RESPONSIBLE INVESTMENT

2022 REPORT

QUILTER CHEVIOT
INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited, 2 February 2023.

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INTRODUCTION

It has been another busy year, not only for our voting and engagement activity, but also in many other areas.

In March, we welcomed two new members to the team – Kirsty Ward and Ramón Secades. Kirsty hosts our RI Reels vlog series and is in charge of our voting, which has increased exponentially in 2022. Ramón has been occupied with launching our long-term engagement with investment trusts in collaboration with Quilter Investors, which focuses on responsible investment-related disclosures and the board composition and independence.

Ramón and Kirsty have also contributed to the water risk and UK-focused diversity thematic engagements lead by Greg Kearney. Together, they have produced a review of the diversity & inclusion (D&I) approaches taken by the companies within our direct equity centrally monitored universe. In terms of collaborative engagements, Greg played a lead role in the 30% Club engagement with executive search firms on how to have a diverse short-list for executive roles.

The integration of data has remained a major project over the last year. We have expanded the number of data providers to ensure we create quantitative dashboards for our equity industry groups, which are balanced, not overly reliant on one data provider, and include data metrics material to the industry group in line with the Sustainable Accounting Standards Board (SASB) materiality matrices. Nicholas Omale has continued to develop the dashboards and they are integral to the development of the new DPS-focused strategy launched in May 2022. We have also developed further Positive Change strategies and the Climate Assets Growth Fund was launched in November.

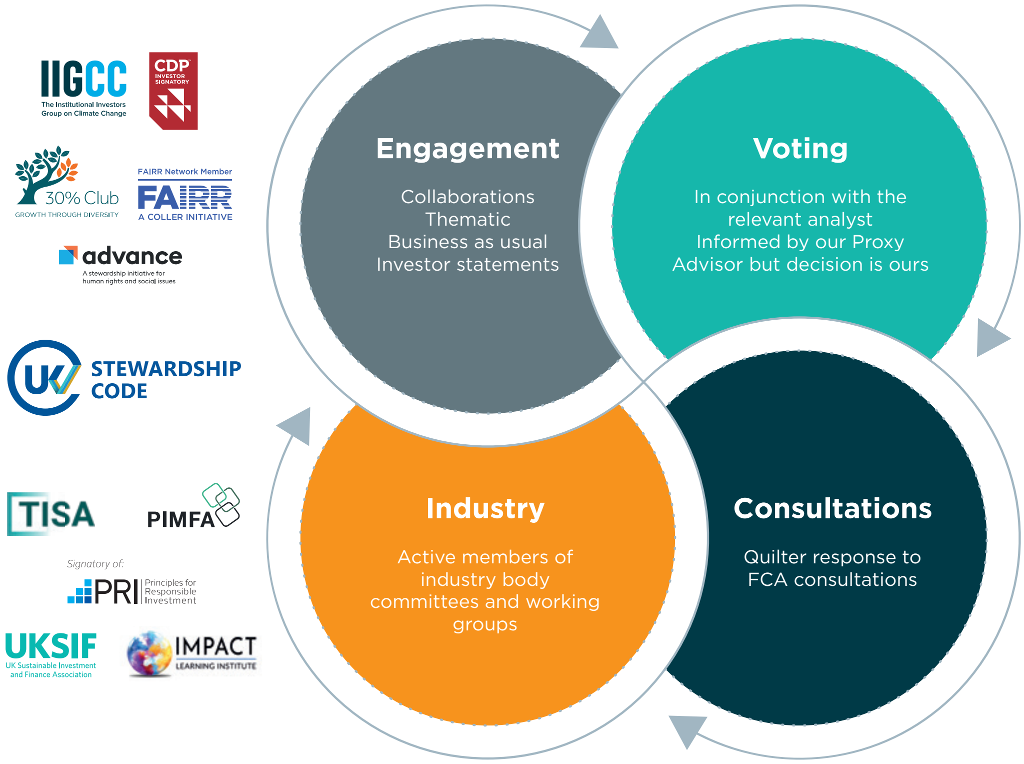
From a third-party fund perspective (that is, when we invest in other managers' funds), the work led by the fund research team's Melissa Scaramellini has continued to evolve. We have proprietary ratings for all the funds based on their approach to responsible investment (stewardship and the integration of ESG factors). Again, there is ongoing work to refine and further develop the use of quantitative data. Engagement and dialogue, however, remain a key component of all our responsible investment activity.

Developing our climate action plan across Quilter remains our single biggest piece of work. We have set operational targets based on Scope 1 and Scope 2 location-based emissions by 80% by 2030, based on a 2020 baseline. We have been scoping the best approach for our investments and have begun to track our investments' alignment with net zero targets.

At a Quilter group level, we have retained our Stewardship Code signatory status and produced the first group level Task Force for Climate-related Financial Disclosures (TCFD) report. We have continued to endorse the PRI Advance campaign, which focuses on human rights, one of our three thematic priorities, and to support the CDP non-disclosure campaign, which links to our natural capital theme, and Science-Based Targets Initiative (SBTi) alignment engagement, which link to our climate change theme.

We continue to contribute to various industry bodies and consultations across Quilter. As the diagram below shows, active ownership goes beyond engaging with the companies and funds we invest in.

Being An Active Owner 2.0



Being An Active Owner Has Many Different Facets

In April, we began incorporating clients' responsible investment preferences into our suitability process. Each client has its own requirements around risk appetite, ability to bear loss, income requirements and investment time horizon. These key areas determine the right investment approach. We are now also including clients' responsible investment preferences within the regular process of ensuring that investments meet their requirements.

We continue to deepen the understanding of responsible investment internally and externally. Internally, we have held a number of training sessions and the role of RI champions has continued to evolve. Externally, we have contributed to several industry conferences, and adviser and client events, and produced a video outlining our approach to responsible investment.

Looking ahead to 2023, we will continue to focus on engagement with the companies and funds and have identified our thematic priorities for the next twelve months. A new regulation is also on the horizon – the Sustainability Disclosure Requirements (SDR). At the time of publication, we will have provided our feedback on the SDR to the Financial Conduct Authority (FCA) and we await the final outcome of the regulation later this year.

For information regarding our approach to responsible investment please visit our website [Responsible Investment | Quilter Cheviot].

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OUR ENGAGEMENT THEMES

THEMATIC ENGAGEMENT: CLIMATE CHANGE

Climate Change is the defining issue of our time and we are at a defining moment. From shifting weather patterns that threaten food production, to rising sea levels that increase the risk of catastrophic flooding, the impacts of climate change are global in scope and unprecedented in scale. Without drastic action today, adapting to these impacts in the future will be more difficult and costly*.

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

Engagement topic	Type of engagement	Detail	Target companies	Timeline
Climate plans and disclosures	Thematic	Thematic engagement to better understand climate transition plans and disclosures with the largest emitters in the centrally monitored equity universe.	bp, Chevron, BHP, RioTinto, nationalgrid, NextEra Energy, Linde, CRH	Phase 1 completed Q1 2022
CDP SBTi Campaign	Collaborative CDP INVESTOR SIGNATORY	The latest Intergovernmental Panel on Climate Change report makes it clear that without immediate and deep emissions reductions across all sectors, limiting global warming to 1.5°C will be impossible. Science-based targets provide a roadmap for reducing emissions at the pace and scale that science tells us is necessary to avoid the most catastrophic effects of climate change. We have joined a coalition of 274 financial institutions representing US$36.5 trillion to ask specific companies to commit to a target. Of the companies targeted, 47 are holdings within our direct equity centrally monitored list.	CDP defined universe; 47 are holdings within our direct equity centrally monitored list	Q4 2022

*United Nations

THEMATIC ENGAGEMENT: HUMAN RIGHTS

Human rights are rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. Everyone is entitled to these rights, without discrimination*.

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

Engagement topic	Type of engagement	Detail	Target companies	Timeline
30% Club	Collaborative 30% Club GROWTH THROUGH DIVERSITY	Engaged with UK executive recruitment firms to understand the diversity challenge.	FTSE Women Leaders Korn Ferry Egon Zehnder Russell Reynolds Sapphire Partners	2021-22
Gender diversity in UK listed companies	Thematic	Significant progress has been made by the largest UK companies on improving gender diversity at the board level, however improving gender representation at the executive level and in other senior positions has progressed at a slower rate. Therefore, we engaged with companies reporting the slowest progress in achieving gender parity at both the board level and at senior management levels. Regulatory approaches to gender diversity differ across geographies and the lack of consistent reporting requirements results in challenges in assessing progress at a global level.	RENISHAW apply innovation KION GROUP sage WEIR United Utilities ocado WHITBREAD	Phase 1 - Q4 2022
PRI Advance	Collaborative advance A stewardship initiative for human rights and social issues	As part of Quilter plc, we are endorsing this initiative.		Q4 2022

*United Nations

Engagement topic	Type of engagement	Detail	Target companies	Timeline
Find it, Fix it, Prevent it	Collaborative	The prohibition of slavery is one of the world's most widely asserted norms. Regulation outlawing forced labour, human trafficking and slavery is to be found in international human rights law and in the legislation of many sovereign states. Further, eradicating modern slavery is one of the UN Sustainable Development Goals. This collaborative engagement will focus on UK listed companies in specific industry groups which have been identified as being higher risk in regards modern slavery.	Persimmon Together, we make your home Taylor Wimpey	Q4 2022 onwards
Modern Slavery in the UK	Collaborative *Signatory of:* PRI Principles for Responsible Investment	In 2021, we joined a group of UK investors through the UN backed Principles for Responsible Investment platform. The purpose was to engage companies that would have not met reporting requirements under the 2015 Modern Slavery Act. All the 44 target companies have responded and as at September 2022 there are eight companies who will be releasing new statements and three companies that are amending statements to become fully compliant.	Target universe of UK listed companies	2021 onwards
Investor statement on the Seasonal Worker Scheme	Collaborative	As an adjunct to the Find it, Fix it, Prevent it campaign, CCLA brought together 10 long-term institutional investors with £806bn assets under management and advisory with investments across UK listed retail, hospitality and food production. The statement outlined our concern that migrant workers in the UK, recruited and employed through the government's Seasonal Worker Scheme (SWS), are being obliged to pay excessive fees to agents and middlemen in addition to other fees, travel and visa costs for crucial, but temporary roles, supporting the UK's food sector. This results in a high risk of debt bondage, one of the key indicators of forced labour.	UK listed retail, hospitality and food production companies	Q4 2022
Conflict minerals	Collaborative *Signatory of:* PRI Principles for Responsible Investment	Investor signatory to a letter asking semiconductor companies to take leadership roles in improving best practice for sourcing of conflict minerals. We also engaged with some of our third party managers to encourage further investor support for this letter. The letter representing a collective total of $6.59 trillion in AUM, was sent in November 2021.	Target universe of UK listed companies	2021 onwards

THEMATIC ENGAGEMENT: NATURAL CAPITAL

Natural capital can be defined as the stock of renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits and ecosystem services to society*. The purpose is to understand the impact that companies have on the natural world including water, deforestation/deforestation and biodiversity.

SDG Alignment: **6 Clean Water and Sanitation, 12 Responsible Consumption and Production, 14 Life Below Water, 15 Life on Land**

Engagement topic	Type of engagement	Detail	Target companies	Timeline
Water risk**	Thematic	We initiated an engagement with a focused group of companies in the food, beverage & tobacco industry group, one of the areas most impacted by water risk. Data on water usage at a company level are not systematically disclosed at a detailed level. This is an engagement for information and the primary outcome is to understand how investee companies are managing and potentially mitigating these risks – as well as using the information gathered from these conversations to form an assessment of what best practice looks like.	Associated British Foods plc, Coca-Cola, Nestlé, PepsiCo, Pernod Ricard, Kerry, Diageo, Mondelēz International, Fever-Tree	Phase 1 – Q4 2022
CDP Non-Disclosure Campaign	Collaborative CDP INVESTOR SIGNATORY	The objective of the campaign is to drive further corporate transparency around climate change, deforestation and water security, by encouraging companies to respond to CDP's disclosure request. We have joined other investors in a targeted campaign to collaboratively call for improved disclosure on environmental matters where information is lacking.	CDP defined universe	2022

**Task-Force on Nature-related Financial Disclosures*
***We were unable to engage directly with Coca-Cola Company and Nestlé.*

THEMATIC ENGAGEMENTS

WHAT DOES A GOOD CLIMATE TRANSITION PLAN LOOK LIKE?

