

Quilter Stewardship Report 2020



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Foreword

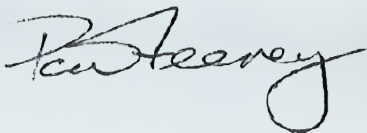
2020 was a year like no other in living memory. Not since the 1918 Spanish Flu has the world experienced a global health pandemic on the scale of COVID-19. The resulting lockdown measures and restrictions on travel and social activity have led to a global economic downturn of a scale not seen since the 1929 Great Depression. The developed world's response to the crisis has involved unparalleled monetary and fiscal stimulus both in terms of the amount and speed of the response. These events presented a severe shock and unprecedented challenges across the world, bringing with it new ways of working and living, and adjusting to a very different way of life.

Despite the huge amount of change and upheaval, Quilter's culture and commitment to acting and investing responsibly enabled us to stay resolutely focused on our purpose: to help create prosperity for the generations of today and tomorrow. Our commitment to responsible investment, with active stewardship of our customers' assets at its heart, has always been fundamental to fulfilling that purpose.

We believe the pandemic has further increased scrutiny of the investment management industry's role in tackling social and environmental challenges such as climate change, natural resource depletion, decent working conditions, and inclusion and diversity. It means that responsible investors must step up to enable an sustainable economic recovery and support the transition to a low-carbon economy, whilst protecting and delivering long-term value for customers.

Consumers expect this of us too. More and more, people are aware of the impact that their decisions can have on our society and environment, and are looking for more than a financial return on their investments. As a result, they now want more control over how their beliefs are represented in their investments.

That's why, at Quilter, we're responding to current global challenges, such as climate change, by making a commitment to invest responsibly. By investing in this way, we can continue to create prosperity for both the generations of today and tomorrow.



Paul Feeney,
Chief Executive
Officer



Introduction

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

The UK Stewardship Code 2020 ('the Code') sets out the expectations of how investors manage money on behalf of customers, and sets out 12 'comply and explain' principles for asset managers. The Code is overseen by the Financial Reporting Council ('FRC'), which is the independent regulator that supervises financial reporting, accounting and audit, and corporate governance in the UK.

Quilter recognises stewardship as a fundamental component of sound investment management and fully supports the UK Stewardship Code 2020. This report sets out how we complied with the Code's principles for the financial year ended 31 December 2020.

Quilter is a leading full-service wealth manager, providing advice-led investment solutions and investment platform services to over 900,000 customers. The Group comprises five operating businesses including:

- ▶ **Quilter Financial Planning** – providing individual investors with financial advice

- ▶ **Quilter Investment Platform** – enabling access to a range of investment and pension products

- ▶ **Quilter Investors** – managing risk targeted multi-asset investment solutions

- ▶ **Quilter Cheviot** – providing discretionary wealth management for private clients, charities, SIPPs and trusts

- ▶ **Quilter International** – providing international clients access to investment products

We have two investment management businesses – Quilter Cheviot and Quilter investors – to which the Stewardship Code Principles apply. In addition to Quilter's overarching responsible investment philosophy the scope of this report relates to the two investment management businesses only.

Together, Quilter Cheviot and Quilter Investors manage £48 billion in assets on behalf of customers (as at 31 December 2020).



Overview of our business

UK Stewardship Code 2020 principles:

1. Purpose, strategy and culture

Quilter is a leading full-service wealth manager, providing advice-led investment solutions and investment platform services to over 900,000 customers.

Our purpose

Our purpose is to help create prosperity for the generations of today and tomorrow and we are guided by the following principles:

- ▶ Being customer focused
- ▶ Offering choice and flexibility
- ▶ Being open and transparent
- ▶ Acting and investing responsibly

Our strategy and culture

We aim to be a leading wealth manager and we are focused on delivering good customer outcomes through whatever channel clients choose to access our services, growing our business segments, and improving efficiency to make Quilter the best version of itself it can be.

Our strategy is underpinned by our values and a commitment to act and invest responsibly. We're here to help people prosper and so it is imperative that we consider how our activities affect long-term investment value for our customers, colleagues, shareholders and broader society. This is what we call '**Shared Prosperity**'.

Our business model

A typical UK-based customer approaching Quilter to manage their wealth needs three things: a financial plan ('advice'), a means of holding their assets safely in the right tax efficient wrapper ('platform') and an investment strategy aligned with their risk appetite and investment. Our full service business model is outlined below:

Financial advice	Platforms and wrappers	Investment solutions
Customers can access financial advice through a Quilter adviser or an independent adviser.	Investment platforms are depositaries for managing and holding investments, with assets held in collective investment accounts or appropriate tax efficient wrappers such as ISAs or pensions. Our platforms are accessible to Quilter advisers and independent advisers, as well as directly via a dedicated customer portal.	Quilter offers a full-breadth of investment management services, ranging from bespoke portfolios managed by Quilter Cheviot to unitised, risk-based multi-asset solutions at Quilter Investors.

Responsible business strategy

Launched in 2018, Quilter's **'Shared Prosperity Plan'** is our framework for delivering responsible and sustainable growth.

The plan is informed by what matters most to our stakeholders and focuses on three core themes we're focusing on until 2025. These themes are underpinned by ten commitments through which we aim to have positive impact and create long-term value for our stakeholders:

Financial wellbeing

We want to help customers, colleagues and communities improve their financial wellbeing, which plays a vital part in our overall health and happiness.

To improve financial wellbeing, we are committed to:

- Create secure financial futures for our Customers through quality products and service
- Promote financial wellbeing for our colleagues
- Empower communities to manage money well for life

Inclusive growth

We believe we have a responsibility to help build a more inclusive economy in which everyone has equal opportunities to fulfil their potential and thrive.

To pursue inclusive growth, we are committed to:

- Improve access to financial advice, Saving, and investing
- Create an inclusive workplace that enables colleagues to thrive
- Help our communities to thrive through employment and wellbeing

Responsible investment

We invest responsibly to help create prosperity for the generations of today and tomorrow, and to provide people with confidence and choice to invest for a sustainable future.

As a responsible investor, we are committed to:

- Embed responsible investment principles across our business
- Exercise active stewardship of our customers' assets
- Reduce the environmental intensity of our activities

Operating responsibly

Underpinning our Shared Prosperity Plan, we are committed to operating our business ethically, lawfully and with integrity at all times.

One of our core themes is responsible investment and we have committed to embed responsible investment principles across our entire business. We also have an explicit commitment to be an active steward of our customers' assets. Our third commitment within the responsible investment theme is to reduce the environmental intensity of our activities. This means we are reducing our direct environmental footprint and we are enhancing our approach to measuring and managing the climate-related risks and impacts embedded in the investment portfolios we manage on customers' behalf.

Quilter's investment management approach

Quilter's investment solutions are designed to deliver good customer outcomes through the market cycle, and to meet a client's risk appetite while being agnostic between active and passive management styles. Environmental, social and governance (ESG) factors will increasingly be woven into the fabric of the investment world and Quilter sees an opportunity to lead on this within the wealth management market. Quilter offers a full-breadth of investment management services, ranging from bespoke portfolios at Quilter Cheviot to unitised, risk-based multi-asset solutions at Quilter Investors.

Quilter Cheviot

Quilter Cheviot believes in active investment management and provides bespoke investment solutions, designed to deliver superior risk-adjusted returns for longer-term investors. Quilter Cheviot invests in a wide range of asset classes using a combination of direct investments and third-party managed funds.

We believe the best way to meet the challenges of today's dynamic market environment is through a carefully controlled investment framework that combines the skills of a dedicated research team with those of experienced investment managers.

Quilter Cheviot's approach can be summarised as follows:

- ▶ Identify future trends
- ▶ Adapt style to market cycle
- ▶ Our global outlook informs asset and sector allocations
- ▶ Being a responsible investor is part of our process

Quilter Investors

Quilter Investors specialises in the creation and management of risk targeted multi-asset investment portfolios. Multi-asset investing, at its simplest, is blending together investments across geographies, asset classes and sectors into a portfolio. Quilter Investors invests in a wide range of asset classes, primarily through funds managed by third-party fund managers.

We have extensive relationships with the industry's leading investment professionals, enabling the investment team to access strategies from fund management groups worldwide. Quilter Investors' approach can be summarised as follows:

- ▶ Experts in diversification
- ▶ Seeking out opportunity
- ▶ Market reach
- ▶ Managing risk
- ▶ Robust governance

Responsible investment and stewardship in 2020

UK Stewardship Code 2020 principles:

6. Client and beneficiary needs
7. Stewardship, investment and ESG integration
8. Monitoring managers and service providers
9. Engagement
10. Collaboration
11. Escalation
12. Exercising rights and responsibilities

Our customers

Our customers use our products and services to meet their long-term financial needs and achieve their aspirations. Ensuring customers are at the heart of everything we do is critical to Quilter's long-term success. Maintaining strong relationships built on the delivery of outstanding service and outcomes, a positive reputation and trust are key to the longevity of Quilter's performance.

The significant majority of our clients are classified as individual retail customers and we believe we have a duty to represent their interests, acting as a long-term steward of their assets.

