

**RESPONSIBLE INVESTMENT**

# Responsible Investment at Quilter Cheviot



## Responsible Investment

As a responsible investor Quilter Cheviot is committed to its role as a steward of clients' assets in order to protect and enhance long-term returns. This encompasses our engagement with investee companies, through proxy voting and face-to-face dialogue, as well as taking into account environmental, social and governance (ESG) factors which could impact shareholder returns.

## Our firmwide approach to Responsible Investment

At Quilter Cheviot and across Quilter, we have adopted the Investment Association's responsible investment framework. The points below summarise our three main approaches to responsible investment.

### Stewardship

**“** *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.*”

Financial Reporting Council

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

## ESG Screening

“ Excluding entire sectors, activities, companies or countries from a fund or portfolio based on ESG criteria, moral or ethical views, or religious beliefs.”

Quilter

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

## ESG Integration

“ The systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions.”

UN Principles for Responsible Investment

It is not about excluding certain activities but it is understanding the ESG related challenges and opportunities. It is about risk mitigation. The approach depending on the asset class. ESG considerations are a component within the investment process - it is not the overriding consideration. At Quilter Cheviot this is integrated into the investment process and our research teams are responsible for incorporating this into their ongoing analysis of investments.



### Active Ownership and ESG integration - for all discretionary clients

We vote and engage with companies and fund managers on environmental, social and governance (ESG) matters. Integrating ESG considerations into our investment process can have direct and indirect positive outcomes on the investments we make on behalf of our clients.

**We take a more targeted approach for clients that want their portfolios to reflect their specific interests or preferences.**



### Sustainable Investment - The Climate Assets Funds\* 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.



### A Funds-Based Approach - Positive Change

A pragmatic approach that combines funds that invest with a sustainability focus or for impact, with funds managed by leading responsible investment 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..



### A Direct Equity Approach\*\* - DPS Focused

The strategies harness Quilter Cheviot's research and responsible investment process, as well as data from external providers, to implement ESG factor screening on a positive and negative basis. This ensures more emphasis is placed on ESG risks beyond the firm-wide approach to active ownership and ESG integration which forms the basis of the Aware categorisation.



### Ethical And Values Oriented Investment - Client Specific

This is incorporated on an individual client basis, informed by their specific ethical preferences and values. These will vary from client to client and will focus on industry groups, industries or individual companies.

\* Climate Assets Balanced Fund and Climate Assets Growth Fund

\*\* For UK, North American and European equity holdings

## Examples of engagement in 2022

### Ocado Group PLC

#### Objective

To raise concerns regarding diversity (board and executive level) and an amendment to the remuneration policy.

The company has again failed to meet the 33% target for board gender diversity. Ocado has five executive positions on the board (a relatively high number) who are all men. The company has voiced efforts to improve the pipeline of talent, but this has not yet turned into tangible results. On a positive note, new senior leadership hires are now gender balanced with women representing 50% of new hires. The company has proposed to expand its 'Value Creation Plan' (part of its LTIP). We have concerns that the potential pay-out from this newly proposed component could be excessive as although there is a cap in place it does not kick in until later in the plan.

#### Outcome

We expected Ocado to make faster progress on diversity and have informed the company that if the situation does not improve by the 2023 AGM, we will vote against the re-election of the chair. The lack of clarity on the maximum award component of the expanded 'Value Creation Plan' also means we voted against the proposed remuneration policy.

### CDP Non-Disclosure Campaign

#### Objective

To join 263 investors from nearly 29 countries in urging companies with a significant environmental impact to disclose data through CDP, the global non-profit that runs the world's leading environmental disclosure system.

Over 1,400 of the world's highest impact companies will be engaged in this campaign. These companies cover over US\$24 trillion (as of 22 June 2022) in global market capitalisation and are estimated to collectively emit more than 4,800 mega tonnes (Mt) of carbon dioxide equivalent (CO<sub>2</sub>e) annually. The campaign aims to increase environmental disclosure among companies that have either never disclosed, or stopped disclosing, through CDP. Transparent corporate disclosure is crucial to directing capital towards the transition to a net zero, nature positive future. For us, the focus is on the companies that we hold within our centrally monitored equity universe.

#### Outcome

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



# Tesla

## Objective

We engaged with Tesla to discuss several shareholder resolutions proposed at the 2022 AGM. We also raised concerns related to the re-election of two directors and followed-up on items raised during our last conversation in 2021, including carbon emissions disclosures.

The shareholder resolutions covered multiple topics including share pledging, diversity & inclusion disclosure and mandatory arbitration, particularly in relation to sexual harassment. On the subject of share pledging - a practice where stock is pledged as collateral for person loans - Elon Musk does not take a salary and, according to the company, does not expect any further compensation from Tesla, but uses this practice to raise cash without selling shares. The company has a share pledging policy in place that limits the total loan value to 25% of shares pledged. We recommended creating an additional policy safeguard of limiting the total percentage of individual shares pledged to 40-50% to allay concerns. Our proxy advisor also recommended voting against both directors up for re-election over concerns around share pledging practices. Given the company's equity dominated remuneration structure and the restrictions currently in place, we will be supporting management in this instance but will monitor progress. Given high profile lawsuits against the company we strongly encouraged further transparency on diversity & inclusion and voted to support the resolution. We also supported further reporting on the use of mandatory arbitration (the practice of being contractually obliged to resolve disputes internally in the first instance). The state of California is bringing in legislation to prevent mandatory arbitration in the case of sexual assault. We suggested a wider review and potential move away from the practice more broadly.

