QUILTER CHEVIOT

RESPONSIBLE INVESTMENT

Responsible Investment at Quilter Cheviot

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

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 within our Discretionary Portfolio Service.

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
Through an actively managed multi-asset approach, these are suitable for clients who want to support the development of sustainable societies by focusing on investment opportunities in the areas of Clean Energy, Food, Health & Well-Being, Resource Efficiency, and Water. Ethical exclusions are also applied to avoid investments in controversial sectors.

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 Applied**
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 2024

Third party manager – strategy

Objective

The firm's climate stewardship strategy comprises a focus list of engagement targets based on financed emissions, which evaluates companies' progress against four climate expectations set by the firm:

- Commit to decarbonise business models toward net zero by mid-century.
- Set long, medium and short-term targets covering Scope 1, 2 and relevant Scope 3 emissions.
- Publish a detailed transition plan explaining how they will deliver that transition and meet those targets; and
- Publish their performance and progress annually.

The resulting list is cross-referenced against external priority engagement lists (e.g. Climate Action 100+), and priority-ranked based on materiality of the firm's holding and company accessibility. The firm's investment desks are consulted on the drafted list to discuss priorities and agree the targeted aims.

Climate-related engagements are a shared responsibility between the firm's stewardship team and its fund managers and research analysts. The firm aims to consistently include fund managers and analysts in relevant engagements, even where the engagement is initiated by the stewardship team. It has a clear 'menu' of escalation measures it deploys as and where appropriate across a typical engagement timeline of 18 months to three years, ranging from participation in collaborative engagements to airing its concerns publicly. The firm has a unified, consensus-based voting approach.

The firm seems to have an evolving top-down approach to its net zero targets. Responsibility for targets currently sits with the executive team, but the firm plans to shift ownership of targets towards the investment desks. It has been building data capabilities within the firm to comprehensively integrate climate into all component steps within its investment decision process. Investment desks will increasingly be expected to consider issuing companies' emissions, temperature score and discrete industry-specific climate risks and opportunities when making investment decisions. Ownership of the firm's net zero targets will continue to sit with the executive management team – where it is codified in executive remuneration – while fund managers will have the day-to-day responsibility for implementation of the engagement driving progress on targets. The firm's stewardship team's role is primarily one of monitoring for progress.

Outcome

The firm has taken an eminently reasonable and comparatively progressive approach to setting net zero targets for its assets. Its use of a more challenging methodology for its net zero target, temperature alignment, has become a common hallmark of firms with more progressive climate strategies. This is reinforced by the inclusion of Scope 3 emissions in its targets (the 2040 target), and the firm's explicit and detailed Climate Transition Action Plan (CTAP) outlining its overarching climate strategy. The firm seems to have devolved/spread accountability for its climate targets across both its executive teams and its fund managers.

Nestlé

Objective

In 2024 Quilter Cheviot launched a thematic engagement with monitored investee companies most exposed to deforestation linked commodity use, to better understand how they are managing these risks and preparing for the upcoming regulatory changes. Demonstrating strong management of dependencies and impacts related to natural capital and biodiversity is a growing focus for investors and regulators alike.

Nestlé's vast global supply chain holds a high level of deforestation risk. Nestlé sources commodities in most markets where deforestation is common, notably palm oil in Southeast Asia, soya in South America and cocoa in West Africa. The company has set a cross commodity target to be deforestation-free by 2025. Nestlé began this process by establishing a rigorous palm oil verification process, heavily dependent on the use of satellite monitoring and on-the-ground partnership with local non-government organisations (NGOs). Nestlé's pioneering use of satellite technology has significantly improved efforts to monitor deforestation activity. For the most part, the company looks on course to meet its deforestation-free targets, but challenges remain in commodities such as cocoa. Cocoa does not lend itself well to satellite monitoring and the fragmented nature of the market has encouraged the company to try to establish a more segregated supply chain, through its 'Cocoa Plan'. The plan is currently significantly behind where it needs to be to verify cocoa inputs as deforestation free for the purposes of EUDR and internal targets. That said, Nestlé has invested significant resources in this area to accelerate verification and broader sustainability action. It is important to highlight the extreme complexity involved in monitoring global commodity supply chains. There will be some limits on the transparency a manufacturing company can provide. As things stand, most modern commodity chains are not segregated but are infused with armies of smallholders, cooperatives and aggregators that can make it extremely difficult to trace the origins of every drop of palm oil (or other unit of input). For example, Nestlé palm oil supply chain has 15 layers of suppliers, the company manages to trace three or four layers of this chain. The EU Deforestation Regulation aims to implement a regime of high-quality due diligence and risk assessment for any commodity derived inputs entering Europe.

