Europe	Clean Energy	SDG 11 (Sustainable Cities & Communities)	1.3
Kubota	Japan	Food	SDG 2 (Zero Hunger)	1.3
GCP Infrastructure Investments	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	1.2
Horiba	Japan	Resource Efficiency	SDG 11 (Sustainable Cities & Communities)	1.2
Prudential	United Kingdom	Health	SDG 3 (Good Health & Well-Being)	1.2
London & Quadrant Housing Trust 2% Snr Sec EMTN 31/03/32	United Kingdom	Resource Efficiency	SDG 11 (Sustainable Cities & Communities)	1.1
BUPA Finance 1.75% Gtd Snr Nts 14/06/2027	United Kingdom	Health	SDG 3 (Good Health & Well-Being)	1.1
Motability Operations Group Plc 3.625% Gtd Snr EMTN 10/03/2036	United Kingdom	Health	SDG 10 (Reduced Inequalities)	1.1
Smith(DS)	United Kingdom	Food	SDG 12 (Responsible Consumption & Production)	1.0
Rockwell Automation	North America	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	1.0
United Kingdom 0.125% I/L Snr Bds 22/03/2029	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.9
Linde	North America	Clean Energy	SDG 9 (Industry, Innovation & Infrastructure)	0.9

Holding	Country	Theme	UN SDG* with Largest Revenue Alignment	Weight %
Fresenius	Europe	Health	SDG 3 (Good Health & Well-Being)	0.9
Taiwan Semiconductor Manufacturing	Emerging Markets	Resource Efficiency	SDG 8 (Decent Work & Economic Growth)	0.9
United Kingdom 4.5% Gilt Snr 07/12/2042	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.8
VH Gbl Sustainable Energy	United Kingdom	Clean Energy	SDG 7 (Affordable & Clean Energy)	0.8
Aptiv	North America	Clean Energy	SDG 11 (Sustainable Cities & Communities)	0.8
United Kingdom Idx/Lkd Snr Bds 22/11/2036	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.8
Anglian Water Services Financing Pl 6.625%-Var Gtd Snr Nts 15/01/29	United Kingdom	Water	SDG 6 (Clean Water & Sanitation)	0.7
Motability Operations Group Plc 4.375% Gtd Snr EMTN 08/02/27	United Kingdom	Health	SDG 10 (Reduced Inequalities)	0.7
United Kingdom1.75% Snr Bds 07/09/2037	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.6
Daiseki	Japan	Resource Efficiency	SDG 12 (Responsible Consumption & Production)	0.6
United Kingdom 0.125% Idx/Lkd Snr Bds 22/03/24	United Kingdom	Sovereign Debt	SDG Alignment Not Applicable for Sovereign Debt	0.5

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