Quilter Cheviot

Below is the breakdown of Quilter Cheviot's client types as of 31 December 2020. Much of the client base is retail in nature with private clients (in various forms including SIPPs and trusts) forming over 70% of the client base by assets under management and 85% by client type.

Client type	AUM (£m)	AUM %	Client %
<i>Private Client</i>	10,390	41%	57%
<i>SIPP</i>	5,386	21%	22%
<i>Corporate</i>	2,502	10%	2%
<i>Trust</i>	1,852	7%	6%
<i>Charity</i>	1,889	8%	2%
<i>Bonds</i>	1,932	8%	7%
<i>Pension</i>	858	3%	3%
<i>MPS Platforms*</i>	525	2%	1%
Totals	25,334	100%	100%

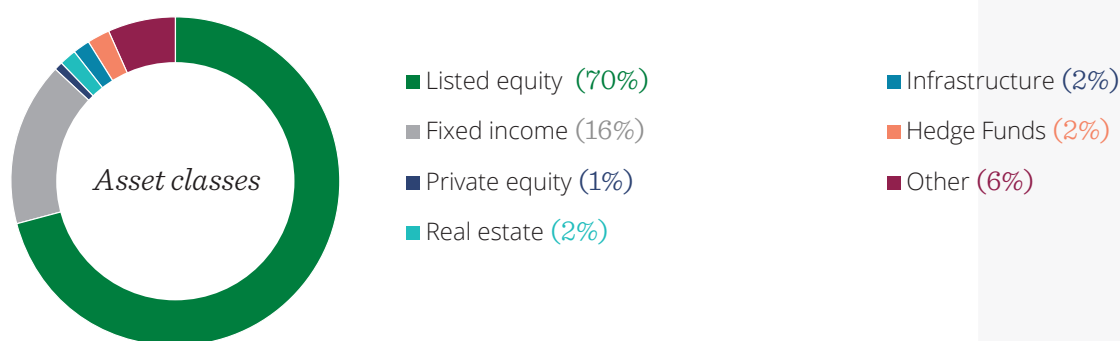
Source: Quilter Cheviot 31/12/2020

* MPS Platforms client count is measured by number of IFAs and not the individual underlying client.

AUM = assets under management

The AUM is split between 65.1% via collectives and 34.9% via direct investments. Within the equity allocation which accounts for c.£18 billion of the assets, 43.3% of these are invested directly.

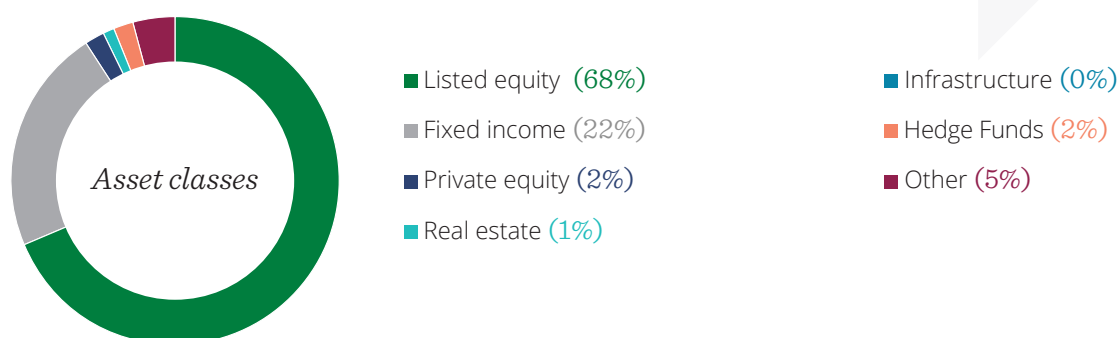
In regards to the percentage of Quilter Cheviot's AUM held in different asset classes (as at 30 December 2020) the breakdown is:



Quilter Investors

Quilter Investors' client base can be mostly classified as individual retail customers, serviced via platforms, with long-term investment outlook. Quilter Investors manages £23.2 billion on behalf of clients, the majority (95%) of which is invested via third-party funds.

Quilter Investors AUM for different asset classes is broken down below (as at 31 December 2020):



Responsible investment overview

We are committed to investing responsibly, to help create prosperity for the generations of today and tomorrow.

We incorporate environmental, social and governance considerations across the business, from the financial advice we give, to how we manage investments and hold the companies into which we invest to account for their actions. For people who want to invest for a specific sustainable outcome or to avoid a particular issue, we offer a range of dedicated responsible investment solutions.

A significant part of the responsible investment team's work is ensuring good stewardship of our clients' assets using a firm-wide approach. We would also describe this as active ownership. Voting is an important component of our work; however, engagement is even more critical. By engagement, we mean speaking directly to boards of companies and investment trusts about the issues that concern us and understanding their general approach to material ESG issues. The approach is about risk mitigation as much as anything else. Across Quilter we use a range of external service providers to understand ESG risks and opportunities and integrate these factors into our investment decision making. Both Quilter Cheviot and Quilter Investors use the external voting research provider, 'ISS', to assist in decision making alongside 'Sustainalytics' and other publicly available data sources. Additionally, Quilter Cheviot use the external services of 'Ethical Screening' and 'Style Analytics'.

In 2021, we aim to complete programme of work to integrate ESG within the investment processes of both Quilter Cheviot and Quilter investors. For Quilter Cheviot, this means integration with all core holdings. The core holdings are covered by our research teams and this comprises over 700 companies, funds and bonds, representing most c.85% of our assets under management. As a wealth manager with a predominantly retail private client base we have a long tail of holdings which may represent cherished/ legacy positions to our clients or are investment manager led ideas. With our voting and active ownership approach we will capture some of this tail as we include holdings where we hold more than £2million or 0.2% of the company within discretionary portfolios.

ESG integration and funds

A significant proportion of the assets we manage are invested in third-party funds. Therefore a vital component of our approach to ESG integration is understanding how external fund managers incorporate ESG into their investment process. In 2020, our fund research team provided enhanced training for analysts and improved ESG assessment in the fund manager appointment and monitoring process.

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

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

The analysts use this assessment to assign a ESG rating to the fund that reflects the degree to which they believe ESG risks and opportunities are embedded within investment analysis and decision making. The ESG fund rating is an internal measure to enable comparison across sectors and asset classes. Given the fast pace of change being seen across the investment fund industry to integrate ESG factors within the investment process, as well as the fast-evolving nature of ESG data, metrics, regulations and risks like climate risk, the fund research team sees their assessment of managers as an iterative process that will adapt over time. They look to build an understanding of not just how ESG is incorporated into investment processes and engagement today but also the direction of travel, with further meetings over time to update and engage on progress made.

We are mindful of:

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

Different asset classes present different ESG considerations; below we have outlined some of these:

Asset class	ESG Integration	Engagement & Voting
<i>Equities</i>	E, S and G factors affecting companies	Ability to use voting rights and engage with the board as well as company management
<i>Fixed Income</i>	ESG analysis for credit issuers on a similar basis to equities. Growth of green bonds, and newer areas like bonds linked to the UN Sustainable Development Goals, and transition bonds. Sovereign bond analysis can be limited for developed markets but could increasingly incorporate climate risk in the future	While they do not have voting rights like shareholders have, larger fixed income houses can influence the funding structure of issuers. They can also engage on similar matters to equity investors and reconsider their funding if no progress is made
<i>Property</i>	E&S factors affecting property holdings. Consider BREEAM rating and GRESB benchmarking	Incorporation of ESG issues into ownership policies and practices including measurement of sustainability performance of assets
<i>Infrastructure</i>	Look for ESG factors to be considered across the investment lifecycle	Incorporation of ESG issues into ownership policies and practices including measurement of sustainability performance of assets
<i>Absolute Return/ Hedge Funds</i>	Depends on the asset class and strategy	Depends on the strategy and asset classes invested in, whether investments are physical or via derivatives, and the degree of turnover
<i>Private equity</i>	Environmental and social factors affecting investee companies. Governance structure of investee companies. Approach depends on whether fund of funds or direct	Incorporation of ESG issues into ownership policies and practices

Additionally there is a focus on the net zero ambitions of the different investments.

As an example, for equity managers there are different strategies that may be implemented. Depending on the strategy that the manager has adopted we would expect certain ESG considerations:

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

For managers operating in the UK, we would expect them to be signatories to the UK Stewardship Code and for all managers to be signatories of the United Nations-backed Principles for Responsible Investment. We welcome managers aligning their strategy to the United Nations' Sustainable Development Goals (UNSDGs) however, we will be sceptical where there is little concrete evidence of how they implement these.

The fund research team's ESG fund rating system will be used on an internal, proprietary basis to identify where a fund sits on the industry spectrum on ESG integration and stewardship. We expect ESG considerations to be an increasingly important component within our fund selection in the future. We will engage with fund managers that we see to be laggards on ESG integration to encourage them to take steps to improve.

Quilter Investors uses a proprietary review process that ascertains whether a manager has adopted what we consider to be an enhanced ESG approach. This uses quantitative data from our external providers (primarily Sustainalytics and Morningstar) and information from managers, as well as enhanced assessments. We are beginning to roll this out across the funds in which we invest. The key components of the assessment focus on philosophy, process and people.