Greg Kearney, Senior Responsible Investment Analyst

Across Quilter we have identified three thematic engagement priorities. This is part of our climate change theme.

Climate Change is the defining issue of our time and we are at a defining moment. From shifting weather patterns that threaten food production, to rising sea levels that increase the risk of catastrophic flooding, the impacts of climate change are global in scope and unprecedented in scale. Without drastic action today, adapting to these impacts in the future will be more difficult and costly[1].

SDG Alignment

> *There is no going back - no matter what we do now, it's too late to avoid climate change and the poorest, the most vulnerable, those with the least security, are now certain to suffer.*
>
> *Sir David Attenborough*

One of the notable achievements of the COP26 gathering in Glasgow last year was the agreement to strengthen the national emissions reductions targets for 2030, agreeing they would have to fall by 45%. A large part of the responsibility for these national commitments to limiting global temperature increases to 1.5 degrees by 2050 (also known as net zero[2]) falls on the shoulders of companies, and by extension active owners of these entities.

1 United Nations

2 Net zero emissions are achieved when human-caused emissions of greenhouse gases to the atmosphere are balanced by removals over a specified period. Scenarios that limit global warming to 1.5°C with no or limited overshoot reach global net zero CO2 emissions around 2050 accompanied by rapid reductions in non-CO2 GHG emissions. (Source: IPCC)

Climate change is one of Quilter Cheviot's stewardship priorities. We have engaged with some of the largest carbon emitters within portfolio holdings with the aim of better understanding corporate climate strategies, and where lacking, encouraging alignment with best practice. This is an ongoing dialogue that will require systematic monitoring to ensure companies walk the talk – but it is worth sharing some of our learnings so far and what, in our opinion, constitutes a good transition plan.

The good

Our engagements have spanned varied industry groups including industrial gases, cement manufacture and utilities, but unsurprisingly most conversations were held with oil & gas majors and diversified miners. Despite the breadth of business processes there is cross-industry progress and every company we engaged had a carbon reduction strategy, with the majority having some form of net zero aligned targets.

Oil & gas companies have been under intense pressure to reduce carbon emissions and change is taking place, particularly amongst European majors. Companies like BP, Total Energies and Shell have committed to ambitious scope 1 (emissions from direct activities) and scope 2 (emissions from electricity purchased and used) targets; with BP and Total committing material amounts of future capital expenditure to renewable revenue streams, proposing to transform into low carbon integrated energy companies in the long-term.

Diversified miners see greater opportunities in minerals that will contribute to the electrification of the economy and are moving away from thermal coal. Ambitious plans to electrify mining fleets are under way and for those involved in aluminium manufacture (a high emissions activity), like Rio Tinto, capital is being committed to early-stage electrified or hydrogen-power smelting processes. Green hydrogen manufacture and use is an increasing focus for industrial gas producers like Linde, but also US utilities companies such as NextEra Energy which is launching early-stage projects with the aim to replace natural gas power generation with green hydrogen as part of the goal to decarbonise the US grid by 2035.

Climate transition plans are company and sector specific, but it is encouraging to see carbon reduction timelines built into strategic planning and that preparations for a lower carbon economy are underway. External validation of these targets and strategies are very much on the agenda. Most companies are either participating or closely monitoring frameworks like the Science Based Targets initiative[3] as high emitting sectors move towards more comparable and verifiable disclosures and target setting.

The not so good

The pathway to net zero emissions requires a rapid and radical transformation of the economy. As defined by the 2015 Paris Climate Agreement, a net zero trajectory is also largely absent of the use of carbon offsets (such as tree-planting) and focuses on absolute emissions reductions (unlike carbon neutral strategies). A lot of companies have made high level commitments to achieving net zero by 2050, however, in many cases it is not obvious how this will be achieved, with strategies either relying on significant use of carbon offsets or technologies that are not yet scalable.

Action over the next ten years is critical to maintaining an emissions reduction trajectory to limit global temperature rises to 1.5 degrees. In some cases, we found targets were piecemeal or didn't align with a net zero trajectory. Linde proposes to be carbon neutral by 2050 and NextEra Energy has promised to cut absolute emissions by 40% by 2025 and become 'fossil fuel free' by 2035, but nothing beyond this. These carve outs can make comparisons difficult. Instead of an absolute emissions reductions target, some companies rely on carbon 'intensity' measures (i.e., carbon emissions per $ revenue). This is not best practice and can allow for energy companies to increase fossil fuel production as low carbon activities are introduced into activities, while claiming alignment with reduction targets.

Another complexity is scope 3 emissions (indirect emissions from supply chains and products sold). Among miners and energy companies, scope 3 emissions tend to make up over 90% of the overall emissions, but many of the more detailed net zero strategies only account for scope 1 or scope 2 emissions.

3 Ambitious corporate climate action - Science Based Targets

Others, such as Rio Tinto, do not have net zero targets that include scope 3 emissions. While there are legitimate challenges in allocating responsibility for these emissions, the question of who owns them looms large; accountability of ownership and accurate measurement are essential prerequisites for the targeted reductions needed to achieve the goals set out in the Paris Climate Agreement.

Finally, there is an overreliance on carbon offsetting through nature-based solutions and carbon capture & storage (CCS) technology. Many of the companies we speak to laud CCS projects as one of the ways they are tackling climate change but, in most areas, the technology is not yet commercially viable and corporate strategies should not be reliant upon this making up a structural component of medium or later stage reduction efforts. Shell is an example of a company which has made a significant commitment to nature-based carbon offsetting solutions (such as afforestation), but again, a viable Paris-aligned transition plan should focus on absolute emissions reductions with minimal use of offsets to 'mop-up' harder to reduce residual emissions.

The US

During this initial stage of engagement, company responsiveness was high, and we were encouraged by the commitment to speak to shareholders. The notable exception was Chevron, who did not respond to requests for dialogue. US oil majors have not echoed the ever more ambitious commitments made by European peers. Exxon and Chevron both made high-level ambition statements to be net zero - by 2050, but how this will be achieved is unclear. Chevron has gone further in announcing a 2028 emissions intensity target, which is welcome progress, but is not comparable to the detail being provided by peers and not aligned with the Paris Climate Agreement.

Despite company specific progress in areas like utilities, conversations with US companies had less of a focus on net zero, clearly differing from European peers which currently face a higher level of government, investor and public scrutiny. With the US government recommitting to the Paris Agreement, we expect this to change and the level of US company engagement with external validation providers such as the Science Based Targets initiative to become a positive trend.

What does a good climate transition strategy look like?

Understanding the credibility of a climate strategy and measuring progress towards stated aims (as well as the Paris-aligned targets) will be an ongoing process. Moving forward we are looking for:

1. A focus on the next ten years with specific short and medium-term targets (2050 goals are welcome, but action over the next decade is critical).
2. A reduction in absolute emissions. This includes scope 3 metrics and is largely absent of carbon offsets. Carbon intensity measures can be supplemental but should not be the main target.
3. A target reduction aligned with 1.5 degrees warming limit pathway. This is the crux of a net zero commitment. Some companies have declared 2 degrees alignment or carbon neutrality, this is not the same thing.
4. Actions that demonstrate alignment of capital expenditure with transition targets – and consideration of Paris Climate goals into significant capital expenditure projects.
5. Limited use of carbon offsets. Residual emissions may be abated with offsets and carbon capture and storage, but use should be specific with clear end dates. This should not be a structural element of reduction targets. There isn't enough land to plant our way to net zero and a lot of the existing carbon capture technologies exist at a level that is not scalable.
6. The linking of executive remuneration to internal carbon reduction targets to help integrate transition planning into company strategy.
7. A reassessment of participation in industry associations that lobby governments to soften GHG (greenhouse gas) reduction legislation.
8. A willingness to take ownership of scope 3 emissions and building these into carbon reduction targets.

As an investor our role is to engage with these companies in order to encourage actions. A summary of the positions can be found below:

Company	Main metric	Absolute 2030 goal	2050 goal	Scope 3 included in targets
ENERGY				
Total Energies	Absolute emissions of products sold in Europe	Yes	Net zero (all emissions)	Yes (2030 target)
BP	Absolute emissions from oil & gas products	Yes	Net zero (all emissions)	Yes (2050 target)
Shell	Emissions intensity of all products	Yes	Net zero (all emissions)	Yes (2050 target)
Chevron	Oil & gas operational* emissions intensity	No	Net zero (scope 1 and scope 2)	No
DIVERSIFIED MINERS				
BHP	Absolute - operational* emissions (plus shipping)	Yes	Net zero (scope 1 and scope 2)	No
Rio Tinto	Absolute - operational* emissions	Yes	Net zero (scope 1 and scope 2)	No
UTILITIES				
National Grid	Absolute emissions (all activity)	Yes	Net zero (all emissions)	Yes (2030 target)
NextEra	Operational emissions intensity	Yes	Aim to be fossil fuel free by 2035	No – but not as relevant to sector
OTHER				
Linde	Absolute – operational emissions	Yes (2035 target)	Carbon neutral	No
CRH	Operational emissions from cementitious products	Yes	Net zero (scope 1 and scope 2 for cementitious products)	No

*Operational - scope 1 and scope 2 emissions.

Source: Quilter Cheviot

NET ZERO ASSET MANAGER INITIATIVE COMMITMENTS

Melissa Scaramellini CFA, ESG Fund Research Lead

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SDG Alignment

> *The world is reaching the tipping point beyond which climate change may become irreversible. If this happens, we risk denying present and future generations the right to a healthy and sustainable planet - the whole of humanity stands to lose.*

Kofi Annan, Former Secretary-General of UN

In 2021 a wave of financial institutions stepped up to make net zero commitments in the run up to COP26, with different finance initiatives brought together under the Glasgow Financial Alliance for Net Zero (GFANZ). Just over a year on, there are now 301 signatories to the Net Zero Asset Manager initiative (NZAM), who have committed to manage an increasing proportion of their assets in line with net zero goals by 2050 or sooner. These signatories have a total of $59 trillion in assets under management (AUM), with just over a third of that currently committed to be in scope of their net zero interim targets[1].

This does not mean the full $22.2 trillion[2] initially committed is ready to invest today in climate solutions like renewable energy or sustainable agriculture technology. While investment in climate solutions will increase over time, for that initial capital, asset managers are primarily committing to scrutinise, engage with and vote to encourage the companies to transition to low carbon business models on pathways consistent with net zero emissions by 2050[3]. This should then mean that asset managers see the greenhouse gas emissions of their investments reduce over time in line with their 2050 net zero commitments. Pushing for change across industries is as important as investing in climate solutions, given that only 16% of listed global companies are currently aligned with future warming of 1.5 degrees[4].

After becoming signatories, asset managers have 12 months to set out the percentage of AUM they are initially committing, their approach to their chosen methodology, baseline data and their 2030 targets. While most managers are following one, or a combination, of the three currently recognised methodologies (see the explainer box below), the different challenges posed by the respective asset managers' businesses mean approaches vary in practice. For example, businesses may have different proportions of active versus passive investments, investment styles, proportions of AUM invested in different asset classes (where methodologies are still being developed for some asset classes like sovereign bonds), size of responsible / sustainable investment product ranges, levels of stewardship resource, degrees of sophistication of climate risk data analytics, and different client bases.

2022 saw an anti-ESG (environmental, social, governance) backlash gain powerful momentum, particularly in the US, which has made many asset managers more cautious when setting out their net zero commitments. Vanguard, for example, had committed just 4% of its $7 trillion AUM, but withdrew from NZAM at year end citing the difficulty it will have in committing the 80% of its AUM invested in passive funds via its approach to its chosen methodology. NZAM has acknowledged the politicisation of ESG issues, the different regulatory and policy environments that asset managers operate in, and the challenge faced by asset managers with significant passive investments, which are typically tied to following their market benchmarks[5].

At Quilter Cheviot, we believe a good NZAM plan is one that targets real-world change through a targeted engagement framework, including an escalation policy, in addition to reductions in portfolio emissions over time. These are some of the questions we are currently considering:

Is the approach to net zero focused solely on specific emissions reductions targets or is the emphasis on real world change?

It is important that asset managers do not just sell out of all high-emitting company holdings simply to reduce their overall portfolio carbon footprint or their overall portfolio temperature alignment. These divestments would have no real-world impact because another investor – perhaps one less motivated to engage on net zero transition plans – would buy the shares in the secondary market. Also, variables like GDP growth and inflation can influence emissions calculations, so year-on-year change may for example reflect a slowing or accelerating economy rather than an intentional reduction in emissions.