Outcome

On the basis of our engagement, we are comfortable that Nestlé is well prepared for the upcoming legislative changes and has a robust enough process to mitigate regulatory risks involved. Cocoa is an example of a particular input that requires further verification but is receiving additional attention from the company and we will monitor progress towards targets in this area.

Banco Santander

Objective

To discuss the proposed salary increase of the CEO and the chair.

We raised concerns regarding the 2024 remuneration policy, specifically, the proposed 5% increase to the CEO's and chair's base salary, this is following a 3% increase the prior year. The company provided two key points for consideration; firstly, the average salary increase applied to employees in Spain was 6%, therefore the 5% applied to the CEO and the chair is in line with the wider workforce. Additionally, the bank achieved record results during 2023, with a total shareholder return of over 40%. This latter point somewhat mitigates the concerns raised by our proxy adviser of pay for performance concerns arising from the CEO's and chair's salary proposed increase. The company also provided what it views as its peer group comparison of executive pay which was helpful. The long-term component of variable pay accounts for 25% of the total variable remuneration which is lower than we would expect. However, a portion of the short-term incentives are paid with a multi-year retention period and subject to long term performance metrics which is not often the case for this type of incentive. On balance, given the additional context provided, and on the absence of material concerns, we decided to support the remuneration policy.

Outcome

The company provided sufficient rationale for us to support the remuneration policy despite the initial concerns raised. A salary increase which falls in line with the wider work force, alongside demonstrating strong performance is reasonable, however we will keep this under review and closely assess any increases at next year's meeting.

Overview of voting – 2024

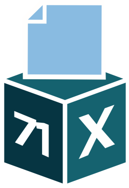
In 2024, we voted at 503 company meetings and 7,672 resolutions For 206 resolutions, we did not support management (this includes shareholder proposals). We enabled clients to instruct vote at 55 meetings.

Examples of votes against management:

64*x votes against electing / re-electing director (management item)

We voted against the re-election of directors owing to executive compensation concerns, the presence of multi class voting structures and lack of board diversity. Notably, we voted against the re-election of the chair at the AGMs held by Shell, Chevron, Exxon and ConocoPhillips as we had concerns either over the weakening of climate transition targets or lack thereof.

Companies voted on: Alphabet (x5), BMW, Berkshire Hathaway (x5), Chevron, ConocoPhillips, Dolby Laboratories (x5), Exxon Mobil, Haydale Graphene Industries, Hermes (x3), LVMH Moet Hennessy Louis Vuitton (x3), Meta Platforms (x5) Monks Investment Trust, NIKE, Novo Nordisk (x2), Pearson, Pernod Ricard, Pershing Square, Prosus, Seeing Machines, Shearwater, Shell Plc (x2), Siemens Healthineers (x8), T-Mobile US (x8), Coca-Cola, PRS REIT, Walt Disney, Worldwide Healthcare Trust (x2)



40x votes against management on compensated related (management item)

We voted against remuneration reports, polices and financial statements where the short and long-term incentive performance metrics lacked transparency and were not sufficiently robust. Additionally, where inflight payments were awarded, in the absence of a compelling rationale, we consider opaqueness to be disadvantageous to shareholders. We also voted against remuneration reports, in instances where the company had failed to address shareholder compensation related concerns.