There is an added layer of complexity within a multi-asset, multi-manager business, as ESG data tends to be available at an individual company level rather than at a fund level. We have developed a dashboard that allows us to better understand and monitor ESG risks and exposures both at the portfolio level and at the level of the underlying holdings within the funds.

Our investment risk and performance team produces in-house dashboards incorporating several ESG factors for our strategies. This includes overall exposure of underlying holdings to ESG risks, carbon intensity and exposure to controversial areas. This is an ongoing project and we expect to expand on the range of ESG factors used over time. We measure ESG risks primarily by monitoring the Sustainalytics ESG risk rating on underlying holdings, which is aggregated at portfolio level. This is also the methodology used to measure sustainability risks for regulatory reporting purposes.

ESG integration in directly managed assets

Although a large part of the assets managed by Quilter are held in third-party funds (almost all for Quilter Investors), our discretionary fund manager, Quilter Cheviot, invests a significant proportion of assets directly across different asset classes too. Our directly managed funds are mainly held in equities and fixed income and our 2020 activity is summarised below:

ESG integration and equities

Where we invest directly in equities we are developing ESG dashboard for our equity holdings; this incorporates data from Sustainalytics along with previous engagements and outcomes (as well as those that are ongoing), statistics on board diversity, pension and remuneration arrangements, data from the Transition Pathway Initiative and other publicly available data that enable us to identify priorities, materiality as well as thematic areas to focus on. This is in conjunction with the ongoing work being undertaken by the equity research team to identify and consider ESG factors within their investment thesis.

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

The equity analysts apply the material ESG factors which are most relevant to their sector, as sectors have different challenges and concerns. A one size fits all approach does not work for industries which are diverse in nature and will be facing different material issues. Through the regular team meetings as well as the investment committee structure in place within Quilter Cheviot, equity recommendations will be challenged on ESG issues in order to ensure that all the material ESG risks have been considered. We are developing a materiality framework on a sector-specific basis throughout 2021.

Our current view is that ESG is part of the investment case and therefore it should not be separated out from this with a company rating. Additionally, there is a strong argument that it is more important to focus on the journey rather than the rating provided by an external data source. As part of our process, we consider how responsive companies are to engaging with us and how they improve over time. Engagements are often multi-year events, and a simple number will not always reflect the true picture. Our equity analysts may implement ratings specific to their sector in order to progress peer group comparisons as well as hone their thinking.

We do not exclude specific activities through this approach, the only firm-wide exclusion currently in place is controversial weapons which includes anti-personnel landmines and cluster munitions. In order to ensure that specific client requirements are met, we offer the following approaches:

ESG integration and fixed Income

For fixed income holdings, we invest through funds and directly. The direct holdings are predominantly in UK, EU and US government bonds. Integrating ESG factors into the selection of sovereign debt issued by developed countries is likely to increasingly incorporate issues such as climate risk over time and best approached by seeking to influence government policy where appropriate. For more detail on this we would refer you to [Our approach | Quilter plc](#). A significant part of our bond exposure is through third-party funds and therefore the fund research approach of understanding the underlying manager's ESG process applies.

Exclusions

We take a selective approach to exclusionary screening criteria as, in general, we believe most clients wish to retain broad market exposure. The only blanket exclusion we seek to employ for all investments relates to cluster bombs and anti-personnel land mines, as these are subject to international conventions and law. Where we invest directly, we do not knowingly invest in securities (equity or debt) of listed companies involved in the manufacture, development or trade of anti-personnel mines or cluster munitions.

Ethical and values-oriented investment based on client requirements is incorporated on an individual client basis, informed by their specific ethical preferences and values within Quilter Cheviot's discretionary portfolio service. These will vary from client to client and will focus on sectors, industries or individual companies. Beyond this, more specific negative screens may also be applied for funds that have clear ESG objectives for example the Quilter Investors Ethical Equity Fund and the Climate Assets Fund. Typically, these could relate to activities that we feel are unsustainable, such as tobacco production, and which may either be excluded completely or subject to tolerance bands, such as revenue contribution, depending on the strategy. We also monitor all our strategies for exposure to controversial activities including, but not limited to: thermal coal; oil sands; military contracting and armaments; gambling; palm oil production and tobacco production.

While we currently do not explicitly set thresholds for allowable levels of exposure to such areas, we regularly monitor our risk exposure to these activities. Finally, we recognise the importance of the UN Global Compact Principles in investing responsibly. The UNGC Principles set out a series of 10 fundamental responsibilities for corporates in the areas of human rights, labour, environment and anti-corruption. We seek to understand how our managers consider and monitor these in their respective investment processes. However, we are mindful that different ESG data service providers may have differing assessments of corporate behaviour and different tolerances. Therefore, where we identify that a fund has caused us to have exposure to a company in breach of the UNGC, we may engage with the Manager to better understand the potential issue.

ESG focused and sustainable solutions

In addition to the ethical and values oriented approach detailed above at Quilter Cheviot we also offer:

Quilter Cheviot – Climate Assets Fund and strategy

Investing in the growth markets of sustainability and environmental technologies, with a strong underpinning of ethical values. The strategy is fossil fuel-free and invests in global equities, fixed interest and alternative investments. Five positive investment themes are at the heart of the stock selection: low carbon energy, food, health, resource management and water.

Quilter Cheviot – Positive Change

For clients who would like ESG considerations to be a key driver of investment selection, alongside long-term financial returns. This is a pragmatic approach that combines funds that invest with a sustainability focus or for impact, with funds managed by leading ESG practitioners. Meaningful engagement by fund houses with company management is prioritised over formal exclusions on the basis that engagement can encourage change where it is needed most.

Engagement

Quilter Cheviot

We undertake our own engagement with the responsible investment team working alongside the relevant analyst, as well as the analyst progressing their own engagements on non-governance issues. Quilter Cheviot's engagement activity falls into three buckets:

- ▶ **Reactive** – to an AGM/SGM resolution
- ▶ **Proactive** – may include thematic engagement
- ▶ **Monitoring** – regular catch ups

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

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

Quilter Cheviot Engagement Examples

BHP (a thematic priority engagement – climate change)

We continued engagement in 2020 with the company regarding their climate lobbying activities by attending a company organised event. Despite making several climate positive commitments including to reduce carbon emissions, the company is a member of some of the most influentially oppositional industry associations on climate policy. We have concerns that the industry associations may be undermining the company's climate-related strategy and have encouraged them to use their influence to bring the two into alignment. Based on multiple engagements with numerous shareholders, the company has now published a review of key industry association memberships, highlighting where climate policies are not aligned. The company has begun an engagement process with those associations identified as laggards. We will monitor progress moving forward.

Compass Group (norms and incident-based engagement)

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

Kingspan (norms and incident-based engagement)

We engaged with the company specifically on its involvement in the Grenfell Tower fire. There is an ongoing inquiry which inhibits Kingspan's ability to speak publicly about specific areas. There are management changes in train which we are supportive of and which we believe will strengthen the company over time. We discussed the corporate culture at some length, and we are monitoring the overall situation, which is complex, and we await further clarity. This is an ongoing engagement.

Royal Dutch Shell (a risk-based engagement)

We have engaged with Royal Dutch Shell on several occasions over the previous years. The focus has been on remuneration and linking this to the company's climate transition ambitions. This latest engagement was as part of a small investor roundtable to discuss proposed adjustments to remuneration and activities and policies put forward by the new chair of the remuneration committee. As well as detailing potential pathways to avoiding significant LTIP windfall gains following the drop in the share price, we also discussed how Shell's new net zero carbon commitment would be integrated into executive pay packages. Overall, this was a positive conversation on direction of travel, with RDS making encouraging steps to integrate climate ambitions into pay packages. We let the company know that further information on the undisclosed LTIP targets as well as how it plans to deliver on high-level commitments to reduce Scope 3 emissions would be very welcome.

Quilter Investors

As a funds-based investor, we engage closely with our managers and scrutinise how effectively they engage on our behalf. Engagement is an ongoing conversation. This collaborative approach allows us to build rapport and develop mutual respect. It enables us to better understand the managers we are investing with and their approach. It's also through this direct dialogue that we believe we can exert influence and make a difference. When concerns or material issues arise, we engage directly with our managers as our first and preferred course of action. We believe it is equally as valid to address ESG-related issues as an engaged investor as it is to take a divestment or exclusionary approach.

This is particularly the case when it comes to the managers of our sub-advised mandates. These managers are appointed to run funds on our behalf and so we are keenly focused on deepening the collaboration in this area.

We consider our engagement a success when we see positive change, but we acknowledge that these issues are often complex and patience is nearly always required. Ultimately, however, if we felt our managers were not responding appropriately or our engagement led us to conclude that the longer-term suitability of the investment (and/or investment process) had been irreparably impaired, we could redeem our holding.

Quilter Investors Engagement Examples

BlackRock

Objective: Discussion of BlackRock's track record around climate-related shareholder proposals.