Does the asset manager have data systems to support the methodology it has chosen?

The SBTi (Science Based Targets initiative) sectoral decarbonisation approach, for example, is more data intensive than a SBT portfolio coverage approach.

1 The Net Zero Asset Managers initiative – An international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions
2 NZAM update – November 2022 initial target disclosure – The Net Zero Asset Managers initiative
3 AOA_FAQ.pdf (unepfi.org)
4 MSCI-Net-ZeroTracker-October.pdf
5 NZAM update – November 2022 initial target disclosure – The Net Zero Asset Managers initiative

How much AUM is being initially committed and how does this measure up with the approach being taken?

- Ultimately, credibility and authenticity are more important than the initial percentage deemed in scope. If a firm commits a very low percentage of AUM, what is stopping them from committing a higher percentage? Does the percentage reflect bottom-up consideration of the portfolios and funds that are now being managed in line with reaching net zero by 2050? If the low percentage reflects solely the sustainable investment mandates / funds of the business, how does the asset manager plan to increase the percentage over time across the rest of AUM? Is it an active work in progress to work with clients to increase that percentage?
- Equally, if a firm commits a high percentage of AUM, is this reflecting a high-level sum of investments in asset classes like equities? Is the approach then deep enough to be credible for that high proportion or does it reflect a business-as-usual approach while waiting for government and policymakers to act?

Is there a focus on strategy, governance and engagement?

This includes considering whether asset managers are scrutinising company decarbonisation plans, engaging with companies where these plans are not ambitious enough or where capital expenditure plans do not align with net zero targets, and engaging with policymakers. Other questions are whether the asset manager has a framework in place for engaging with companies and tracking progress on key milestones, and whether the fund managers themselves engage with companies or if the central stewardship teams are the only ones engaging with companies. Given fund managers have often engaged with company management over many years and developed constructive relationships, we think it is helpful for them to be part of the climate related engagements. This demonstrates to a company that its net zero aligned transition plans are important for investment returns.

The financial services industry also cannot act alone. Governments and policymakers need to provide credible strategies, regulation and policies aligned with 1.5 degrees.

This gives clear, long-term signals to companies of the upcoming demand for technologies and infrastructure that will deliver the governments' top-down strategies. An example of this in action is the UK government's commitment to ban sales of new petrol or diesel cars or vans from 2030. This provides a clear signal to consumers, auto makers, and those providing infrastructure and component parts, of the rise of electric vehicles and decline of the internal combustion engine. In the United States, Joe Biden's Inflation Reduction Act (IRA) and Bipartisan Infrastructure Law (BIL) are also examples, making renewable energy, energy efficiency and electric vehicles more affordable to American households, and providing certainty for renewables, energy storage, renewable energy infrastructure and carbon sequestration projects. NZAM acknowledges the need for governments to follow through on their own net zero commitments for signatories to deliver on their net zero goals.[6]

Overall, even if we have reservations about the detail of some of the commitments being reported, we think it is easier to engage with asset managers on their progress towards net zero when the manager is a NZAM signatory rather than for them to have no plan formally set out at all.

In 2023, Quilter Cheviot will continue its discussions with fund managers and sustainability teams to assess the approaches they are taking to NZAM commitments, percentage AUM committed, and progress on implementation.

Where we see a lack of consistency between NZAM commitments and broader behaviour by the firm or the fund managers we invest with, we have and will continue to engage with them. We will also continue to speak to asset managers that have yet to sign up to NZAM to understand their reasons and advocate why we believe a net zero commitment is important.

Our assessment of how managers are integrating ESG factors into their investment decision making is an ongoing process. So too will be our consideration of how managers are approaching and acting on their net zero commitments. The path to net zero involves a steep learning curve and no one is expected to have the perfect plan in place today for getting there. We recognise the significant challenges posed

6 Commitment – The Net Zero Asset Managers initiative

to asset managers by the anti-ESG backlash and will watch to see if and how NZAM adapts over time to support asset managers to remain signatories, while also watching for whether any allowances made by NZAM end up rendering the commitments meaningless.

While some are critical of the NZAM commitments, we believe they can help align AUM over time to critical decarbonisation goals as well as to the massive opportunity set presented by the energy transition. Time is slipping away to be able to limit warming to 1.5 degrees, so it is imperative for firms to progress from target setting to taking decisive action to deliver on the approaches they have set out to reach their net zero goals.

Where are we now?

Currently, 40.7% of the third-party managers Quilter Cheviot invests in are NZAM signatories or are in the process of setting targets.

EXPLAINER

What is net zero?

Under the 2015 Paris Agreement, countries agreed to cut greenhouse gas emissions with a goal to limit global warming to well below 2, preferably to 1.5 degrees Celsius compared to pre-industrial levels[7]. To limit warming to any level, we must reach net zero emissions – that is, reduce greenhouse gas emissions to as close to zero as possible with any remaining emissions re-absorbed from the atmosphere. 1.5 degrees is considered as a planetary boundary after which the risk greatly increases of setting off negative feedback loops that speed up the pace of warming and of crossing various tipping points that will make the warming irreversible[8]. But with emissions still rising, the scale and the time frame of the challenge is huge – emissions need to stop increasing by 2025 and to then fall by 45% by 2030, reaching net zero by 2050. To restate the words of former US Vice President Al Gore, what is required now is a global sustainable revolution on the scale of the industrial revolution but at the speed of the digital revolution.

What is the NZAM initiative?

Intensive collaboration and action across all industries is needed to stay within 1.5 degrees of warming. The Net Zero Asset Managers initiative (NZAM) was launched in December 2020 to enable and accelerate the role asset managers play in helping to deliver the goals of the Paris Agreement and to ensure a just transition. NZAM sits alongside net zero initiatives for other parts of the financial system like the Net Zero Banking Alliance, Net Zero Insurance Alliance and Net Zero Asset Owner Alliance. These initiatives come together under the Glasgow Financial Alliance for Net Zero (GFANZ).

As of 31 December 2022, NZAM has 301 asset manager signatories with a combined AUM of $59 trillion[9].

What does the NZAM initiative involve?

NZAM has three recognised methodologies (see below) for asset managers to follow and after becoming a signatory, each asset manager is given 12 months to set out their chosen approach, their interim targets for 2030, and any other targets. Asset managers must also specify how much of their AUM they are initially committing to their approach. This amount is expected to increase over time until their AUM is fully committed to achieving net zero by 2050. In practice, these have ranged from low single digits to 100% of AUM. Each asset manager must then disclose and report on progress on an annual basis.

7 The Paris Agreement | UNFCCC
8 The Paris Agreement | UNFCCC
9 The Net Zero Asset Managers initiative – An international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions

What are the three recognised methodologies?

NZAM sets out the following three methodologies. A combination of these approaches is also permitted, as is a customised approach subject to the Institutional Investors Group on Climate Change (IIGCC) approval or the approval of one of the other six network partners.

1. Net Zero Investment Framework (NZIF). This combines several different pillars including emissions reduction targets, targets for investments in climate solutions, engagement and policy advocacy. A key element is implementing an engagement goal to ensure 70%+ of financed emissions in material sectors are either aligned to a net zero pathway or aligning and subject to direct or collective engagement and stewardship actions. NZIF has so far been the most popular methodology chosen by asset managers.

2. Science Based Targets initiative (SBTi). There are three approaches for financial institutions for listed equities and bonds, and private equity. The approaches for asset classes like sovereign bonds are still being developed.

- Sectoral Decarbonisation Approach (SDA): net zero pathways are translated into benchmarks for different sectors against which the performance of individual companies can be compared. A portfolio decarbonisation reference target is set. SBTi's guidance for some sectors is still being developed.
- Portfolio coverage: this involves looking at what proportion of investments are invested in companies that have set Science Based Targets and then setting a target to ensure that 100% of AUM has set Science Based Targets by 2040.
- Temperature rating: the asset manager uses the reported greenhouse gas emissions reduction targets of their investee companies to assess the overall portfolio temperature trajectory and then target a long-term temperature goal.[10]

3. Net Zero Asset Owner Alliance. Members are expected to set out targets on four main pillars: sub-portfolio emission targets, sector targets, financing transition targets (including tracking climate solution investments) and engagement with the highest emitting companies as well as with policymakers.

10 Temperature Rating Methodology (sciencebasedtargets.org)

RAISING THE BAR ON GENDER DIVERSITY

Greg Kearney, Senior Responsible Investment Analyst
Kirsty Ward, Responsible Investment Analyst

Across Quilter we have identified three thematic engagement priorities. This is part of our human rights theme.

Human rights are rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. Everyone is entitled to these rights, without discrimination[1].

SDG Alignment

> *“The moral and business case for gender diversity is watertight. But the job is far from done. As we emerge from the pandemic, there’s more that needs to be done to dismantle the barriers that prevent women rising to the top. Businesses have a vital role to play in achieving a more inclusive economy, where work enables all talent to progress.”*
>
> ***FTSE Women Leaders Review: Achieving Gender Balance, February 2022***

1 United Nations

In early 2022, the UK Government announced that the country ranked second in the world for board gender diversity with almost 40% of board positions in the largest 100 companies held by women, up from just 13% ten years ago. The number of women chairs in the largest 350 UK companies rose to 48 from 39 in 2020.

This is significant progress driven, in part, by the government-commissioned 2016 Hampton-Alexander review, which recommended a target of 33% representation of women on listed board and leadership teams by 2020. This year, the FTSE Women Leaders Review, the successor to the Hampton-Alexander Review, has presented new recommendations including a minimum of 40% female representation. It also calls for the largest 350 companies to have at least one woman in the chair, Senior Independent Director, CEO or CFO role by 2025. These aims are also supported by the FCA's new listing requirements, where companies must declare if they have met these specific board diversity targets in their annual financial reports.

In preparation for the step-up in recommendations, we have engaged with investee companies within our centrally monitored universe that have yet to meet the initial target of 33% gender diversity. The aim of this engagement was to encourage progress and understand what measures are being taken to meet the update proposals over the next three years. Most of the companies engaged are based in the UK, but with similar proposals being implemented by the EU we also included Kion Group, a German-listed company.

Target companies

Unsurprisingly, our conversations varied in detail, commitment, and outcome. Listed below are our key findings:

- **Board-level progress but the executive is still a problem.** The recent progress in improving board gender diversity is not echoed at the executive level. Of all the companies engaged, United Utilities is the only one with a female executive director. This is reflected in the broader market with only ten women in CEO roles across the largest 250 UK companies[2]. There is also concern that hiring for non-executive roles is depleting the executive talent pool as qualified women opted for non-executive over executive roles earlier in their careers. Most companies are confident in meeting the 33% board gender diversity goal over the next 12 months, with Kion Group the only outlier. Germany, however, seems to be behind the largest European economies on achieving diverse leadership.
- **Building the internal talent pipeline is essential.** Most of the companies we engaged with are in sectors that rely on STEM (Science, Technology, Engineering and Mathematics) skilled workforces. These companies often highlight the difficulties in overcoming the challenges of growing internal female talent pipelines. Typically, senior leadership hires are internal, which contributes to the executive hiring problem above. Several companies have made significant efforts to bring in diverse candidates at graduate and apprentice level, and to provide ongoing support though management mentoring schemes. United Utilities, for example, has made significant strides in supporting and quantifying progress. Internally, its 'Aspiring Talent' programme is focused on areas where there has been persistent underrepresentation of female leaders. Externally, the company

2 As of 10 January 2022: https://www.gov.uk/government/news/sea-change-in-uk-boardrooms-as-women-make-up-nearly-40-of-ftse-100-top-table-roles

works with recruitment agencies that focus on diverse hiring and runs an 'Engineering your future' competition with secondary schools from the local area. Conversely, a minority of companies do not yet have a targeted approach.

- **Engineering and basic materials firms are laggards**. There are a number of reasons for this, including the hiring difficulties of a traditionally male-dominated industry. Firms like Renishaw and Kion Group are making efforts to get up to speed but appear to be behind the pack. Where the talent pool (board, executive or broader employees base) is weighted towards men, we would expect an outsized effort though hiring and progression programmes.
- **Most companies are clear on the benefits of diversity**. It is encouraging that most companies are clear on the benefits of improving board and executive-level diversity, as well as diversity among their wider workforce. Improved diversity of ideas and perspectives facilitating a more dynamic business culture is a driving rationale for change.
- **Diversity strategies must be owned by the board of directors**. Companies that tend to perform poorly have often relied on voluntary diversity committees or initiatives. To drive real change, commitment must be demonstrated at the top of an organisation and embedded into all aspects of hiring and retention strategies.