## Outcome

We have supported measures for further transparency on mandatory arbitration practices as well as diversity & inclusion. On the basis on the company's equity dominated remuneration structure and current share pledging policies, we are comfortable supporting director re-elections - but have called for tightening restrictions and will monitor progress. We were pleased to see the company now reports scope 1, 2 and 3 CO<sub>2</sub>e emissions data at a company level.



## Overview of voting - 2022



We voted on 7,311 resolutions and voted against management on 236 - a number of these relate to shareholder resolutions that we supported. Voting against management on non-shareholder resolutions is often the last resort. We enabled clients to instruct votes at 72 meetings.

### Examples of votes against management:



#### 64x votes against management on compensation related resolutions

We voted against remuneration reports and policies where the short- and long-term incentive performance metrics were not sufficiently robust, with a suitable emphasis on shares rather than cash. Furthermore, where fixed performance targets were lacking and special bonuses awarded during the year, excessive pay out concerns were raised.

Companies voted on were: Alphabet, Amazon.com, AXA, Bayer, Boohoo, Carnival (x2), Cellnex Telecom, Chevron, ConocoPhillips, Flutter, General Electric, Halliburton, Heineken, Hermes (x6), Honeywell, Informa, Intel (x2), International Consolidated Airlines, Johnson Service, JPMorgan Chase, Kering (x2), Keywords Studios, KION, Philips, L'Oreal, LVMH (x6), Marks & Spencer, Meta, Mitchells & Butlers, Netflix, NIKE, Ocado (x2), Petrofac, Philip Morris, Prosus (x2), Standard Chartered (x2), Stellantis, TechnipFMC (x2), The Coca-Cola Company, Veolia Environnement, Vivendi (x4), Walgreens Boots Alliance, Wells Fargo, Whitbread



#### 54\*x votes against electing/re-electing directors

We voted against the election of directors due to independence concerns, failures to address problematic stock pledging activities (obtaining loans against the shares owned), and time commitment issues.

Companies voted on were: Danaher (x4), Deutsche Telekom, Halliburton (x4), Heineken, Henkel, (x2), Hermes (x2), Hikma, Informa, Intel (x4), Jet2, Just Eat Takeaway.com, KION (x4), LVMH (x2), Mitchells & Butlers (x3), Netflix (x3), Ryanair (x2), Seeing Machines, The Gap, T-Mobile US (x8), TotalEnergies (x3), Vivendi, Walgreens Boots Alliance (x4)

### Key votes on shareholder resolutions:

#### Governance



#### 16x votes in favour of reporting on lobbying payments and policy

We supported shareholder resolutions calling for additional reporting on companies' direct and indirect lobbying activity and policies, and expenditure. Increased disclosure allows Quilter Cheviot to understand which areas a company is focused on and whether those focus areas align to other public policy statements.

Companies voted on were: Alphabet, Amazon.com, AT&T, Caterpillar, Dollar General, Eli Lilly (x2), Exxon Mobil, Gilead Sciences, Johnson & Johnson, McDonald's, Meta, Netflix, The Boeing Company, The Home Depot, The Walt Disney Company

\* Withheld votes have been included within votes against figures



### **8x votes in favour of an independent board chair**

In the US, in contrast to the UK, it is common for the CEO and chair roles to be combined. However, this raises concerns for us about companies' performance and compensation practices being behind peers. We believe the separation of these roles is beneficial to shareholders, particularly in establishing independent oversight.

Companies voted on were: AT&T, Bristol-Myers Squibb, Eli Lilly, JPMorgan Chase, Marriott, Meta, Salesforce, The Coca-Cola Company

### **Social**



### **13x votes in favour of reporting on a third-party racial equity audit**

We supported these resolutions to achieve increased disclosure, which will provide us with a better understanding of how effective companies are at addressing racial inequality, particularly where targets have been set.

Companies voted on were: Alphabet, Altria, American Water Works Company, Apple, Chevron, Johnson & Johnson, McDonald's, Mondelez, Republic Services (x2), The Home Depot, Waste Management, Wells Fargo & Company

### **Environmental**



### **10x votes in favour of reporting / adopting GHG emission reduction targets**

We supported calls for additional disclosures on how companies are assessing and managing climate-related risks. In those instances where the current disclosure level is lacking, we believe that reporting on how companies are looking to reduce their carbon footprints and align operations to the Paris Agreement goals will help Quilter Cheviot to better understand how these companies are managing the transition to a lower-carbon economy.

Companies voted on were: Alphabet (x2), Caterpillar, Chevron, ConocoPhillips, Exxon Mobil (x2), Honeywell, Phillips 66, The Boeing Company

To find out more about Responsible Investment at Quilter Cheviot and how we may be able to help you, please contact us using the details below.

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