We met with the global stewardship team as we hold BlackRock funds in a number of our strategies, including significant holdings in its passive funds. Given the importance of meaningful stewardship for passive investing we were keen to raise concerns around voting on climate-related shareholder proposals and to better understand their rationale. BlackRock has been very vocal on the importance of ESG, particularly at executive level, and there has been a significant investment and focus on ESG and climate change by the fund house. However, the company voted against a large number of such proposals last year despite public commitments to climate change initiatives such as Climate Action 100+. We therefore wanted to better understand the reasoning for this contrast and to make clear that this is a priority area for us. It was explained that they have invested further in stewardship resources over the past 12 months, and have been working on more formal policies related to the reviewing of shareholder proposals. However, equally some of the proposals that were not supported were of poor quality. They feel providing increased transparency in their approach and thinking around such resolutions is important and something they will focus on. More recently, there has been a shift upwards in terms of their support for climate-related proposals.

Next Steps: We await to see how this process progresses and will monitor developments. We are also encouraged that the stewardship team has significantly increased the number of overall climate-related engagements (by 300%).

Boohoo Group plc (Jupiter/Merian Global Investors)

Objective: Develop full understanding of Boohoo's exposure to work practice controversies and develop engagement plan to ensure improvements are made.

Our Quilter Equity 1 Fund is sub-advised by Merian Global Investors (now Jupiter). The fund has a significant holding in Boohoo. Boohoo was the subject of allegations around poor working practices at authorised suppliers, where a lack of necessary hygiene practices and social distancing led to an outbreak of coronavirus cases. The Sunday Times also issued an article suggesting employees at these sites have been paid well below the national minimum wage. Following the publication of the article the share price fell around 50%. We met with Merian/Jupiter to understand the issue more deeply, as well as to work with them to agree and implement an engagement plan to address these issues. Priority areas for us included improvement to policies and processes, supply chain auditing, additional disclosures and changes to the share listing. Given the seriousness of the allegations, it is essential that we see meaningful improvements and an appetite to change over the coming months. The Manager has undertaken a series of engagements with Boohoo on our behalf.

Next Steps: In our follow up meetings with the Manager, their view is that the company are very open to expediting improvements in supply chain practices and have already addressed a number of the issues raised. Additionally, they have set aside a significant amount of funding to invest in solutions and are in the process of implementing the recommendations of an independent review by QC Alison Levitt. We will continue to monitor the progress with our Manager to ensure the company remains on track to address all of these issues.

Janus Henderson Investors – Natural Resources Fund

Objective: Natural resources carries higher risks from an ESG perspective – so we need to understand how the manager can truly invest responsibly and sustainably in natural resources.

The Quilter Investors Natural Resources Fund is sub-advised by Janus Henderson. From our engagement, it is clear to see that ESG considerations are embedded thoroughly into the investment decision making at the fund and they have a demonstrably sophisticated stewardship process. Mining and resources will be key to any low carbon transition, particularly when it comes to resources required for electric vehicles and renewable energy infrastructure, for example. The opportunity set is therefore large. From an ESG risk perspective, these issues can be existential (and binary), for example if a company loses its social license to operate, then in some circumstances the company folds. The portfolio managers join collaborative engagements with external initiatives, which underlines the level of ESG embeddedness. The fund also already holds exposure to renewable/green resources and we discussed the possibilities of increasing exposure to such areas in the future.

Next Steps: As with other conversations with this fund house we requested periodic disclosures on voting and engagement records. Periodic disclosures have since been made available which is a positive outcome. Additionally, we continue to work with the team to discuss options for an increase to more sustainable resources.

Our thematic priorities for 2021

We have established three thematic priorities to guide our engagement in 2021 across Quilter Cheviot and Quilter Investors:

► Climate Change

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

SDG Alignment: 7 Affordable and Clean Energy, 13 Climate Action, 15 Life on Land

► People & Human Rights

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

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

► Water

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

SDG Alignment: 6 Clean Water and Sanitation, 12 Responsible Consumption and Production, 14 Life Below Water

Escalation

Quilter Cheviot

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

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

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

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

In regards engagement with the board, we often meet with the chair or chair of remuneration committee in the normal course of our stewardship activity. On occasion we have also spoken to the Senior Independent Director (SID) where there has been a particularly sensitive and difficult topic.

We have found that multiple engagements are often required, and that patience and perseverance are helpful attributes.

Below is the timeline of our engagement with Sophos:

Date	Who	What	Action
14/09/2016	Chair of the RemCo	Board composition, KPI and stretch target disclosure, use of RSUs	Appointment of new NED Supported management
12/07/2017	Chair of the RemCo	Concern over balance of independent NEDs on board; disclosure concerns around personal targets. Positive improvement on financial KPI disclosure	Supported management but set road map for improvements
15/08/2018	Chair of the RemCo	Expectations of a significantly revised remuneration policy in 2019	Supported management but set very clear expectations for the new remuneration policy
16/04/2019	Chair of the RemCo	Dissatisfaction with the proposed remuneration policy	Meeting arranged with the Chair
16/05/2019	Chair	Dissatisfaction with the proposed remuneration policy	Voted against the new remuneration policy Concerns regarding the management reflected in the investment recommendation

Quilter Investors

Quilter Investors' solutions mainly invest in other funds and investment trusts rather than individual stocks and bonds. The fund research team monitors third-party asset managers and investment trusts on an ongoing basis. Monitoring includes but is not limited to:

- ▶ Experience of asset manager and any turnover in the team
- ▶ Performance
- ▶ Risk controls and investment parameters
- ▶ ESG integration
- ▶ Quality of reporting and governance processes

In 2020, the fund research team has been particularly focused on assessing how asset managers are considering environmental factors and the impact of climate change within their investment analysis.

Engagement on key issues is key and the fund research team holds discussions with asset managers, and raise concerns where necessary. Ultimately, if we felt our managers were not responding appropriately to our engagement and that the suitability of the investment (and/or investment process) had been irreparably impaired, we may redeem our holding. In the case of closed-end funds, further action may also involve voting for change at an Annual General Meeting (AGM) or Extraordinary General Meeting (EGM).

Voting

Quilter Cheviot

Voting and engagement is part of our investment process, therefore all decisions are made in conjunction with the relevant analyst. We use ISS as our proxy voting service provider and have set a baseline policy which ISS bases its recommendations on. We do not always follow ISS' recommendations and we believe that this is the right approach as it is important that we do not adopt a mechanistic approach to engagement and voting. The occasions where we do vote differently to recommendations made by ISS are:

- ▶ Where we have engaged with the company (either previously or as a result of the voting recommendation) and have determined that a different course of action is justified given that interaction
- ▶ Share issuance resolutions for investment trusts: whilst we support the Pre-Emption Group's recommendations for maximum share issuance, we interpret this on a case-by-case basis in order to ensure the best outcome for our clients

All clients can instruct voting on holdings and votes will be placed in line with their instructions. We also enable clients to attend AGMs. We understand that it is important for clients to do; an example of this would be the failed attempt by Unilever to move its corporate headquarters and primary listing to the Netherlands in 2018. UK clients reacted unfavourably to this potential outcome and instructed us to vote their holdings against the resolution; conversely the view for our European clients managed by our then Dublin office (now Quilter Cheviot Europe) was that this would be a favourable outcome. Ahead of Unilever pulling the resolution, we engaged with the company and were mindful of client views regarding this. We had determined that we would not support the resolution.

We vote on our UK equity and investment trust positions – this includes the monitored UK equity list, the monitored investment trust list and where we own more than 0.2% or £2 million of a holding in the UK. We have a long tail of holdings which is unsurprising given the nature of our client base; we do not intend at this stage to vote on every single position we have.

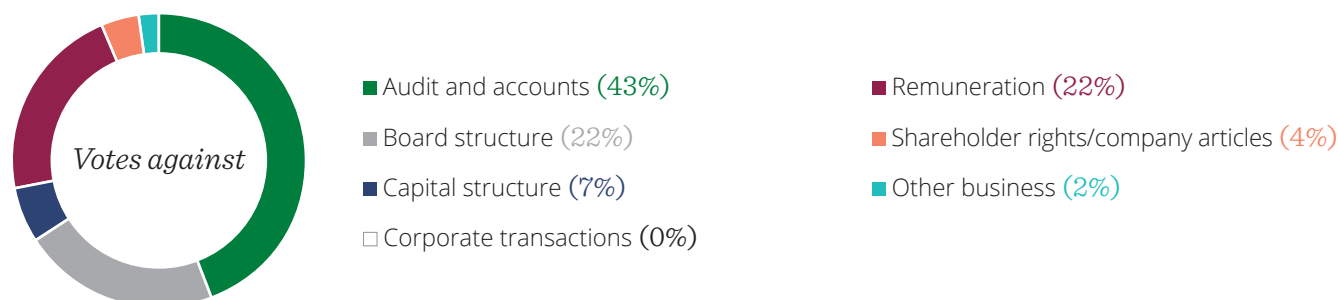
The reasoning is simple: voting must happen alongside engagement and therefore, whilst we could easily vote on every single holding globally, we would not engage on that scale in a meaningful way, and in some cases the position will only be held by one client. In regards our other direct equity holdings in the US and Europe as well as other jurisdictions, we are not at this stage adding these to the voting universe. Our rationale is that whilst we may own \$100 million in our largest US holding, this position equals 0.01% of the share capital. When we undertake voting, we do so alongside engagement as things currently stand, we feel that it would be difficult for us to gain access to the board (the analysts obviously meet the company on an ongoing basis anyway) in order to engage satisfactorily. This will not stop us in collaborating with other investors, or indeed changing our position in the future. The exceptions to this are holdings in the US and Europe within the Quilter Cheviot managed Climate Assets and Quilter Investors Ethical Funds. For these funds given their specific investment mandate focused on sustainability we vote on holdings in these jurisdictions.

