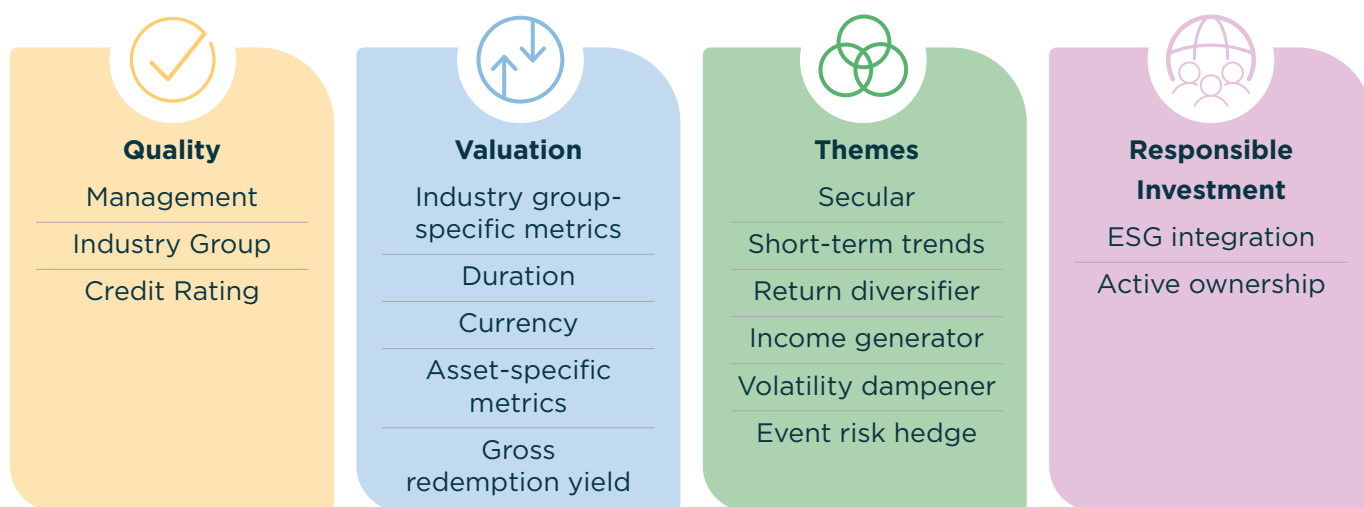


ESG integration and equities

This applies to centrally monitored holdings only. Your Investment Manager has the flexibility, within a controlled framework, to tailor your portfolio regarding asset allocation and security selection, to accommodate your investment requirements.

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



The responsible investment team works closely with the equity research team to integrate ESG considerations into the analysis process. However, our overall approach to this is multi-faceted as it includes quantitative and qualitative analysis.

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

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

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

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



Qualitative analysis identifying challenges and opportunities

The qualitative process aims to identify the material challenges and opportunities that a company faces from an ESG perspective. These will vary according to the industry group, the geography, and the company itself. We believe this should be considered holistically as there is no perfect company – all will have challenges from an ESG perspective to different degrees. Some will have more obvious ESG related opportunities, depending on the industry group or activity in which they operate. While this may be an attractive proposition, we are not solely reliant on ESG scoring when making investment decisions. The challenge is to understand the company's current positioning but also where the company's ambitions lie. This is not something you can discern from data alone and engagement plays an important role in this. The fundamentals of quality, valuations and themes cannot be overridden by a good ESG story.

Quantitative data overlay

The quantitative data is used by our equity analysts as the key component in determining which equities should be held within our DPS Applied strategies, and hence is eligible for inclusion within our Dedicated strategies⁴. For our quantitative ESG integration approach, we incorporate material ESG factors based on the Sustainability Accounting Standards Board (SASB) framework. We included additional factors that are identified in conjunction with the relevant analyst, which are determined to be pertinent to the sector. Material ESG factors are sourced through various third-party data providers, annual reports, and publicly available sources such as CDP (formerly known as the Carbon Disclosure Project). By using several different sources for data, we are able to source the relevant metrics which

4 More information may be found in *Our responsible investment framework categorisations*

align to most of SASB's materiality factors and use these to undertake a holistic analysis through our industry group dashboards.

Despite the variety of sources used, there are some areas where we do not currently have the required data due to limited disclosure from some of our holdings and some geographies. We work continually to improve data coverage and accuracy, with a focus on raw rather than aggregated data.

The equity analysts work with the responsible investment team to identify the most material issues for their industry group using the SASB framework. A one-size-fits-all approach does not work for industries which are diverse in nature and face different material issues. Our equity analysts may implement specific metrics to their industry group to progress peer group comparisons as well as hone their thinking. For example, fossil fuel financing trends are assessed for the banking industry group. Regular team meetings combined with the Quilter Cheviot investment committee structure mean that equity recommendations include extensive due diligence of material ESG risks.

Our view is that considering ESG factors is part of the investment case. Additionally, there is a strong argument that it is more important to focus on the journey than the rating provided by an external data source. As part of our process, we consider how responsive companies are to engaging with us and how they improve over time. Engagements are often multi-year events, and a simple number alone will not always reflect the true picture. The engagement process is not just about change, but also about information gathering which is an important input into our ESG integration framework. Therefore, we have developed a materiality framework on an industry group-specific basis using multiple data sources, not just ratings from a single ESG data provider.

Active ownership through voting and engagement

Engagement will take different forms including collaborative, which will be alongside other investors; thematic which will focus on one of our three key themes; a more reactive approach usually around proxy season; or a 'catch up' to ensure that communication channels remain effective.

Voting and engagement is part of our investment process. This means that 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 this is the right approach to ensure we avoid a mechanistic approach to engagement and voting.

For more information, please see our Engagement Policy and Voting Policy, as well as the relevant sections of the Responsible Investment Policy.

Categorisation of holdings

Across Quilter Cheviot, we classify all monitored holdings across three categories: Aware, Engaged and Dedicated. These three categories allow us to determine which holdings are most appropriate for clients with a robust interest in responsible investment and can therefore be selected for inclusion in the Engaged and Dedicated strategies. For our DPS Applied strategies, our equity ESG dashboards are integral for this process as they are used to review all direct monitored holdings biannually to rank companies on an industry group basis. Following the review, we complete a qualitative assessment which involve working closely with the equity research team to review the holdings on the dividing line between Aware and Engaged. Where it remains difficult to identify an appropriate category, we will contact the relevant company to discuss the areas of concern that have been flagged.

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