Companies voted on: Amazon.com, American International Group, Dollar General, EssilorLuxottica (x3), Euronext, Frontier IP, Glanbia, Hermes (x5), KION, Kering, LVMH (x6), Meta, Ocado (x2), Palo Alto, Pearson, Pernod Ricard, Prosus (x2), Prosus, Salesforce, Seeing Machines, Smith & Nephew (x2), Tesla (x2), Boeing, Walt Disney, adidas, boohoo

* withheld and abstention votes have been included within votes against figures

Key votes on shareholder resolutions:

Governance

5x votes in favour of an independent board chair (shareholder proposal)

In the US, unlike the UK, it's common for the CEO and chair roles to be combined. We are concerned about companies' performance and compensation practices lagging behind peers. We believe separating these roles would benefit shareholders by establishing independent oversight. We support the request for an independent board chair if there is no lead independent director, or if significant concerns have been raised and the lead independent director is not ensuring effective board oversight.

Companies voted on: American International Group, Bank of America, Goldman Sachs, Verizon, Walgreens Boots Alliance

8x votes in favour of gender/ethnic pay gap reporting (shareholder proposal)

We supported these requests, specifically where there were calls for the company to report on its adjusted and unadjusted median pay gap statistics, as these would allow shareholders to evaluate and measure progress towards reducing pay inequities more fully.

Companies voted on: Amazon.com, Apple, Exxon Mobil, Marriott International, NIKE, Boeing, Goldman Sachs Group, Procter & Gamble

Social

9x votes in favour of conducting human rights risk assessment (shareholder proposal)

Many of these resolutions were filed by shareholders at technology-based companies and banks, where there is a greater risk surrounding advertising policies and policies. We supported these requests where we consider additional information on how companies are managing and mitigating such risks would benefit shareholders.

Companies voted on: Alphabet, Amazon, Chevron, JP Morgan & Chase, Meta, Telsa, Walmart, Wells Fargo (x2)

7x votes in favour of reporting on the use and risks associated of artificial intelligence (shareholder proposal)

We supported this shareholder request as additional disclosure on how the company intends to manage misinformation and disinformation risks related to generative AI would help shareholders better evaluate the company's approach.

Companies voted on: Alphabet (x2) Apple, Meta (x2), Microsoft, Netflix

Environmental

6x votes in favour of reporting on climate lobbying (shareholder proposal)

We supported these requests where we consider shareholders would benefit from greater transparency of the company's direct and indirect climate lobbying, and how the company plans to mitigate any risks that might be identified.

Companies voted on: American Express, Bank of America, Boeing, Meta, NextEra Energy, Wells Fargo

5x votes in favour of reporting on fossil fuel financing activities (shareholder proposal)

We believe shareholders would benefit from greater transparency on how financial institutions are addressing any misalignments between financing activities and greenhouse gas emissions reduction targets.

Companies voted on: Bank of America, Berkshire Hathaway, Goldman Sachs, Markel Group, Royal Bank of Canada

4x votes in favour of reporting on GHG emission reduction targets (shareholder proposal)

Where we felt the current disclosure level was lacking, we supported calls for additional disclosures on how companies are assessing and managing climate related risks. This will help us better understand how these companies are managing the transition to a lower carbon economy.

Companies voted on: Boeing, RTX, Shell (x2)

2x votes in favour of reporting on efforts to reduce plastic use (shareholder proposal)

We supported this request as shareholders would benefit from additional information on how the company is managing risks related to a potential reduction in demand for virgin plastics.

Companies voted on: Amazon, Exxon Mobil

1x vote in favour of reporting on Just Transition (shareholder proposal)

We supported this request, filed at Amazon, as shareholders would benefit from additional disclosure on how the company considers human capital management in relation to the transition to a low-carbon economy.

Company voted on: Amazon.com

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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