We communicate our stewardship approach with our clients and their advisers in several ways:

- ▶ Quarterly responsible investment reports detailing our engagement and voting activity – these are available on our website and may be emailed to clients directly
- ▶ Webinars on responsible investment topics
- ▶ Face to face and virtual education sessions with advisers and charity trustees
- ▶ One-to-one meetings with clients and advisers who wish to undertake a deep dive into our responsible investment approach

Quilter Cheviot – 2020 voting overview

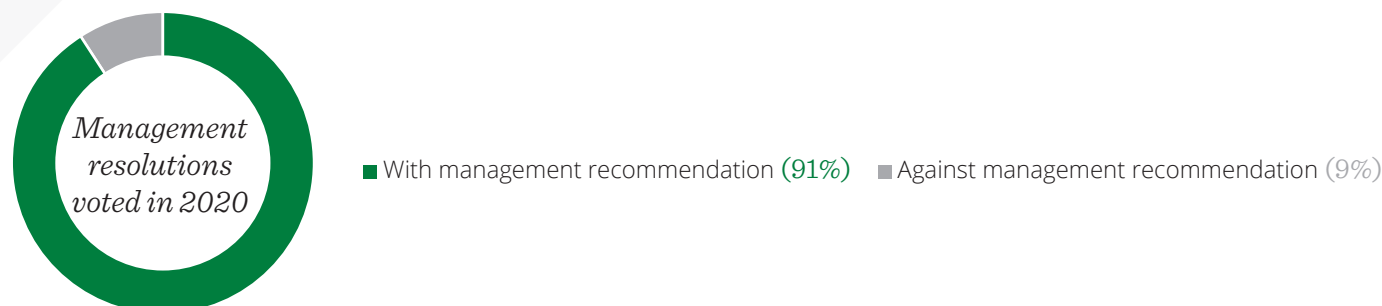
We voted at 348 company meetings, and separately we received 86 instructions from clients to vote.



This breaks down into the following votes against. The abstention votes against dividends were considering companies amending their dividend policy in light of the COVID-19 environment.



We voted with management at just over 90% of the resolutions. There is always the question about what the right level of voting against management is – we would argue if we had a significantly high proportion then this would mean that our research process was failing in considering ESG factors within its analysis. The 20 abstentions against votes related to dividend being withdrawn owing to COVID-19.



Examples of voting against management

Haydale Graphene Industries

In the run-up to the 2020 AGM our proxy advisor had raised two issues on the agenda. The first was equity issuance, and the second was the structure of the LTIP. We have spoken to the company several times over the past 12 months and we again engaged with the chair on these items. The company had engaged with us earlier in the year with the proposed structure, we had agreed to the outline structure and had also urged the Chair to increase the hurdles – which they did. Our proxy advisor raised concerns around the ‘retesting’ nature of the structure, however we disagree with this categorisation. The chair explained to us that the wording in the announcement on 14 January was ambiguous and reassured us that future grants would be at higher levels. We are comfortable with this structure and voted to support. We are also comfortable with the rationale for further equity issuance to be used as dry powder heading into next year and will support management.

Last year, we engaged with Haydale on board independence and diversity. We voted against one NED and abstained against the chair, as we felt these concerns were not being addressed. Since then board independence has significantly improved (overall 60% independent) and the audit, remuneration and nominations committees are all now made up of fully independent NEDs. Gender diversity, although still low at 20%, has been improved from previously having no women on the board.

RIT Capital Partners

This was an initial conversation with the trust from a voting and engagement perspective. We spoke to the company regarding a couple of concerns prior to the 2020 AGM. The first issue raised was a continued payment to the ex-executive chairman (who founded the company) in relation to his work in sourcing new investment opportunities. This payment was to fund his office as well as medical insurance. On the basis of our conversation, and a commitment from the company to review how this payment is structured, we voted to abstain on the item related to the remuneration report and will monitor progress moving forward. The second issue related to the independence of a NED. Although categorised as independent by the board, a potential independence issue has been identified and the NED sits on the audit and remuneration committees which is not in line with the best practice and the UK Corporate Governance Code. We believe this may present a conflict of interest and the categorisation of the NED as independent is inappropriate. We have voted against re-election at the 2020 AGM.

TalkTalk Telecoms Group

We have held multiple conversations with the company over the past few years. There have been ongoing governance concerns – particularly related to board independence and executive remuneration. The structure remains non-compliant with the UK Corporate Governance Code provisions due to three non-executive directors (NEDs) who are not considered independent. This has been a recurring concern at multiple AGMs without actions towards material improvement; therefore, we voted against several director elections including the Chair. We also voted against the remuneration report and policy. We did not support the significant one-off transaction payments which were awarded to the Executive Directors following the disposal of the Fibre Assets Business. We did not support a new provision that would enable discretionary one off transaction payments to be made under the annual bonus plan.

Lloyds Banking Group

Lloyds proposed a new remuneration policy at the 2020 AGM. This included replacing the performance-based long-term incentive structure with a scheme modelled around a restricted share plan. We were concerned that reduction in quantum opportunity was not sufficient to offset the certainty of payout. After discussing the new policy with the company we supported management on the item related to the acceptance of the new remuneration policy, in recognition of the positive changes such as alignment of executive pension contributions with the wider workforce. However we did not agree with the rationale provided by the company on the new incentive structure and voted against the specific item on LTIP awards (that had been separate from the remuneration policy vote on the agenda). We did not agree that in switching from a variable to restricted share unit structure there has been an appropriate reduction in total compensation as the proposed guaranteed element of the plan was too high.

Intertek PLC

We contacted the company regarding concerns over that CEO pensions contributions were not aligned with the wider workforce and there do not appear to be plans to implement alignment within the new remuneration policy being proposed at the 2020 AGM. While we recognise that all newly appointed Executive Directors from 2018 have a pension in line with the workforce, the CEO's pension contribution remains high and after speaking to the company there does not seem to be a pathway to reducing it.

This is not best practice and is not in line with the UK Corporate Governance Code. In this instance the facts that the CEO's remuneration package was contractually agreed in 2015 and that he has performed very well were not compelling enough rationales for an outsized pension contribution. Therefore, we voted against the remuneration policy.

For more information see our voting policy [here](#).

Quilter Investors – 2020 voting overview

We expect our managers to exercise the right to vote at shareholder meetings on our behalf (proxy voting) as investors in their funds. Managers have discretion on how to vote but, as a minimum standard, we expect our managers to execute proxy votes on non-standard issues whenever they can. In some jurisdictions we understand that there may be practicalities that make it difficult to execute a proxy vote.

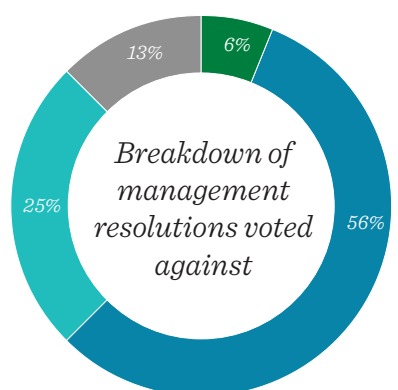
Voting is a key component of our process for engaging with closed-end funds. We vote on all resolutions at all AGMs and EGMs globally (unless we are restricted from doing so, for example, in share-blocked jurisdictions). Our investment team reviews all resolutions ahead of shareholder meetings and we only decide how to vote after due consideration and discussion. As a rule, we aim to discuss and resolve any concerns with management before deciding to abstain or vote against a resolution.

In practice, we are made aware of all shareholder meetings, including AGMs and EGMs, through ongoing engagement with our managers prior to receiving a corporate notification. This is important as it allows for ample time to review the resolutions, especially for EGMs where the table of resolutions are likely to refer to a specific event rather than a recurring item. We review all resolutions that are tabled and take an active involvement where necessary. For example, we may disagree with the recommendations of directors and/or third-party proxy advisers/administrations and, when appropriate, we will amend our voting intentions accordingly and provide a rationale for why we have done so. We wholeheartedly recognise the importance of voting, especially given that we are a significant investor in the closed-end fund sector.

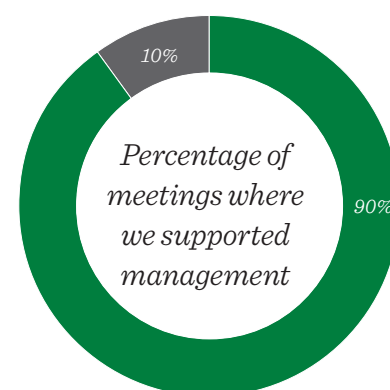
We are fully transparent on our voting activity and report to our clients on a quarterly basis on our activity and in addition, will produce an Annual Voting Report. You can find out more about the process in our separate Proxy Voting Policy.