Overall, we are encouraged by the progress of the companies we engaged with, particularly at a board level. Our engagement emphasises the need to expand our focus from the board to the executive and senior management. Going forward, we will monitor progress in target setting and achievement over the next 12-18 months and use voting rights to express disapproval for companies that fail to make sufficient progress.

We believe that diversity of perspectives and ideas allows for a more robust governance structure and dynamic leadership team. We also appreciate that single diversity statistics are a narrow way to measure diverse and inclusive corporate cultures. Nevertheless, they are a good place to start the conversation. Recent UK and EU commitments to gender balance are certainly a tail wind for the engagement effort and investors have role to play in encouraging companies to meet this expectation in a meaningful and timely manner.

Quilter Cheviot is committed to engaging with companies to meet best practice standards on board and leadership diversity. All companies we engaged, except one, are in industries with typically male-dominated workforces. As investors, we are seeking confidence that they have a robust strategy to develop, attract and retain the best talent throughout the organisation and outperform peers on a relative basis. We have outlined our expectations that an explicit focus on diversity must be a key component of this strategy.

EXPLORING DIVERSITY BEYOND THE DATA

Ramón Secades, Responsible Investment Analyst; Kirsty Ward, Responsible Investment Analyst

Across Quilter we have identified three thematic engagement priorities. This is part of our human rights theme.

Human rights are rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. Everyone is entitled to these rights, without discrimination[1].

SDG Alignment

> *"Groups that contain diverse views have a huge, often decisive, advantage."*
>
> *Matthew Syed*

OBJECTIVE AND SCOPE

Our research explores both quantitative and qualitative diversity and inclusion disclosures across our centrally monitored universe of 342 companies[2]. The goal is to gain further insight into best practices and to identify trends. We use company annual reports and website disclosures as source material rather than direct interaction with the underlying companies, which was limited to the case studies within this document.

1 United Nations
2 Centrally monitored universe as of October 2022.

We identified 21 data points related to qualitative and quantitative factors linked to diversity and inclusion (D&I). Quantitative data provide a high-level entry point for analysis and qualitative data are useful additional insights into a company's approach to diversity and inclusion. The objective is to identify and assess areas where companies are performing well, or underperforming, and what actions are successfully being put in place to attain a more diverse and inclusive workforce.

Quantitative factors	Qualitative factors
Board size	Diversity training
Female representation on the board	Inclusion training
Board ethnic diversity	Maternity
Workforce female representation	Paternity
Women in managerial positions	Employee satisfaction
Executive female representation on the board	Accessibility
Executive level women	Programmes
Mean gender pay gap	Mentorship schemes
Median gender pay gap	Employee networks
Ethnic median pay gap	Recruiting
Employee voluntary turnover	

Quilter's approach to D&I

Tosin James-Odukoya
Head of Diversity & Inclusion, Quilter

Our conversation with Quilter's Head of Inclusion & Diversity allowed us to see diversity beyond the data and appreciate the first-hand challenges associated with addressing workplace D&I. For example, it is best practice for companies to publish policies such as family leave, but for many, they are not accessible. An emphasis is placed on ensuring Quilter fosters a culture of diverse thought and openness. Therefore, cognitive diversity should be encouraged alongside cultivating a workforce which includes people of underrepresented backgrounds.

Alongside this, meaningful long-term policies are required, which is reflected in the Quilter D&I Action Plan. As part of this plan, Quilter no longer includes the requirement of degree qualifications on job descriptions and encourages diverse hiring panels for its senior-level roles. Without government intervention addressing diversity and inclusion issues is challenging, data collection is crucial to provide a starting point, but much of the data is self-disclosed, Quilter's current disclosure rate for ethnicity is at 89%.

MAIN FINDINGS

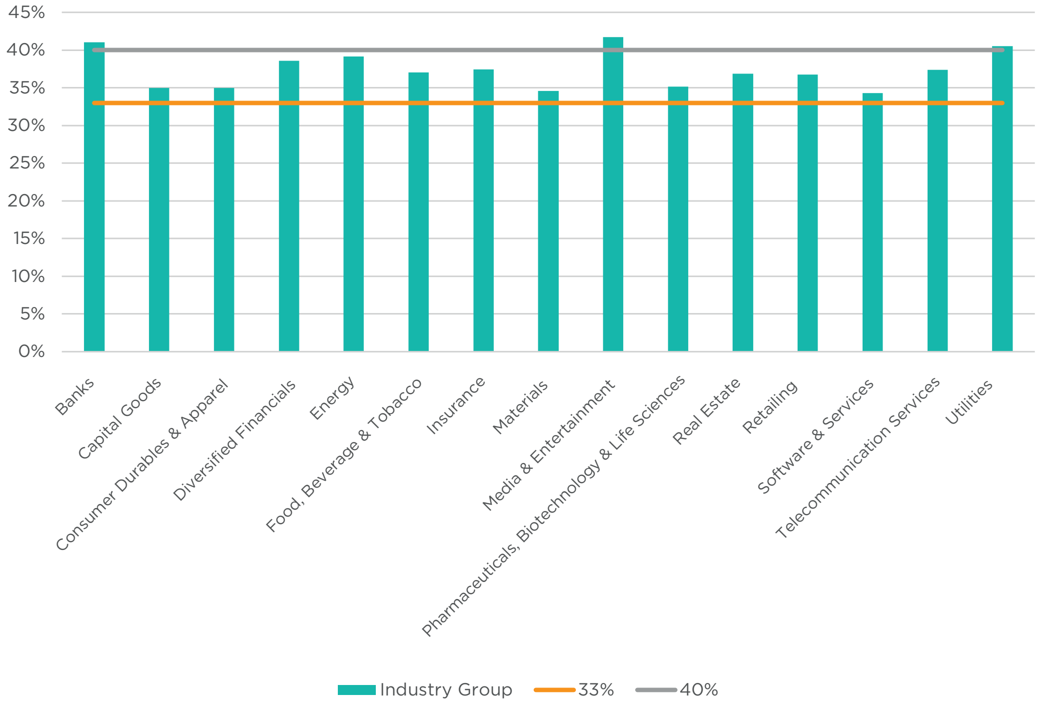
Quantitative data: we aggregated the data into industry groups. To have a reasonable sample for each industry group, we excluded those with fewer than ten companies within our centrally monitored universe. The industry groups highlighted in italics failed to meet that threshold.

Industry Group	Number of companies
Capital Goods	45
Real Estate	25
Diversified Financials	23
Materials	22
Banks	20
Energy	19
Food, Beverage & Tobacco	19
Pharmaceuticals, Biotechnology & Life Sciences	19
Utilities	16
Retailing	15
Media & Entertainment	13
Consumer Durables & Apparel	12
Insurance	12
Software & Services	11
Telecommunication Services	10
Consumer Services	*9*
Food & Staples Retailing	*8*
Health Care Equipment & Services	*8*
Semiconductors & Semiconductor Equipment	*8*
Automobiles & Components	*7*
Household & Personal Products	*7*
Commercial & Professional Services	*6*
Technology Hardware & Equipment	*6*
Transportation	*2*

All industry groups (excluding the ones with fewer than 10 companies) have, on average, boards with 33% or more gender board diversity, which meets the UK 2020 Hampton - Alexander target. However, only three have an average board diversity above the 40% target set by the FCA for UK companies to achieve by 2023, namely banks, media & entertainment, and utilities (Table 1).

The universe of companies is not just UK-focused. However, we have used the UK standards as a benchmark for this exercise.

Table 1: Gender diversity at board level



Source: Company annual reports and website disclosures

Materials, capital goods and utilities have the lowest percentages of female representation within their workforce ranging from 22% to 26%. There is a positive correlation of 0.82 between industry groups that have higher levels of women in the wider workforce and those with higher levels of women in managerial positions. Usually, a strong correlation is considered to be higher than 0.73[3] (Table 2).

Table 2: The percentage of women in the workforce versus women in managerial positions[4]

Industry Group	Female workforce representation (%)	Women in managerial positions (%)
Materials	22%	24%
Capital Goods	25%	23%
Utilities	26%	28%
Energy	28%	25%
Software & Services	34%	32%
Food, Beverage & Tobacco	36%	36%
Telecommunication Services	37%	29%
Diversified Financials	42%	32%
Pharmaceuticals, Biotechnology & Life Sciences	47%	40%
Media & Entertainment	48%	42%
Real Estate	50%	37%
Insurance	50%	32%
Retailing	50%	42%
Banks	52%	35%
Consumer Durables & Apparel	53%	47%

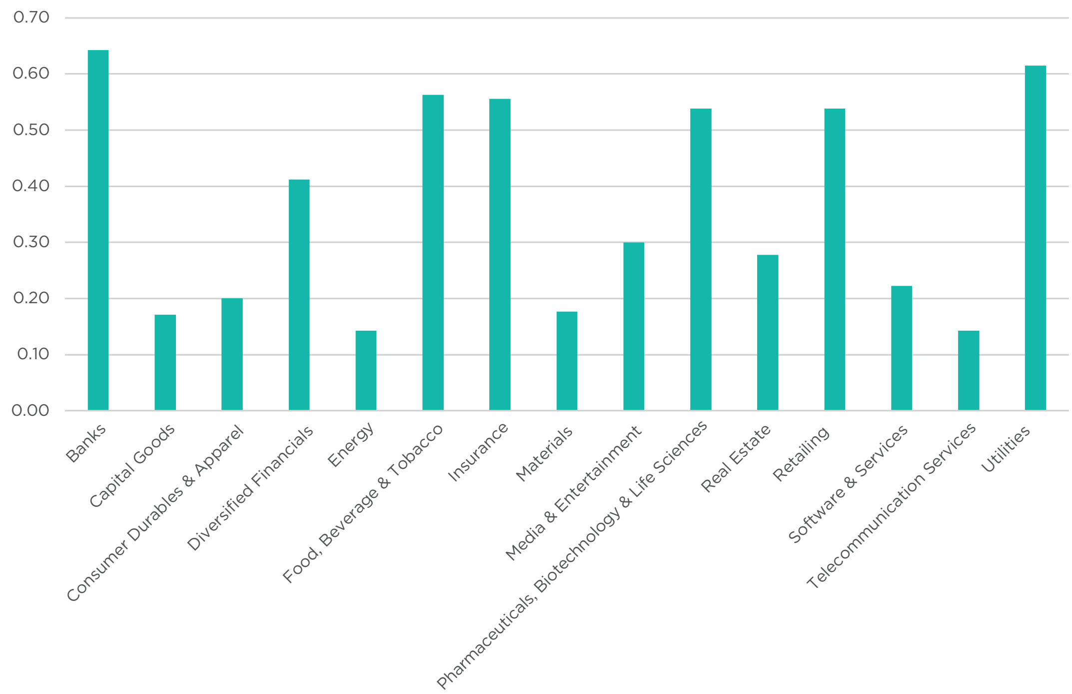
Source: Company annual reports and website disclosures

Overall, the number of boards with executive female representation (CEO or CFO, in most cases) is low, with all the industry groups having an average of less than one (1.0) executive woman on the board. The banks industry group has the highest average with 0.64 (see Table 3) female representation on boards is skewed towards non-executive directors rather than executives.

3 Correlation measures the relationship between two variables. A correlation coefficient of 0 means that variables have no impact on one another therefore increases or decreases in one variable have no consistent effect on the other. A correlation coefficient of +1 indicates a "perfect positive correlation", which means that as variable X increases, variable Y increases at the same rate. A correlation value of -1, meanwhile, is a "perfect negative correlation", which means that as variable X increases, variable Y decreases at the same rate. Correlation analysis may also return results anywhere between -1 and +1, which indicates that variables change at similar but not identical rates. Correlation is considered to be strong above 0.7

4 Women in managerial positions is defined by the company, therefore there will be different cohorts which are represented in these numbers on a company by company basis.

