



## OUR RESPONSIBLE INVESTMENT PRINCIPLES AND PURPOSE

### Responsible heritage – why invest responsibly?

With a heritage dating back to 1771, we understand the importance of taking a long-term view and investing for future generations. As a responsible investor Quilter Cheviot is committed to its role as a steward of clients' assets to protect and enhance long-term returns. This encompasses our engagement with investee companies, through proxy voting and face-to-face dialogue, as well as considering environmental, social and governance (ESG) factors which could impact shareholder returns.

We believe incorporating environmental, social and governance considerations into our investment analysis and stewardships is important for the following reasons:

- **A more holistic approach:** Integrating ESG information into the investment process can help to mitigate risks and identify opportunities.
- **The double bottom line:** In addition to potentially enhancing long-term returns, we believe taking these factors into account will benefit other stakeholders, creating environmental and societal value, not just economic gains.
- **Policy drivers:** There are multiple regulatory developments progressing the case for implementing responsible investment and requiring immediate action. These including the EU's Action Plan on Sustainable Financing, the Taskforce for Climate-related Financial Disclosures (TCFD) and the 2020 UK Stewardship Code.
- **Supporting client demand:** Public awareness of ESG issues and client demand for responsible investment solutions is growing. We implement a firm-level responsible investment process that covers all discretionary holdings but can take a more targeted approach for clients who want their portfolios to reflect their specific interests or preferences.

### Our beliefs

- Responsible investment is an umbrella term for different investment approaches: our role is to enable clients to pick the right approach for them, within the appropriate risk profile
- There is no such thing as an environmental, social and governance (ESG) fund or an ESG company: all will take different approaches so cannot be directly compared
- As a responsible investor, the main pillars of our approach are:
  - to analyse ESG data to better inform investment decisions, and
  - to proactively engage with the companies and funds we hold on behalf of our clients (active ownership)
- In our role as a steward of our clients' assets, we protect and enhance long-term returns through responsible investment.



## Definitions

### ESG (Environmental, Social and Governance) factors

ESG is the starting point for understanding how the responsible investment process works in practice. ESG issues are data points that can be used as an additional input into the investment analysis process. This information can often be qualitative and is not the kind of information that tends to be discerned from traditional financial statements or earnings forecasts.

We recognise that in some circumstances ESG issues may impact a company's ability to pursue its business strategy and affect its financial performance. We therefore expect investee companies to identify and manage ESG risks and opportunities to the extent they affect their business strategy. ESG issues may be broad and varied, but examples might include:



#### ENVIRONMENTAL

##### A company's impact on the natural world

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



#### SOCIAL

##### The wellbeing and rights of people and communities

- Human rights
- Modern slavery
- Working conditions
- Employee relations



#### GOVERNANCE

##### The standards for running a company

- Bribery & corruption
- Executive pay (remuneration)
- Board diversity & structure
- Political lobbying & donations

These are examples of a range of issues that may be useful to look at. Materiality is critical and it is important to focus on issues that are material to the relevant sector or sub-sector that is being analysed.

A growing number of companies manage ESG issues as part of their business as usual model in order to mitigate risk and maximise opportunity. Embracing ESG strategies may have both direct and indirect positive impacts on the financial performance of a company.

- **Direct impacts** may be seen from the efficient use of material and energy resources, productivity improvements and process changes which can lead to reduced costs
- **Indirect gains** are more difficult to measure but are nonetheless important. These may include brand and reputational benefits of community engagement, which may in turn attract potential clients and employees and also encourage increased employee and client loyalty






Integrating ESG considerations into our investment process helps us identify and understand potential risks and opportunities and ultimately protect, and possibly enhance, long term investment outcomes for our clients. When we meet company management and boards, we discuss a number of issues, and as appropriate, those relating to ESG issues.