Quilter Investors 2020 voting activity

Summary chart of voting patterns



There were no shareholder proposals in 2020



■ Audit and accounts ■ Remuneration
■ Board structure ■ Other business

■ Against management recommendation ■ With management recommendation



Examples of voting against management

Alternative Credit Investments (Formerly Pollen Street Capital)

After a continued dialogue with this investment trust we felt that concerns surrounding board independence and acting on the behalf of shareholder interests had not been addressed. At the June AGM we voted against the re-election of the board chair and abstained on the re-election of three other non-executive directors (NEDs). We will continue to monitor the situation moving forward.

Raven Property Group Limited

We have engaged with the company on several occasions and have raised concerns around board independence and transparency. On the basis that these concerns were not being addressed, we voted to abstain on the remuneration report at the 2020 AGM. The disclosure provided around the annual incentive plan, which paid out at close to maximum for 2019, significantly lags market standards. Concerns also remain around the high overall quantum and it is noted that the executive directors were awarded salary increases, though modest, to their already relatively high salaries for 2020. We also abstained on the re-election of two NEDs as the composition of the board and its key committees continues to fall short of the UK Corporate Governance Code recommendations. One abstention was on the re-election of the board Chair, who is considered ultimately responsible for the governance arrangements at board level. We will continue to monitor the situation moving forward and we continue to have constructive dialogues with the company.

APQ Global Limited

For the 2020 AGM, after continued conversations with the company, we placed votes against accepting the financial statements and approving directors' remuneration. Though we did not have concerns around any financial irregularities, we did so as a mechanism to ensure our concerns were taken seriously and flagged to the board. We felt that the issues we had raised were not being addressed. One of these concerns relates to the structure of the board. It does not comprise of at least two independent NEDs, the audit committee is not fully independent and Executive Directors sit on the audit committee. This is not in line with best practice. We also felt that there was insufficient transparency on the breakdown.

Service providers

Quilter uses ISS as our proxy voting service provider.

Quilter Cheviot uses ISS as well as a platform to cast all our votes – both those within our voting universe and client instructed voting. The responsible investment team has control of the ISS platform internally and they are the only people who can instruct voting for the core universe. We run regular reports to reconcile the votes placed within the universe and for client instructed voting the corporate actions team can provide confirmation to the client that the votes have been placed as instructed. There have been no incidents where votes should have been placed and were not. We seek feedback from companies on the process of engaging with ISS to understand how effective the process is from the proxy service provider. We engage with ISS on a regular basis and they provide training to new users.

Quilter Investors also uses ISS and votes on all the positions where voting rights are held and are not share blocked.

Across Quilter we use Sustainalytics as an ESG data provider, the contract was awarded following a review of a number of providers. We engage with Sustainalytics on a regular basis and receive training from them.

Quilter Cheviot uses Ethical Screening specifically for screening companies in accordance with client specific criteria. Training is provided to users (which includes the investment managers) and additionally educational sessions are held. This is linked to our dealing system for exclusionary screening, and this is updated monthly; we are in the process of also feeding this into our risk management system which monitors every portfolio.

We monitor service providers and their outputs, as well as engaging with them regularly in regards developments within their systems and for training for new joiners, or new developments. Where we have a challenge or a question in regards the data provided, we will discuss this with the relevant party for us to better understand the information or conclusion that has been made.

The market data team at Quilter is responsible for the ongoing monitoring and agreement of contracts.

Data provider	Purpose	Access
ISS	Voting platform – recommendations are made in line with the agreed policy, and we use this in order to determine our voting decision. We do not always vote in line with ISS' recommendations. Client instructed votes are placed via ISS as well	Responsible investment teams Corporate actions team (client instructed votes)
Sustainalytics	ESG data provider – used by the research teams as an input into their proprietary analysis and well as feeding into the dashboard we are creating for our monitored holdings which will track engagement and various ESG metrics both from Sustainalytics and from other open-source data providers	Research teams Responsible investment team Sustainable investment team

Data provider	Purpose	Access
<i>Style Analytics</i> <i>Quilter Cheviot only</i>	Fund analysis tool – the Sustainalytics data feed into this as well as other data sources to provide the fund research team with more granular detail on underlying exposures and ESG factors	Fund research team
<i>Ethical Screening</i> <i>Quilter Cheviot only</i>	Screening tool – employed at a portfolio level as well as an additional data source for the research teams to identify areas of exclusion as well as positive screening	Research teams Responsible investment team Investment managers

Collaborations

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

- ▶ 30% Club
- ▶ The UK Investment Association ('the IA')
- ▶ UN Backed Principles for Responsible Investment ('PRI')
- ▶ The UK Sustainable Investment and Finance Association ('UKSIF')

In 2021 we are reviewing which other initiatives we wish to become a member of, whilst being mindful that we do not want to be a passive member.

2020 collaboration case study

30% Club

Quilter Cheviot took some collaborative engagement with the 30% Club within the property sector and the focus was on diversity on boards. This was in 2018, and this year, the company that we were involved in the engagement with has announced a further female non-executive director. When we engaged the company had one female NED and no female representation on the executive committee; additionally the nomination committee was all male. The company is small in nature; at the time of engagement it had 38 employees. The group suggested that the company consider joining the Real Estate Balance Initiative which has a commitment to diversity – it is now a member.



In 2021 we will enhance our collaboration framework across Quilter, based on our three priority engagement themes:

- ▶ Climate change
- ▶ People and human rights
- ▶ Water



Governance and resources

UK Stewardship Code 2020 principles:

2. Governance, resources and incentives
3. Conflicts of interest
4. Promoting well-functioning markets
5. Review and assurance

Governance

Board

The Board oversees Quilter's approach to responsible investment and has delegated this to the Corporate Governance and Nominations Committee, chaired by Glyn Jones, Chairman.

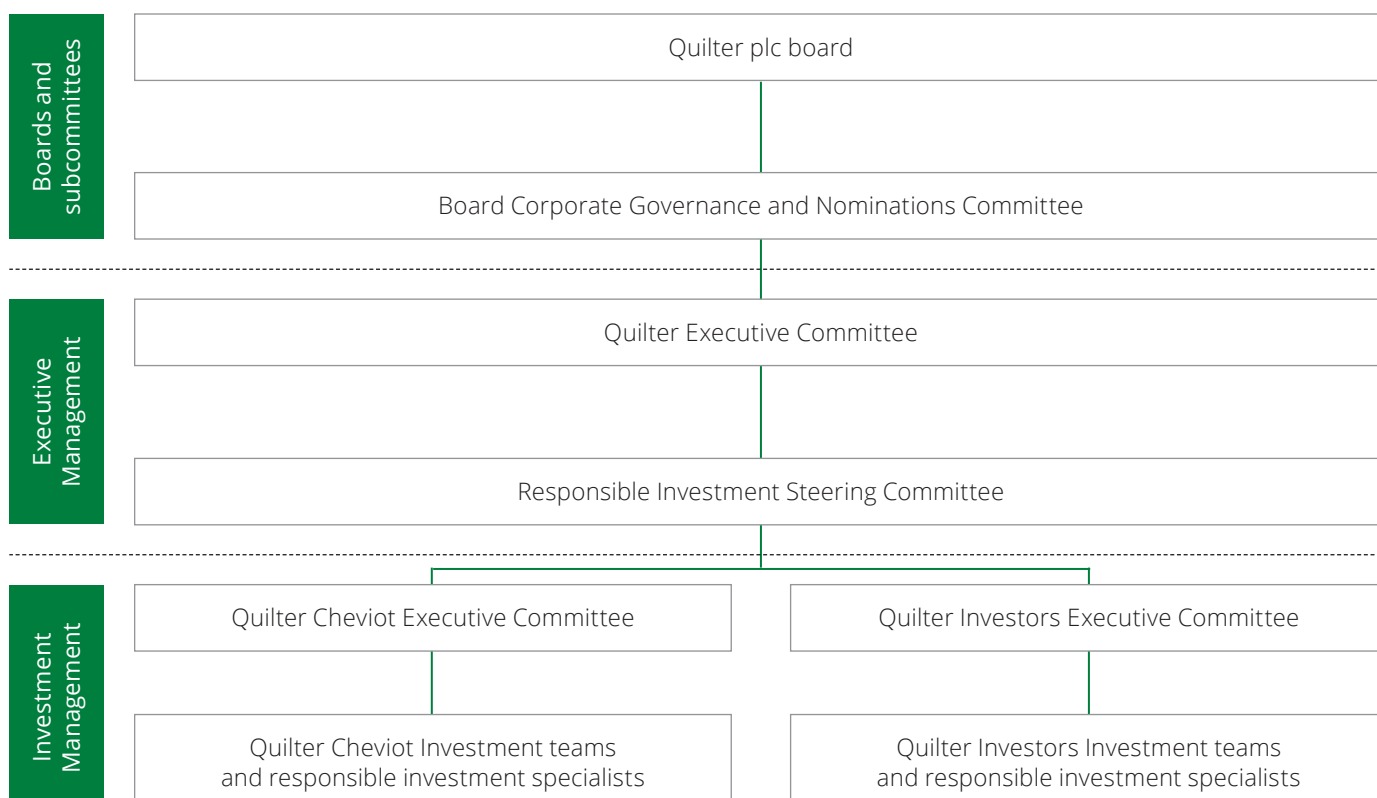
Group Executive leadership

The Chief Executive Officer has overall accountability for Quilter's responsible investment approach. The Chief Executive Officer and the Executive Management team are supported by the Responsible Investment Steering Committee and Responsible Business Forum:

- ▶ The Responsible Investment Steering Committee provides direction and challenge with regards to Quilter's responsible investment strategy, covering ESG integration across our advice, platform and investment management businesses, products development and stewardship. The committee is chaired by the Chief Executive Officer.
- ▶ The Responsible Business Forum plays a broader governance oversight and reporting role with regards to responsible investment, as part of Quilter's broader responsible business strategy. The Responsible Business Forum is chaired by the Group Corporate Affairs Director.