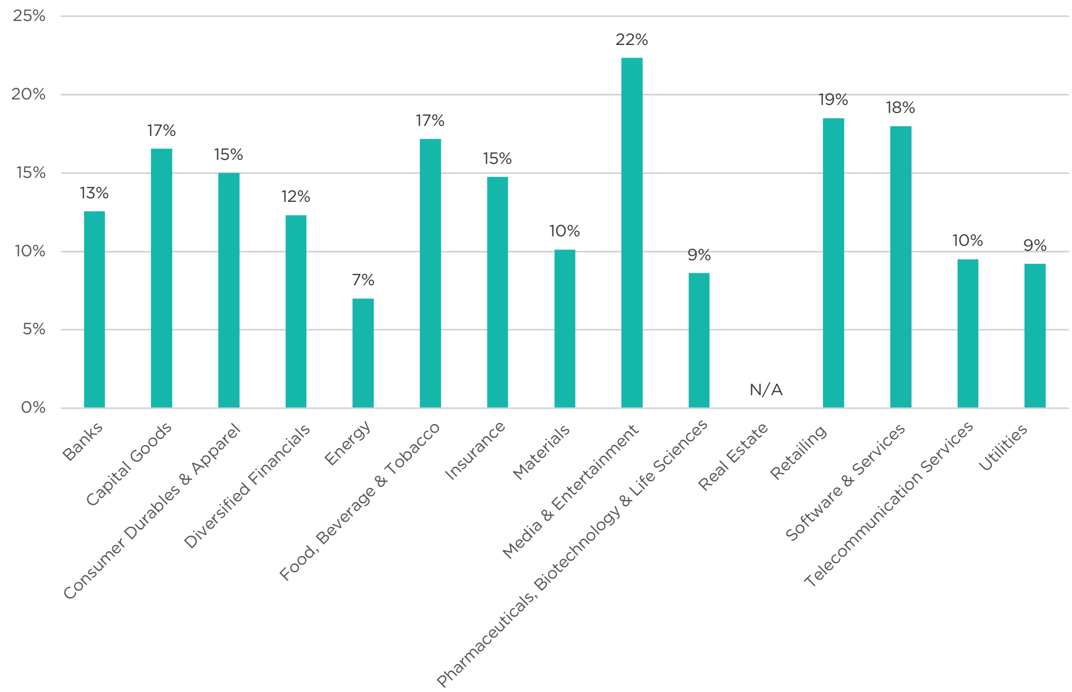
Table 3: Executive women on boards



Source: Company annual reports and website disclosures

Turnover varies greatly among industry groups. In many cases, the figures disclosed were influenced by the Covid-19 pandemic. Unsurprisingly, the media & entertainment and retailing industry groups saw the biggest turnover with 22% and 19%. On the other hand, energy and the pharmaceutical, biotechnology and life sciences industry groups saw the highest retention rates (see Table 4). Further research is required, however, to understand the link between turnover and employee satisfaction.

Table 4: The percentage of employee turnover



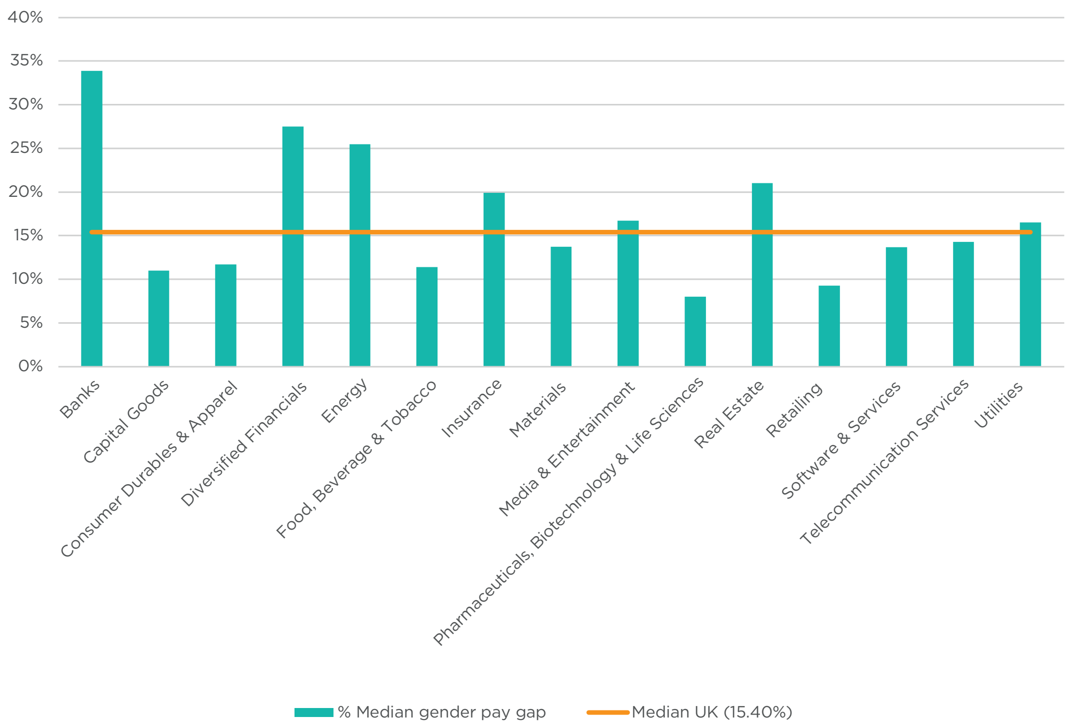
Source: Company annual reports and website disclosures

Gender pay gap (UK only): the gender pay gap is the difference in the average hourly wage of all men and women across the workforce. Companies with 250 or more staff in the UK are required to publish their gender pay gap. The gender pay gap is not the same as unequal pay, which is paying men and women differently for performing the same (or similar) work. Unequal pay has been unlawful since 1970[5]. The UK median gender pay gap was 15.4% in 2021 and in 2020 only 8% of companies reported that their median pay was the same for men and women[6].

Within the US, it is common for companies to focus not just on gender but to provide a breakdown of the ethnic pay gap alongside the ethnic composition of the workforce. Overall, disclosure on ethnicity is more common across US companies than in EU and UK markets. This perhaps reflects the demographic of each location. Gender diversity reporting standards are most consistent in the UK.

Banks and diversified financials have the biggest median gender pay gap with 34% and 28% respectively (see Table 5). Banks, energy and diversified financials have the highest mean gender pay gap, and in the case of banks, it quadrupled the national median gender gap average of 7.9%, according to the Office of National Statistics[7] (see Table 6).

Table 5: Median gender pay gap



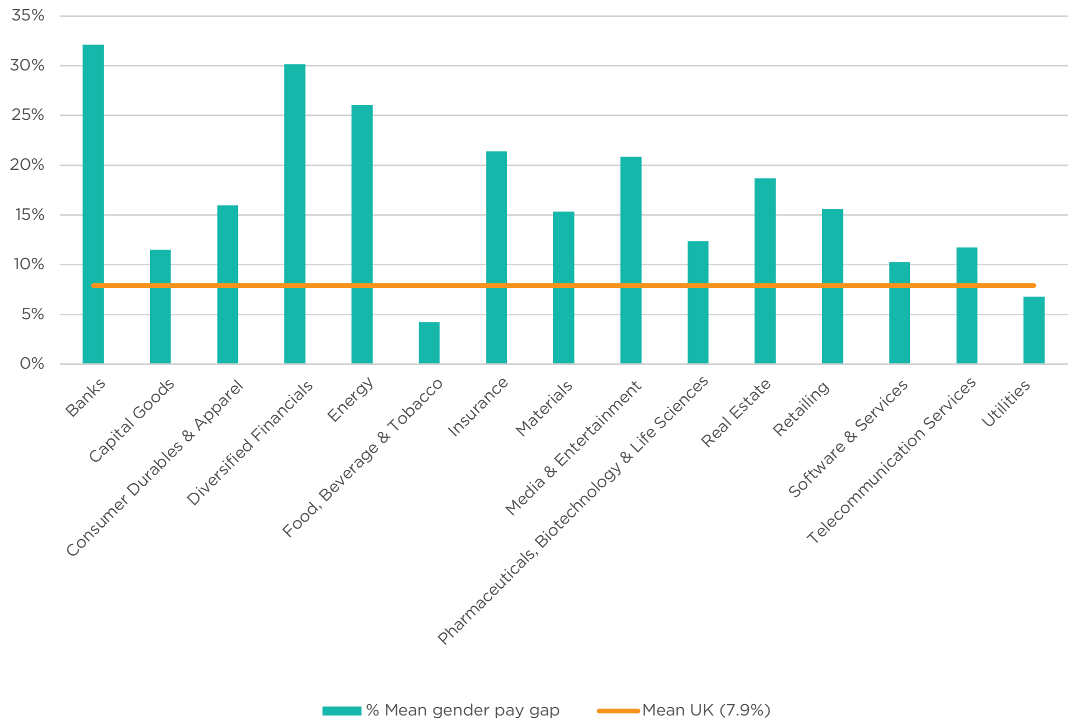
Source: Company annual reports and website disclosures

5 gender-pay-gap-explained.pdf

6 The gender pay gap - House of Commons Library (parliament.uk)

7 Gender pay gap in the UK - Office for National Statistics (ons.gov.uk)

Table 6: Mean gender pay gap



Source: Company annual reports and website disclosures

D&I training: most companies operating globally have established diversity training. This training is primarily in the form of online modules and working groups. Diversity training has an anti-racism awareness and an unconscious bias focus. While this is a starting point for conversations about workplace diversity, the long-term impact and value of these modules are yet to be seen.

Lloyds Banking Group has ongoing events to build relationships and trust within the communities it operates in.

Severn Trent recently introduced an inclusion programme which aims to better enable career progression for ethnic minority colleagues.

There are challenges associated with assessing the efficacy of companies' internal D&I policies. An example of this is D&I training. Unconscious bias training (UBT) is the most common, especially among US companies. There is conflicting evidence on the effectiveness of UBT. The UK government, in 2020, decided to phase out UBT training in its departments. The UK government wrote in a statement to the House of Commons that *"evidence also suggests that even the broader category of 'diversity training' as a standalone exercise can undermine such efforts if it appears to be a 'tick box exercise'"*. [8]

UBT however, is just one example of D&I training. Other examples include inviting external speakers to talk on topics such as LGBTQ+ Allyship, inclusive leadership, responding to microaggression or addressing racism. This can expose employees to new perspectives. However, how training translates to enhancing broader diversity and inclusion is difficult to measure.

Parental policies: a company's parental leave policy can provide insight into how inclusive the company is. Parental leave varies greatly across different geographies and the data include instances where companies' parental policies extend beyond statutory leave. Parental leave is mostly split between the primary caregiver and secondary caregiver leave.

Best practice is seen in instances where companies have comprehensive maternity cover, often between 16-26 weeks of fully paid leave, and shared parental leave as an option. Shared parental leave is becoming

8 Written Ministerial Statement on Unconscious Bias Training - GOV.UK (www.gov.uk)

more common across UK companies. This is positive because it allows for bonding time for the secondary caregiver and enables the primary caregiver to re-enter the workforce at a sooner date. Some countries, including the US and Canada, have fewer legal requirements related to maternity policies in comparison to the UK. And companies that operate globally often have different policies for the jurisdictions they operate in.

Best performers in the US include Invesco and Marsh & McLennan. In these companies, new parents, regardless of gender, can take up to 26 weeks of paid leave. BorgWarner sits at the lower end of the list with the standard of 20 days of paid parental leave. Most companies on the list do not publicly disclose their parental leave policies.

Overall, company disclosure on parental leave is lacking. Best practice involves disclosing the parental leave policies. Making these policies more accessible can attract and retain female talent. Other notable practices include onsite nursery facilities to lessen the childcare burden and offering grandparent leave.

Employee satisfaction: almost all the companies analysed conduct employee surveys at least yearly. Employee feedback provides insights into workplace satisfaction and areas for improvement. However, the data collection process can be flawed. Employees may only be motivated to provide polarising levels of feedback, resulting in a skewed data set. Some employees may be reluctant to leave negative feedback if they believe the answers are not anonymous. Companies inevitably cherry-pick the data they disclose publicly, so it is impossible to ascertain the true levels of employee satisfaction across the workforce.

Best-in-class disclosure includes disclosing the percentage of employees that participated as well as the results of the topics covered. Additionally, companies that keep the surveys consistent and compare them against previous years have the benefit of identifying trends in employee engagement. One alternative is to use external ratings such as Glassdoor. While this has its flaws, it has the benefit of not being manipulated by the company.