**Responsible Investment**

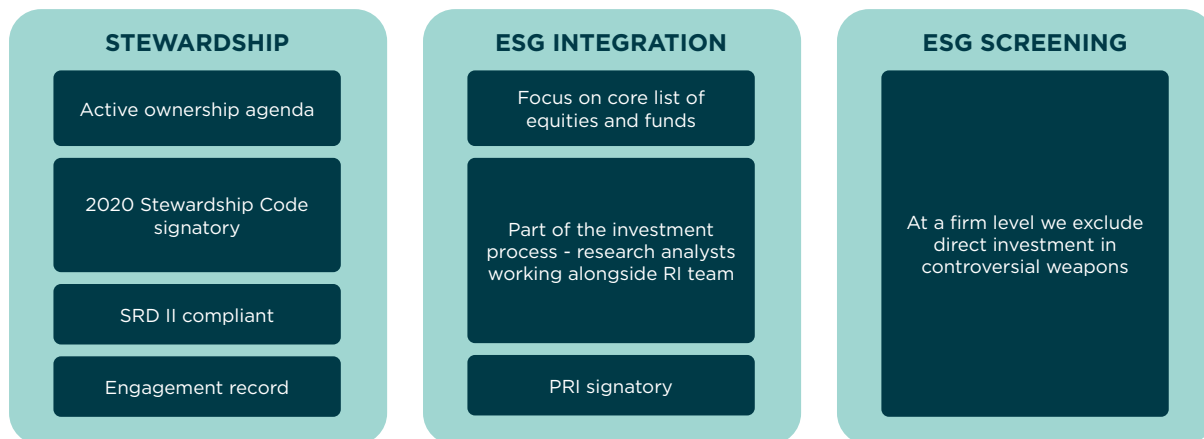
Across Quilter, we have adopted the Investment Association’s and UN-backed PRI’s responsible investment framework – both organisations define responsible investment as:

*‘A strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.’*

 <b>STEWARDSHIP</b>	 <b>ESG INTEGRATION</b>	 <b>EXCLUSIONS</b>	 <b>SUSTAINABILITY FOCUS</b>	 <b>IMPACT INVESTING</b>
<p>Allocating your money responsibly, and overseeing and holding the companies they invest in to account.</p>	<p>Including ESG factors in their investment analysis and investment decisions. ESG integration alone does not prohibit any type of investment as long as ESG risks are identified and taken into account.</p>	<p>Excluding entire sectors, companies or countries from a fund or portfolio based on ESG criteria, moral or ethical views, or religious beliefs.</p>	<p>Selecting and including investments for a fund on the basis of whether they fulfil certain sustainability criteria (e.g. how ‘green’ they are).</p>	<p>Investing in companies, organisations and funds which have the commercial purpose of solving social or environmental problems.</p>
<p>Examples include:</p> <ul style="list-style-type: none"> <li>• Setting expectations for the companies they’re investing in and engaging with companies on key issues.</li> <li>• Using shareholder voting rights in a positive way.</li> </ul>	<p>Examples include:</p> <ul style="list-style-type: none"> <li>• A statement of commitment showing how the fund manager will integrate ESG</li> <li>• Embedding ESG into the investment process.</li> </ul>	<p>Examples include:</p> <ul style="list-style-type: none"> <li>• Excluding certain investments from funds or portfolios due to ethical, values-based, or religious factors.</li> </ul>	<p>Examples include:</p> <ul style="list-style-type: none"> <li>• Includes companies based on certain sustainability criteria.</li> <li>• Selecting the lowest carbon or most energy efficient companies and excluding the worst companies.</li> </ul>	<p>Examples include:</p> <ul style="list-style-type: none"> <li>• Investing in social bond funds and private companies that aim to make a positive difference.</li> </ul>



The below summarises the three main approaches to responsible investment that we undertake across discretionary portfolios managed at Quilter Cheviot.



Stewardship involves engaging with companies to discuss ESG issues to improve their handling and disclosure of such issues. This may be carried out individually or in collaboration with other investors. It includes voting, either in person or by proxy, which involves formally expressing approval or disapproval through voting on resolutions. Additionally, we facilitate client instructed voting, therefore our clients have the ability to exercise their own stewardship.

This is the explicit and systematic inclusion of ESG issues in investment analysis and decisions - to better manage risks and improve returns. At Quilter Cheviot this is integrated into the investment process and our research teams are responsible for incorporating this into their ongoing analysis of investments.

At Quilter Cheviot we have a firmwide restriction on investing directly in cluster munitions and anti-personnel landmines, we also monitor any potential indirect exposure to this on an ongoing basis. Clients are also able to express their own preferences through screening on a bespoke basis.