Executive accountability

The Chief Executive Officers of our investment management businesses – Quilter Cheviot and Quilter Investors – have **'responsible leadership'** embedded within their annual objectives. With regards to stewardship specifically, both act as **'Executive Sponsors'** of Quilter's commitment to **'exercise active stewardship of our customers' assets'** (a commitment made in our responsible business strategy – the Shared Prosperity Plan) and is built into the performance review process.



Quilter responsible investment team

We have established a team of specialists across the Group enabling the delivery of our responsible investment and stewardship programme.

► **Jane Goodland, Corporate Affairs Director and Group Responsible Investment Strategy Lead**

Jane joined Quilter in 2015 and has a broad corporate affairs remit encompassing external communications, public affairs and government relations, responsible business and responsible investment, and wider stakeholder engagement. Jane is an experienced financial services professional, with a specialism in sustainable and responsible investment, which she has gathered through various roles in institutional asset management, fund manager research, investment consulting and wealth management. Prior to joining Quilter, Jane established and led the Sustainable and Responsible Investment Practice at Willis Towers Watson, which involved the design and launch of a new manager research capability and the provision of investment consulting services to large institutional investment clients. She has previously worked for HSBC Global Asset Management on its responsible investment strategy, before which she was a senior member of the Sustainable and Responsible Investment team at Janus Henderson where she managed a large book of leading sustainable equity funds. Jane has spent a number of years as a sustainability consultant to a wide range of financial services firms. She also holds a number of non-executive positions such as board director of industry group TISA (The Investment and Savings Alliance), Charity Trustee of the Quilter Foundation, and she is founder and Co-Chair of KickStart Money, an innovative collaborative industry initiative focused on financial education.

► **Eimear Toomey, Head of Responsible Investment – Quilter Investors**

Eimear is head of responsible investment at Quilter Investors. She joined Quilter Investors in April 2020 from Sustainalytics, a leading ESG research and data provider, where she oversaw client relations in EMEA. At Sustainalytics, her role included working with asset management clients to share her expertise, as well as new product development. As a member of the Sustainalytics thought leadership committee, she also worked to help identify emerging themes and trends from an ESG perspective. Additionally, Eimear led the thinking and development of their response to key regulatory and policy developments such as the EU High Level Expert group (HLEG) and on the Sustainability Finance Disclosures Regulation (SFDR). Eimear has more than 15 years of experience in the investment industry. She started her career at Fidelity Investments before joining Merrill Lynch in 2006, where she worked as a portfolio manager specialising in equities and led the research and development of its sustainable and impact-focused investment solutions. In 2011 she joined Rothschild Wealth Management as a portfolio manager and equity research analyst, with a particular focus on charity clients, and was heavily involved in leading the business unit's involvement in Rothschild's corporate sustainability programme. She joined Sustainalytics following her participation in the On Purpose leadership programme in sustainable enterprise and social impact investing.

► **Gemma Woodward, Director of Responsible Investment – Quilter Cheviot**

Gemma joined Quilter Cheviot in 2015 to develop its approach to responsible investment and lead the strategic direction across the business. She is a member of the Investment Oversight Committee within Quilter Cheviot and is a member of TISA's Responsible & Sustainable Investment Committee. She has over 25 years of investment experience and has spent the majority of that time focused on the charity sector, and specifically clients with complex responsible investment requirements. Gemma started her career at Lloyds Bank before joining Newton in 2002. She has also held roles at Kleinwort Benson. Gemma graduated from Durham University with a degree in history and is a Chartered Fellow of the CISI as well as holding the Chartered Wealth Manager designation. She is a trustee of two charities and sits as an independent investment advisor on two charity investment committees.

► **Stewart Perry, Group Head of Responsible Business**

Stewart is an experienced sustainability and social impact specialist. He joined Quilter in 2017 and is responsible for the effective delivery of the Group's responsible business strategy. Stewart's remit includes monitoring, reporting and improving Quilter's social and environmental performance, and he works with key departments and stakeholders to integrate responsible business practices across the Group's value chain. Stewart also oversees Quilter's colleague financial wellbeing programme, as well as directing the social impact and grant making strategy of Quilter's UK registered charitable foundation (The Quilter Foundation). Prior to joining Quilter, Stewart spent more than five years working in the charity sector developing and delivering partnerships with companies to address pressing social issues and create lasting change. Stewart holds an MA in Sociology from the University of Warwick.

► **Melissa Scaramellini, ESG Fund Research Lead**

Melissa is an analyst on the investment fund research team at Quilter Cheviot, supporting the teams of both Quilter Cheviot and Quilter Investors. She joined in 2006 from Schroders, where her roles included working as a fund manager's assistant on the European institutional desk and as a research analyst on the multi-manager team. At Quilter Cheviot her main area of focus is sustainable investment funds, having previously covered several sectors including Asia and emerging markets equities and alternatives. Melissa works alongside the investment team to evaluate how ESG issues are integrated into the investment processes. Melissa holds a degree in Economics and Politics from the University of Bristol and is a Chartered Financial Analyst (CFA) charterholder.

► **Nikki Williamson, Senior ESG Analyst**

Nikki Williamson Senior ESG Analyst Nikki is an operations, research and ESG specialist working in the Quilter Investors' responsible investment team, working to support the integration of ESG throughout the business. She joined Quilter Investors in April 2019, transitioning back to asset management having led the operations for the retail platform customer research business at Boring Money. Prior to this, Nikki spent several years working with UNICEF in Afghanistan, South Sudan and globally to improve access to children's malnutrition programmes and health services, as well as working with the British Red Cross on psychosocial support research. Nikki has around 12 years of investment operations experience, predominantly with Thames River Capital where she supported the property investment team and worked on large scale operational transition programmes. Nikki holds the Certificate in ESG Investing and the Investment Management Certificate, an MSc in Development and Urbanisation from London South Bank University and a degree in Maths and Philosophy from the University of Manchester.

► **Greg Kearney, Responsible Investment Analyst**

Greg joined Quilter Cheviot in August 2019 as a responsible investment analyst. His role involves managing both the Quilter Cheviot and Quilter Investors' voting process, as well as contributing to their active engagement approaches. Prior to joining the Group, Greg worked at the United Nations supported Principles for Responsible Investment (UNPRI) and he holds an MA in International Political Economy from the University of York. He has also completed the Chartered Alternative Investment Analyst (CAIA) qualification. Greg is a member of the PRI Wealth Management working group and represents Quilter at the 30% Club.

► **Nicholas Omale, Responsible Investment Analyst**

Nicholas is responsible for assisting with thematic research and thought leadership, managing the reporting on voting and engagement and developing dashboards for ESG engagement and integration. Prior to joining Quilter Cheviot, Nicholas completed the Investment Trainee programme at BNP Paribas Asset management. As part of the programme, Nicholas completed three placements: two in investment teams and a final placement with digital marketing. In his second rotation, he worked with BNP Paribas' Environmental Absolute Return Thematic Fund and the Energy Transition Fund. He has an MSc, International Financial Management from Queen Mary University of London and a first-class BSc Business and Economics degree from University of Roehampton.

► **Kelly Ritchie, Project Manager**

Kelly is a project manager for Quilter Investors, working on the ESG programme being implemented across the business. She joined Quilter Investors in July 2019 from Santander UK. Kelly previously spent 11 years at JP Morgan Asset Management, where her roles included project manager within the Strategy and Business Transformation team, and as business manager to the CEO of investment management EMEA. Kelly holds a BSc (Hon) degree in Mathematics and French from the University of Keele. She also holds the Investment Management Certificate and is currently studying for the CFA Certificate in ESG Investing.

Educational and training programme

We have run internal educational and training sessions for the last four years on various aspects of our responsible investment approach; these include (and are not limited to):

- Regular updates on engagement and voting activity
- Outlining the Quilter responsible investment framework and how this applies within Quilter Cheviot and Quilter Investors
- The difference approaches you can take for clients within the responsible investment sphere, and how these differ e.g. ethical screening vs. ESG integration vs. sustainable thematic investing
- Updates on specific strategies such as Climate Assets, Positive Change and ethical screening
- Regulatory changes and how these will impact our clients
- Targeted external training for key individuals, provided by Fitch Learning

We have also run several webinars and educational events for our clients and their advisers.