Accessibility: The UK Disability Confident employer scheme is the biggest government-run initiative within our equity universe. The goal is to encourage employers to think differently about disability and take action to improve how they recruit, retain, and develop disabled people[9]. The scheme has three levels:

- Level 1: Disability Confident Committed
- Level 2: Disability Confident Employer
- Level 3: Disability Confident Leader

Globally, there are non-governmental initiatives of which Valuable 500[10] is most supported initiative. Valuable 500 is a global initiative that consists of CEOs committing to acting for disability inclusion. Also popular is the initiative Disability: IN[11] which provides a comprehensive benchmarking tool to rate companies against their accessibility efforts.

Some companies include policies directed at the customer. For example, Samsung Electronics offers sign-language customer support in 57 countries.

UK companies fall behind their US and European peers in disclosing the percentage of disabled employees within the workforce and accessibility-based initiatives. This is far more common among European companies where there is a legal requirement to fill a quota of disabled employees[12].

Mentorship, and employee groups: companies that sit in traditionally male-dominated industries are more likely to invest in programmes and networks targeting under-represented groups. This is often seen at companies that rely on STEM (science, technology, engineering and mathematics)-based workforces. Best practice is seen in where companies run both internal and outreach programmes, and track progress over time to evaluate success.

9 Disability Confident employer scheme - GOV.UK (www.gov.uk)

10 Home - The Valuable 500

11 Homepage - Disability:IN (disabilityin.org)

12 Removing the disability quota system: can this provided a different context for understanding the requirements for integrating persons with disabilities into the labour market? – Tonio Axisa

Internally, United Utilities runs The Aspiring Talent programme, which is focused on areas such as operations where there has been persistent under-representation of female leaders (64% of employees currently on the Aspiring Manager Programme are female.) Externally, it runs an 'Engineering your future' competition with secondary schools from the local area (67% of participants are female). SSE tracks the intake of women on its apprenticeships and graduate programmes, which guides where the company can best allocate its diversity efforts going forwards.

CASE STUDY: INVESTMENT 20/20

Nicholas Omale
Responsible Investment Analyst

We spoke with Nicholas Omale, a member of the responsible investment team who took part in the Investment 20/20 scheme before joining the workforce. With a focus on creating a more diverse and inclusive investment industry, Investment 20/20 has helped more than 2,200 young professionals to start their careers in investment management. While studying for his Master's degree, Nicholas was initially introduced to Investment 20/20 as part of an outreach programme targeting universities across the UK. The company encourages candidates who are underrepresented within the investment space to apply for trainee roles and internships through its website. Through this scheme, Nicholas joined BNP Paribas on a rotation trainee scheme spending time with the high-yield fixed income, sustainable equities, and digital marketing teams.

Nicholas highlights two key areas where being part of Investment 20/20 benefited his early career development. First, the networking opportunities allowed Nicholas to gain insight from former trainees, which was useful to pull experience from. Second, Investment 20/20 provides training on interview skills and prepares candidates to work in a corporate environment.

Within our universe, companies such as Invesco, Legal & General and Santander participate in the Investment 20/20 initiative.

Recruitment: some companies address recruitment from underrepresented groups through outreach efforts such as supporting historically black universities or holding woman-only networking campus events. We have also seen companies making efforts to balance the short/long list of candidates. Sometimes, this is done in collaboration with third-party recruiters. Once the candidate list is set, some company policies include having diverse interview panels to avoid bias in the hiring process. Not all companies disclose what percentage of new hires are women or have diverse backgrounds. This information is critical to assess whether the current recruitment policies are yielding a diverse workforce.

Legal & General has supported the initiative 10,000 Black Intern[13], and discloses that through this programme it has hired 17 interns whilst BP has disclosed that 45% of the 2021 graduates are female.

Conclusion

From our research, reporting high-level diversity metrics is standard practice across all geographies and industries within our centrally monitored direct equity universe. Disclosure is less consistent across all ten qualitative data points, of which company disclosure on accessibility within the workplace is very limited. As mentioned, company disclosure on parental leave largely depends on geographical location.

The level of D&I data and disclosure is heavily reliant on the regulatory requirements of the country a company is operating in. The EU and the UK have more stringent reporting requirements than the US. However, US companies tend to disclose a broader range of diversity data outside of gender, such as ethnic background. There are also differences in how each jurisdiction considers diversity. In the UK, the term ethnic diversity is most often used, but in Europe there is a focus on nationality rather than diversity, while in the US, gender and ethnic diversity data is often disclosed as a combined metric. While providing intersectional data is useful, we welcome base-level gender and ethnic data points to use as a starting point and comparator across industry groups.

13 10,000 Black Interns (10000blackinterns.com)

Considering there is no globally agreed definition of diversity when it comes to company disclosures, the lack of standardised reporting is challenging when attempting to compare and analyse diversity disclosure across a range of companies. In terms of improving diversity and inclusion disclosure and practices, we welcome defined and measurable goals, alongside actional steps to achieve them. We use this data to inform our ongoing engagements with the companies we invest in.

We engaged with the following companies, which exhibit best practice, to understand more about the motivation and outcome of their approach.

CASE STUDY 1 - NATWEST

Objective: From our centrally monitored universe, we identified the companies that have more advanced paternity leave policies (where policies extend beyond statuary regulations), to gain additional information on areas such as shared parental leave and flexible working.

NatWest's new Partner Leave policy commences in January 2023. This will provide the opportunity for new parents, irrespective of gender, to take leave for a whole year, half of which will be fully paid (with an additional 15 weeks being covered at statutory maternity or paternity pay rates). This represents a significant move in gender equality in the workplace. We explored the motivations behind these new policies and the expected outcome on workplace culture.

Traditionally, efforts have been focused on maternity policies. To formulate the Partner Leave policy, NatWest engaged with several stakeholders across the group. NatWest is undergoing a digital transformation integrating the use of Workday. The company is building workflow tools to enable employees to access information on how maternity leave may impact holiday leave, pay, and benefits, and includes additional links to flexible working policies.

NatWest has integrated a flexible working policy that goes above statutory entitlements, and that focuses on term-time working and compressed working hours. The pandemic has been a turning point in the way the company approaches working frameworks. NatWest focused on the expected employee benefits resulting from the incoming policy update. With effective resource planning, this gives employees the chance to partake in secondments and develop skills in business areas they may otherwise not have exposure to. The company provided a long lead time between announcing the policy and the go-live date to facilitate as many employees as possible to benefit from the policy

Outcome: Unsurprisingly, the feedback so far has been overwhelmingly positive. NatWest acknowledges that social agendas are rising in priority and being ahead of the curve allows for increasing employee expectations to be met and even exceeded. Senior leadership has widely promoted the incoming policies and by providing this opportunity it hopes to lead to increased employee engagement and better retention. The company currently does not have plans to measure the success/ progress of the policy. We would encourage the company to keep track of the implementation and effect of this policy on employees and the business.

CASE STUDY 2 – AVIVA

Objective: from our centrally monitored universe, we identified the companies that had more advanced paternity leave policies (where policies extend beyond statuary regulations), to gain additional information on areas such as shared parental leave and flexible working.

Aviva's family leave policy has been in place for four years. The policy allows for twelve months off with the first six months keeping the same pay and benefits. The policy applies to both partners irrespective of gender and includes birth, adoption, and surrogacy. Additionally, there is no requirement for partners to share parental leave.

Family leave is a popular benefit. Aviva's workforce has an even split of men and women, and the policy has been taken by over 2,500 people of which almost half were men. However, there is a difference in the time taken. The average time taken is six months for men and twelve for women. The company has received feedback that men are concerned that the company won't cope without them and that taking time off will impede career progression. These are worries that women have always had to cope with.

Since Aviva introduced the policy in 2017, it has always been viewed positively and it has now become part of the brand. There is a clear cost when the company has to backfill jobs. However, there is not a direct correlation. For example, when there are 200 employees off, that does not translate to 200 extra salaries, and only a minority of maternity covers are backfilled externally. A positive side of parental leave cover is that it allows for internal development opportunities, by exposing employees to experiences and learnings they might not otherwise have.

Aviva has also focused on giving employees information on what they might expect from the policy and scheduling return-to-work plans. Line managers are also invited to these sessions, so they can be informed of what the process entails.

There are plans in place to expand the policy to Ireland where the normal current leave for parents is two weeks. When finalised, the introduction of this policy will stand out as best practice. When it comes to the current family leave policy in the UK, there are no plans to change the benefits, but the company will be looking at ways to facilitate the process of getting back to work for employees coming back from extended leaves.

Outcome: Aviva is a leader in this area and among the first companies offering equal parent benefits. This policy has benefited the company's reputation as a responsible employer, which has become part of the brand. The cost of the policy on the business is mitigated due to limited external backfilling.

CASE STUDY 3 – LLOYDS BANKING GROUP

Objective: from our centrally monitored universe, we identified the companies that had more advanced paternity leave policies (where policies extend beyond statuary regulations), seeking to gain additional information on areas such as shared parental leave and flexible working.

Lloyds Bank's family leave policy is divided between maternity (63 weeks leave; 20 of which are paid) and paternity (19 weeks; 6 of which are paid). These benefits also include adoption.

The D&I strategy at Lloyds is structured around four pillars: inclusive insight, inclusive behaviour, inclusive design, and inclusive society.

Inclusion is an evolving space and Lloyds is always looking at other companies to see how it is performing and is constantly benchmarking to compare policies. Lloyds Bank goes beyond looking at financial peers, comparing themselves to a much wider benchmark. Lloyds' corporate slogan is "helping Britain prosper" which, for them, means inclusion, and its workforce should represent its customer base. Lloyds is looking to increase the number of females in its senior workforce and having a strong family leave policy helps them achieve that goal.

The family leave policy at Lloyds is effective from day one. Lloyds believes that life events should not prevent someone from joining the company. Thanks to the policy being applicable from day one, Lloyds has helped in the recruitment of senior female leaders. It is hard for Lloyds to account for the difference in retention due to the policy, but anecdotally, it has helped attract senior leaders. The return levels after family leave are very high and there is no clawback if they choose to leave the company straight after family leave.

Keep-in-touch days are used to facilitate returns to work after family leave. This benefit is flexible with some employees taking it throughout the leave and others prefering to use it towards the end of their time off to aid the transition back into the workforce.

When there is a leave that is shorter than six weeks, there is usually no replacement and the workload is distributed among peers. For longer periods of family leave, various internal movements are implemented to cover those vacancies, typically as a secondment to allow for exposure to different areas. When the colleagues return to work, even if it is after 52 weeks, they come back to the same position they left.

Outcome: Lloyds is thinking about ways to help employees through different life stages. They recognise strong family leave policies are important to attract and retain female talent. It provides 20 paid weeks to primary caregivers, which includes equal benefits such as pension contributions. Lloyds is also thinking about how to make the transition back to work as a parent smoother, and a big part of this is training line managers to put themselves in their employees' shoes and help them through the process.

CASE STUDY 4 - ASTRAZENECA

Objective: from our centrally monitored universe, we identified the companies that had more advanced family leave policies (where policies extend beyond statuary regulations), intending to gain additional information on areas such as shared parental leave and flexible working.

AstraZeneca currently provides a maternity leave of 26 weeks of full pay and six weeks of full pay for paternity leave. This benefit also covers adoption, and it is applicable from the first day of employment.

Family leave must fit into the wider inclusion strategy. To do so, it has to allow for financial wellness and equitable reward. Additionally, it was important to ensure that adoption was included in the policy.

Different countries have different statuary leave policies. However, when AstraZeneca is looking at the policies it offers in each region, it benchmarks based on what is best practice globally rather than on what is best practice in the country.

Benefits, including family leave, are part of the employee value proposition. If AstraZeneca wants to attract diverse talent, having adequate family leave is essential. However, this is also important from a reputational perspective.

Two-thirds of the staff are based in labs making it difficult for a flexible working proposition. One-third of the company is office based and for these employees, there is a flexible schedule allowing employees to work two days a week in the office, as it also believes in the benefit of collaborative working.

When employees go on leave, the method for distributing the workload is at the manager's discretion. Usually, vacancies are covered by contractors, but internal moves are also used.

There are currently no plans to increase the length of leave. However, AstraZeneca is currently looking into how to make the transition back from family leave easier for employees. Upon the return of employees from family leave, they are asked to fill in a survey to describe their leave experience and this feedback is essential to understand where the process can be improved.

Outcome: AstraZeneca is thinking about how to improve the experience of employees going on family leave. While having a sufficiently long leave is important, having the right structures in place so that employees can confidently return to the workforce is also key. Additionally, employees would also benefit from their line managers being trained on the process of family leave, as this will give them the tools to help their employees.

MANAGING THE RISING RISK AROUND WATER SCARCITY

Greg Kearney, Senior Responsible Investment Analyst
Ramón Secades, Responsible Investment Analyst

Across Quilter we have identified three thematic engagement priorities. This is part of our natural capital theme.

Natural capital can be defined as the stock of renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits and ecosystem services to society[1].

SDG Alignment

> *"Every human should have the idea of taking care of the environment, of nature, of water. So using too much or wasting water should have some kind of feeling or sense of concern. Some sort of responsibility and with that, a sense of discipline."*
>
> *Dalai Lama*

Vital to all living organisms, water is a global issue, yet the risk around it – for investors at least – is regionally and sector specific. This can make disclosure and analysis of water risk at a company level difficult to measure and monitor. While we have heard anecdotal evidence of the private sector using water more efficiently, risks around this vital element – particularly its water scarcity – will be exacerbated by climate change, population growth and greater use that comes with growing prosperity.

1 Task-Force on Nature-related Financial Disclosures

Water risk in action: global business disruption

2022 marked the end of Chile's driest decade on record, which forced mining companies like Antofagasta and Anglo-American to reduce copper production.

Elsewhere, in August 2022, hydropower shortages caused by drought forced companies operating in south-western China such as Foxconn and Toyota to halt production.

In Mexico, politicians attempting to reduce strain on residential supplies are piling pressure on Heineken-owned breweries to relocate their water-intense practises from the north to the south of the country where the supply is more abundant[2].

Scarcity is not the only issue, however. Instances of contamination to domestic supply systems from chemicals, fertiliser run-off and release of microplastics are common. This can result in reputational damage and erosion of social license to operate, but also fines from regulators. Recent UK examples include a £90m charge to Southern Water in 2021[3] and a £1.5m fine for Dairy Crest in 2022[4] for harmful discharges into water systems.

Water risk and investment

Natural capital is one of the three thematic priorities across Quilter, and within this water is a key issue. Natural capital can be defined as the stock of renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits and ecosystem services to society.[5]

Engagement

While water is vital to all industries, the risk it poses varies significantly across them. According to our research and analysis, based on the materiality of their exposure it, food, beverage and tobacco companies face the greatest potential impact, so our engagement programme focused there.

We selected this industry group not only because of its significant direct water usage, but also its close links to the agricultural industry. Agriculture has the biggest water footprint of any sector, making it the world's largest driver by far of consumption, pollution, and other water-related impacts.[6]

Detailed data on corporate water usage are not systematically disclosed. The richest source of water information available to investors is produced by CDP, an NGO that collects data on disclosed usage. We used the CDP Water Scorecards (based on levels of disclosures and published policies) and reported annual water consumption to identify companies with the highest potential water risk.

This engagement programme was aimed at collating information, with the primary outcome to understand how investee companies are managing and potentially mitigating these risks. We also wanted to use the information gathered from these conversations to form an assessment of what best practice looks like.

Water risk engagement – target companies

Associated British Foods plc
Coca-Cola
DIAGEO
Fever-Tree
KERRY
Mondelēz International
Nestlé
PEPSICO
Pernod Ricard

We were unable to engage directly with Coca-Cola Company and Nestlé.

Key findings from our conversations:

- **Our investee companies score well against external water benchmarks.** Based upon our engagement programme, most of our centrally monitored holdings in the food, beverage and tobacco industry group have a high level of disclosure and perform well against the CDP framework. The notable exception is AIM-listed Fever Tree, which is the only company in our target list that had not disclosed its water data to the CDP. Four out of nine of the companies engaged score A- or above according to CDP. However, there are clear leaders amongst this group as well as water risk management gaps.
- **Most companies do not place an internal price on water.** We found that water risk management is not as well established as climate risk management within most corporate environments. Several companies roll their water strategy into their climate risk strategy, and we regularly discovered companies describing investor and consumer interest in water as 'secondary'. Few companies with which engaged highlighted any experience of significant operational or supply chain disruptions related to water risks, and while many expect this to change in the future, few have explicit plans to move operations or switch suppliers. Pay-offs from improved performance came through enhanced community relations, local legal compliance and operational resilience, rather than the kinds of financial incentives we are beginning to see with decarbonisation strategies. It is also important to note that water stewardship also lacks global legal frameworks and benchmarks seen in efforts to combat climate change.
- **Best practice water stewards aim to be net positive water users.** In terms of benchmarking best practice, high performing companies (notably Diageo, Coca-Cola Company and PepsiCo) aim to be "net-positive" users in water stressed areas. They look to replenish more water than they use in operations by actively contributing to improving performance and resilience of the basin in which a facility is situated. Water risk is locally specific, but these measures could include restoring peatlands or replanting native forests to improve retention. This target is directly linked to participation in the Alliance for Water Stewardship[7] (a standard setting body) and uses a 'volumetric water' accounting standard to measure success. This is best practice and sets the benchmark for other companies.
- **Geospatial mapping is an important tool.** A common tool used by most companies with which we engaged is geospatial mapping to identify operations in water stressed areas. Again, most companies use the free-to-use World Resource Institute 'Aqueduct' tool[8]. This tool can be used to identify potentially water stressed operations and target them for additional analysis or support. More advanced companies, like Diageo, use these tools to begin to assess supply chains in stressed areas (where most water risk lies), but this work is nascent and often not accompanied by formal targets.
- **Collaboration on water basin management is essential.** As highlighted by the standards set by the Alliance for Water Stewardship, best practice frameworks involve industry and stakeholder collaboration. This also extends to regional actions. High performers demonstrated local and national government interaction to improve water basin performance. Working alone means that if other users are not demonstrating good stewardship this will nullify water risk mitigation efforts and can negatively impact facility performance.
- **Most water risk sits in supply chains which are less well managed.** Given this industry group's dependency on agricultural inputs, some 80-90% of water risk sits within its supply chains. Based on our engagement, this risk is not well managed. Advanced practitioners like Diageo and PepsiCo had programs in place to work with farmers to measure water practices where a direct relationship exists, either through contracts or operations through aggregators and cooperatives. This involved moving towards drip fed irrigation and complementary planting methods to retain soil moisture. Where commodity inputs were purchased through third parties, most companies admitted it was very difficult to have visibility on water risk. Where companies use contract manufacturers or franchise models, we saw some efforts to implement a base level of water practice, but this is often educational rather than likely to impact the renewal of partnership agreements. Outside of the advanced practitioners mentioned above, companies often focus on external manufacturers' water risk as a legal issue, concentrating on meeting minimum local legal requirements.

Conclusion

Globally, areas of water stress are growing. From a top-down level, the starting point for monitoring water risk is understanding direct exposure to what may result in stressing this valuable and vital resource. Most of the companies with which we engaged have used geospatial mapping for several years to understand this exposure. Companies like Mondelez, Diageo and PepsiCo use this assessment to target capital expenditure on water efficiency, predominantly through wastewater use. More advanced practitioners are beginning to apply water stress analysis to suppliers and commodity inputs.

Most water risk sits in supply chains, and this is an area where all companies need to make progress. It is very much dependent on the business model, but we would welcome better cooperation with commodity input partners. Companies with more varied product ranges and greater use of third-party manufacturers struggled to demonstrate a significant degree of visibility or agency around supply chain water risk.

The best performing companies are often the most transparent and we are pleased to say that eight out the nine companies with which we engaged, report against the CDP water framework. A common factor among the companies with detailed water risk planning was membership of the Alliance for Water Stewardship. This is something we would encourage companies to join or align with. The organisation provides a framework that encourages companies to think about water risk at the catchment level. Its water replenishment target methodology – adopted by Diageo, PepsiCo, Coca-Cola Co. and Nestlé – commits companies to adding more water back to the basin than is used by operations. As mentioned above, this is achieved through a series of measures to improve catchment resilience. This encourages collaboration at a water basin level, which is an essential component of best practice.

Unlike more established engagement issues, where we have tracked progress over a number of years, this is the first time we have spoken specifically to investee companies in the food and beverage industry on water risk. Most companies admitted it is not a topic they discuss often with investors, but they recognise the risk is growing in importance. Two companies provided no response: Coca-Cola Company and Nestlé.

Our main aim from these conversations was to benchmark our companies and establish what good water risk management looks like. This is an important platform for future discussions on natural capital stewardship and we will continue monitor company progress against best practice expectations.

INVESTMENT TRUST COLLABORATIVE ENGAGEMENT

Overview

There are fundamental differences between an investment trust and an open-ended fund. When we invest in an investment trust, we become the shareholders of the company and, as such, our expectations for the governance of that company are much higher than they would be for an open-ended fund. An investment trust is a listed company, and like other listed companies, it has a board of directors whose job is to make sure that the investment advisor (manager) is acting in the best interest of the shareholders. The manager is appointed by the board to run the day-to-day operation of the investment trust.

When we look at the disclosures of an investment trust through a responsible investment lens, our focus is not just about how the manager approaches responsible investment; we want to understand how the board is managing ESG risks and opportunities within the investment trust itself. Additionally, we are keen to see responsible investment related disclosure and reporting at the investment trust level rather than at the firm level.

With regards to board composition, our expectation is that it must be independent and diverse. We do not believe it is acceptable for an investment trust to have a board member that has been appointed or is employed by the manager. The board function is to represent the shareholders and act in their best interest. It is our view that a board member appointed by the manager is an unnecessary potential conflict of interest. The manager is employed by the board, and anything impeding the independence of the board is detrimental to the shareholder's interest.

When it comes to responsible investment related disclosures, we expect disclosures that are pertinent to the investment trust and its holdings. At a minimum, we want the trust to disclose how it has voted on its holdings (when applicable) and the rationale behind some of the most significant votes. We want to see an example of how the manager has engaged with the holdings as well as clear examples of ESG integration. It is also good practice to report on the board's role in managing these ESG-related risks.

We believe that there is a gap between the disclosure of investment trusts and other listed companies and financial organisations. Quilter Cheviot and Quilter Investors are significant owners of investment trusts and therefore we believe that we are in a good position to influence better responsible investment practices and disclosure.

In summary, **the objective of this engagement** is to influence better responsible investment practices amongst the investment trusts, particularly in two aspects:

- **Board composition**: We expect boards to be optimised to defend the interest of shareholders and to avoid structures that hinder this, such as non-independent directors that represent the investment advisor. We expect boards to be diverse and to work towards the Hampton-Alexander and Parker Review targets.
- **Disclosure**: We believe investment trusts have the responsibility to disclose their stewardship activities independently from those of their investment advisors. We believe that it is best practice for an investment trust to disclose their voting records (where applicable) as well as engagement, and ESG integration. This means that we, as the investors, can assess and understand how responsible investment is being applied within the trust.

Prioritisation

We aim to eventually engage with all our investment trust positions. Where Quilter Cheviot and Quilter Investors are invested in the same trusts, we will look to collaborate on the engagements, as recommended by the UK Stewardship Code and the UN backed PRI, to push for better responsible investment practices. However, we acknowledge that the clients of the two businesses are different and do not necessarily have the same objectives. Therefore, if there were to be any escalation of decisions, those would be taken independently of each other. The responsible investment teams within Quilter Cheviot and Quilter Investors will work in conjunction to ensure a unified approach within the two businesses within the engagement process. During the engagement, we will meet with the boards of the investment trusts held within Quilter Investors and within the centrally monitored universe within Quilter Cheviot; we will also undertake separate engagements with some of the investment houses that manage the trusts.

Firstly, we have prioritised those classified as equity or specialist sectors. This includes a selection of 41 investment trusts which we have grouped by manager. The second prioritisation will be a focus on those investment trusts which are managed by the same investment firm.

One aspect that we have identified during the preliminary research is that the level of disclosure tends to be linked to the manager. Therefore, where we identify common issues or areas of improvement amongst funds that are managed by the same manager, we will look to engage with the firm.

Escalation

The objective is to influence investment trust and managers to adopt best practice regarding responsible investment. We will identify the investment trusts where we have concerns and will communicate our expectations. Because many of the disclosures are made on an annual basis, we will monitor the progress of these companies during a two-year period. Further dialogue will be conducted where insufficient progress has been made. Additionally, we will continue with our regular engagements where there has been a material change such a new chair, a change in strategy or where there is a contentious voting item. Where material concerns have not been addressed after this follow-up engagement, we will consider using voting rights to express formal disapproval (either by voting against the chair of board/non-executive director with specific responsible investment related responsibilities or equivalent).