Conflicts of interest

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

Examples of possible conflicts include:

- There may be a situation where we are a shareholder in a company and in a commercial relationship with that same company as a result of investing in one of their funds. As we have a separation between our equity and our fund research teams, which are also both independent functions, we believe that we can manage this conflict effectively given this separation
- Quilter Cheviot and Quilter Investors are both part of Quilter plc. There may be occasions where an interest to be voted is held in Quilter plc. In these cases, unless specifically directed by a client, we will follow the guidance given by our external proxy voting service provider with respect to voting

- ▶ Conflicts could occur between clients and where this is the case we will continue to act in the best interests of each client. Thus, for example, the equity share interests of different clients may be voted differently at the same meeting where it is in the interests of each to do so
- ▶ Where an employee, or any member of senior management or non-executive director within the wider business is a non-executive director of a company within our voting universe we will apply the guidance of our external proxy voting service provider

Example: Quilter Cheviot is a significant shareholder in a FTSE 350 company; at the time of the AGM, one of the NEDs on the company's board was employed by Quilter Cheviot as a consultant. At the 2016 AGM there was a recommendation by our third-party proxy voting service provider (ISS) to vote against management on two resolutions. Given the potential conflict of interest we followed ISS' recommendations and engaged with the company to explain the issues and what changes we would like to see.

Promoting well-functioning financial markets

How we manage risk

Our Enterprise Risk Management Framework ('ERMF') is embedded across Quilter and encompasses a number of elements to help Quilter assess and manage its risk exposures. A strong and embedded risk culture is vital in ensuring that risk implications are considered when making strategic and operational decisions, and that Quilter understands its risk profile and manages the business on a continuous basis within the approved risk appetite. The ERMF drives consistency across Quilter and aims to support the evaluation and management of business opportunities, uncertainties and threats in a structured and disciplined manner.

Risk governance

Quilter maintains a Group Governance Manual ('GGM') which sets out Quilter's approach to governance and the processes by which Quilter operates. The Quilter governance model is designed to promote transparency, accountability and consistency through the clear identification of roles, the separation of business management and governance and control structures, and by tracking performance against accountabilities. The segregation of risk taking, oversight and assurance is codified in Quilter's three lines of defence model, which ensures clear accountability and ownership for risk and controls.

During 2020, the Risk Function developed a Risk Function Charter which provides further clarity on the purpose and role of the Risk Function, and the means by which it maintains its objectivity and independence from management.

The Executive Risk Forum is the primary management committee overseeing the risk profile of the Quilter. This forum is chaired by the Quilter Chief Executive Officer, with representation from across Quilter. Ongoing oversight of the risk profile and of risk management arrangements is undertaken by the Board Risk Committee, with relevant matters also being considered by the Board. Similar arrangements are maintained locally in each significant business area.

On a quarterly basis, the Quilter Chief Risk Officer formally reports the second line perspective on the risk profile of the firm, performance against risk appetite and a second line perspective on the effect.

Conduct risk

The Financial Conduct Authority ('FCA') is the primary conduct regulator for Quilter's UK regulated entities. Quilter takes its regulatory obligations in relation to customers and our conduct seriously and is committed to operating in a responsible and compliant manner.

Quilter seeks to deliver on these obligations through culture and values, backed by a rigorous governance system and an approach to compliance that drives fair outcomes for customers. The standards of behaviour Quilter expects from its staff are set out in the Quilter Code of Conduct. This code has been updated to reflect expectations of individuals set out in the FCA's Conduct Rules which were implemented as part of the Senior Managers and Certification Regime.

Conduct risk is a core element of Quilter's ERMF, recognising that conduct risks can both impact, and result from, other risks within the risk universe.

Conduct risk is monitored across Quilter's businesses, with quarterly reporting on Quilter's conduct risk profile, emerging issues and trends; where areas of concern are noted, actions are identified and are tracked to completion.

Prudential risk

Quilter is regulated by the Prudential Regulation Authority ('PRA') under Solvency II and by the FCA under Capital Requirement Directive regulations, and is subject to insurance prudential requirements in a small number of other jurisdictions, including the Isle of Man and Ireland. To meet these regulations, we operate a consistent approach to risk management across Quilter. As such, we have integrated the Own Risk and Solvency Assessment ORSA and Internal Capital Adequacy Assessment Process ICAAP into our risk management framework. Quilter's ORSA and ICAAP are comprehensive risk processes which set out how risks are managed and how risks might change over time as we execute our strategy and respond to developing situations.

We analyse the capital required to protect the sustainability of Quilter and how those capital requirements might develop over our planning period. The assessments include a range of stress and scenario testing covering a broad range of scenarios, including market shocks, new business growth scenarios and operational risk events. These tests are in addition to the regulatory solvency capital requirements, which allow for severe and extreme scenarios and stresses (1 in 200-year risk events). Critical to our process is preparing management action plans should adverse events occur. This provides assurance that Quilter is both well capitalised and prepared to take necessary action.

Operational risk

Quilter operates processes to facilitate the identification and management of operational risk and the reporting of risk events. A discipline of Risk and Control Self Assessments ('RCSAs') is undertaken across Quilter and risk events are reported via our risk system, with root cause analysis conducted on material events.

Sustainability risk

Sustainability risks are an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. As part of our responsible investment approach we consider sustainability risks and factors when assessing investments. We refer to this as ESG integration and this is an ongoing process across all asset classes that we invest in.

Climate risk

Climate change poses risks for the stability of the financial system. Increased frequency of climate-related risk events 'physical risks' or a disorderly transition to a low carbon economy ('transition risks') could give rise to additional costs, and adversely impact asset values and investment performance. Across both Quilter Cheviot and Quilter Investors, we mitigate the systemic risks associated with climate change through our integration of ESG factors within the investment management process and active ownership (as outlined previously).

In 2021, Quilter will complete a climate risk assessment and scenario analysis to further enhance how we manage the risks and opportunities of climate risk in our investment and stewardship activity.

Remuneration and reward

The most important element to risk management is a good culture of risk informed decision making. We believe that a good risk culture enables effective management of risk. We link risk management to performance and development, as well as to Quilter's remuneration and reward schemes. An open and transparent working environment which encourages our people to embrace risk management, and speak up where needed, is critical to the achievement of our objectives.

Risk-based engagement case study: Royal Dutch Shell

We have engaged with Royal Dutch Shell on several occasions over the previous years. The focus has been on remuneration and linking this to the company's climate transition ambitions. This latest engagement was as part of a small investor roundtable to discuss proposed adjustments to remuneration and activities and policies put forward by the new Chair of the Remuneration Committee. As well as detailing potential pathways to avoiding significant LTIP windfall gains following the drop in the share price, we also discussed how Shell's new net zero carbon commitment would be integrated into executive pay packages. Overall, this was a positive conversation on direction of travel, with RDS making encouraging steps to integrate climate ambitions into pay packages. We let the company know that further information on the undisclosed LTIP targets, as well as how it plans to deliver on high-level commitments to reduce Scope 3 emissions, would be very welcome.

Review and assurance

When voting, we are mindful that we must act in the best interests of all our clients and are committed to being open and transparent with respect to our stewardship activity, therefore we produce a quarterly summary of our responsible investment activity. The reports are in a standard format, available to both clients and public, detailing how we voted each resolution and include explanatory notes where we have voted against management proposals. Past and present voting and stewardship reports can be found on our websites www.quiltercheviot.com and www.quilterinvestors.com. We will use our discretion when disclosing our voting and engagement activity, and in some cases may choose not to name the company or the fund in question if we believe publicity is likely to prove counterproductive. Undertaking potentially sensitive engagement in public may lead to a defensive reaction and entrench views of company management. Therefore, we often prefer confidential, constructive dialogue which enables a trust-based relationship, permitting clear and occasionally frank communication and challenge.

The stewardship policies are reviewed regularly in order to ensure that they continually reflect progress as well as the true position. The Stewardship Code statement is reviewed annually and updated as necessary. Assurance is undertaken through a combination of independent external assurance, compliance monitoring and Internal Audit assurance following a risk-based approach.

In line with the Shareholder Rights Directive II we disclose our voting and engagement on a quarterly basis.

Within Quilter Cheviot, we have reviewed the universe that this covers and have extended it on two occasions, firstly to include all UK stocks where we own more than 0.2% or £2 million of the market capitalisation and more recently to vote on US and European holdings within the sustainable investment strategy within Quilter Cheviot.

From June 2020 we have disclosed all the votes within our voting universe cast on behalf of discretionary clients. We have classified all votes that are enacted within our voting universe to be significant. We do not disclose client-instructed voting publicly.

Relevant policies and reports

Quilter plc

Quilter plc Responsible Investment Statement

Quilter Cheviot

Quilter Cheviot Responsible Investment Framework

Quilter Cheviot Voting Principles

Quilter Cheviot Voting and Engagement Report 2020

Responsible investment at Quilter Cheviot

Quilter Investors

Quilter Investors Responsible Investment Policy

Quilter Investors Engagement Policy

Quilter Investors Voting Policy

Quilter Investors ESG Report 2020

Quilter Investors Annual Voting Report 2020

[quilter.com](https://www.quilter.com)

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