Where we have identified boards that have manager representation, we will engage with them and set specific escalation plans which will involve:

1) Voting against the manager's representatives

2) Voting against the chair

Current position

This is a long-term engagement programme which we started in May 2022, and in August 2022 we formalised the collaboration with Quilter Investors. So far, we have completed engagements with 25 investment trust's boards and have had an initial conversation with the Association of Investment Companies. We are aiming to have the first round of engagements finalised by the end of 2023. The key reporting mechanism is usually the annual report so unless there are any immediate concerns, we will look to follow up every 18 to 24 months with the trust. For the companies where we have identified greater concerns, we would increase the frequency of engagements or begin escalation techniques.

ANNUAL VOTING STATISTICS

In 2022 we voted at:

477 COMPANY MEETINGS

Over the year we voted on:

7,311 RESOLUTIONS

for 236 resolutions we voted against management

This includes 109 shareholder proposals that we supported

We enabled clients to instruct votes at 72 meetings.

It is important to note that on a number of occasions having engaged with the relevant company we did not follow ISS' recommendations.

MANAGEMENT RESOLUTIONS VOTED IN 2022

(excluding shareholder proposals)

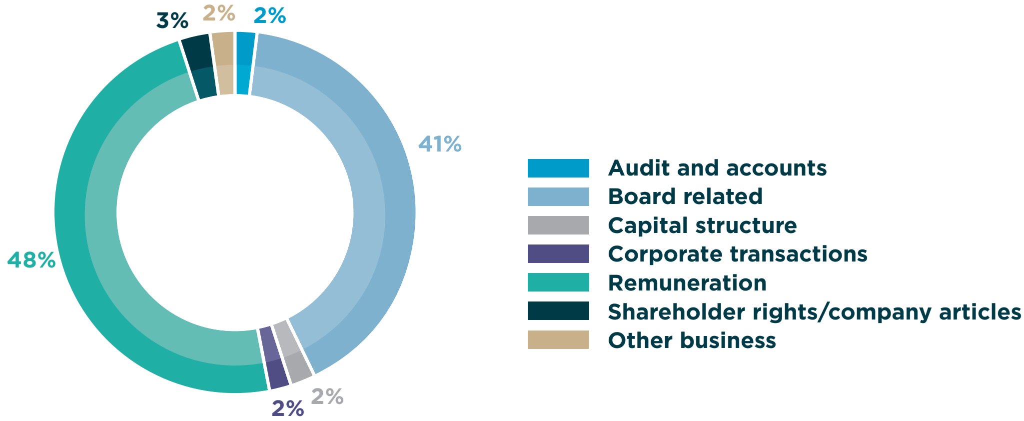
MEETINGS WITH VOTES AGAINST MANAGEMENT IN 2022

(including shareholder proposals)

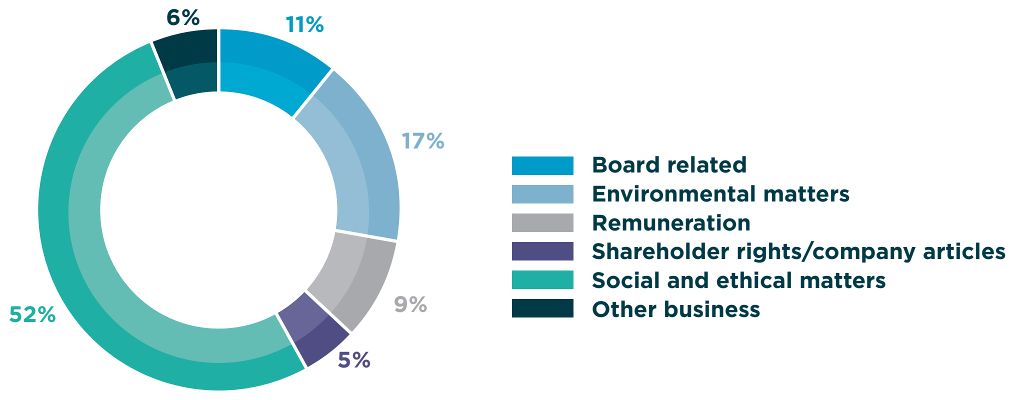
In 2022, Quilter Cheviot voted in line with management at 383 meetings – that is 80% of all resolutions. We voted against management on at least one resolution at 93 meetings (20% of all resolutions last year).

VOTES AGAINST MANAGEMENT IN 2022

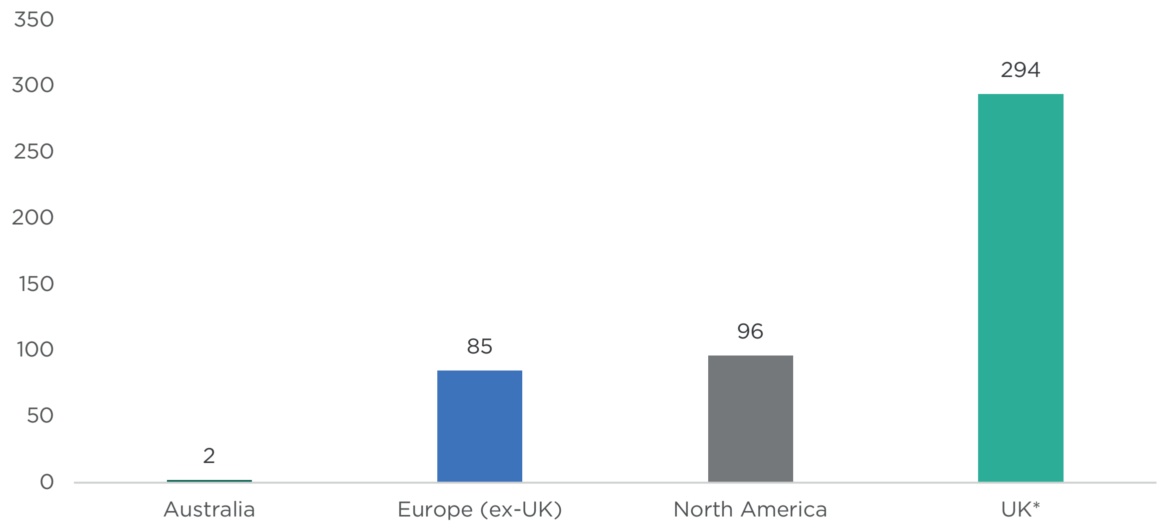
(excluding shareholder proposals)



SHAREHOLDER PROPOSALS SUPPORTED IN 2022



MEETINGS VOTED IN EACH GEOGRAPHY IN 2022



* Includes the Crown Dependencies of Jersey and Guernsey

2022 VOTING

Here are the key voting issues during 2022 across the UK, US, Europe and Australia:

54*x votes against electing / re-electing director

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)

**Withheld and abstain votes have been included within votes against figures.*

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

18x votes supporting management in approving climate-related disclosures and plans

We supported climate disclosures where a company demonstrated ongoing commitments to advisory votes and to net zero progress and associated targets, and where a company's disclosures adhere to TCFD standards.

Companies voted on were: Anglo American, Aviva, Barclays, BP, Centrica, London Stock Exchange, M&G, National Grid, NatWest, Pennon, Repsol, Rio Tinto (x2), Royal Dutch Shell, SSE, Standard Chartered, TotalEnergies, United Utilities

We voted in favour of the following shareholder resolutions:

Environmental

10x votes in favour of reporting on climate change/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

4x votes in favour of reporting on environmental due diligence

We agreed that shareholders would benefit from increased disclosure on how companies are addressing and managing supply chain activities in areas such as water risk exposure and deforestation.

Companies voted on were: Alphabet, Honeywell, Tesla, The Home Depot

Social

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

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

6x votes in favour of reporting on drug pricing and distribution

We supported calls for additional risk oversight where companies faced controversies over anti-competitive practices. This additional information assists shareholders to assess how companies are managing these risks.

Companies voted on were Eli Lilly, Gilead Sciences, Johnson & Johnson, Merck & Co, Pfizer (x2)

4x votes in favour of gender pay gap reporting

We supported proposals where shareholders would benefit from knowing the median pay gap statistics to improve transparency on this issue.

Companies voted on were: Amazon.com, Apple (x2), The Walt Disney Company

3x votes in favour of improving human rights standards and/or policies

We supported calls for companies to report on forced labour practices and respecting indigenous peoples' rights. Increased transparency on supply chain policies and processes in these areas could help alleviate growing risks related to manufacturing in certain regions.

Companies voted on were: Amazon.com, Apple, The Walt Disney Company

Governance

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

3x votes in favour of a report on board oversight of risks related to anti-competitive practices

We supported these resolutions at healthcare companies given their previous involvement in related activities.

Companies voted on were: Eli Lily, Pfizer, Gilead Sciences

3x votes in favour of submitting severance agreements to shareholder vote

In instances where severance amounts exceeded market norms, we supported shareholders having the ability to vote.

Companies voted on were: General Electric, Colgate-Palmolive, Verizon

Other voting activity:

23x votes to support management and the current arrangements on the ability to call a special meeting (against special resolution)

There were several shareholder resolutions putting forward proposals to reduce ownership thresholds for shareholders to call a special meeting. We believe a lower threshold is not necessarily aligned with long-term shareholder interests. This is because a single shareholder would be able to reach the proposed threshold, which could lead to increased expenditure of company costs and resources. Furthermore, where such resolutions propose a lower holding time requirement, it could lead to short-termism.

Companies voted on were: American International Group, Baxter, BorgWarner, Bristol-Myers Squibb (x2), Caterpillar, Chevron, ConocoPhillips, Danaher, Ecolab, Gilead Science, Honeywell, Intel, JPMorgan Chase, McDonald's (x2), Newell Brands, Sonoco Products, Texas Instruments, The Boeing Company, The Home Depot (x2), United Rentals

15x votes in support of management and current GHG emissions / climate change reporting (against shareholder resolution)

We supported several of these resolutions, which we assessed on a company-specific basis. For these resolutions, we took the view that the companies had already addressed these issues or that the resolution was unrealistic.

Companies voted on were: Amazon.com, Bank of America, BHP (x2), BP, Chevron (x2), Exxon Mobil, JPMorgan Chase (x2), Microsoft, Royal Dutch Shell, Tesla, The Goldman Sachs, Wells Fargo

5x votes supporting management and the current board diversity reporting (against shareholder resolution)

In these cases, the companies were disclosing their board diversity or were demonstrating commitment to a diversified board. Furthermore, we took the view that the companies were meeting or exceeding peer reporting on this issue.

Companies voted on were Alphabet, NextEra Energy, Tesla, The Home Depot, Wells Fargo

ENGAGEMENT IN 2022

Below we have outlined examples of our engagement during each quarter of 2022. In line with the Shareholder Rights Directive II (SRD II) disclosure regulations we have, in the majority of cases, included the name of the company or fund. In some cases we will not, as this would be unhelpful in the long-term to the ongoing engagement process.

Aberforth Smaller Companies Trust – Governance

Objective: This was our first engagement with the board as part of our overall investment trust thematic engagement. We covered next year's continuation vote, fees and discount strategy.

We have previously met with the chair and the manager, the focus was on the evolution of the investment adviser's proprietary ESG integration tools, as well as its stewardship activities, including voting and engagement. Our preference is for this information to be in the annual report, and therefore accessible to all investors. The chair also spoke about board composition and marketing of the trust.

Outcome: While the board was very receptive to our comments, currently, its work is not properly reflected in its responsible investment disclosures. The chair explained that enhanced disclosure is being added to the 2022 annual report, we look forward to reviewing it.

Alliance Trust – Governance

Objective: This engagement was part of our overall investment trust thematic engagement.

The chair introduced the trust's approach to responsible investment. It uses a multi-manager approach in which a lead manager appoints "stock-pickers", a term the trust uses to refer to the underlying funds. As part of its quarterly meeting, the board receives a report from the lead manager outlining the responsible investment performance of the stock-pickers. This includes, amongst other things, a review of their voting and engagement.

The board has also retained the EOS team at Federated Hermes to engage with underlying investee companies on ESG factors, as well as to provide voting recommendations for the stock-pickers. However, the stock- pickers are not obliged to follow EOS's recommendations. The trust has had four new directors in the last two years as part of the board renewal, which means it will temporarily consist of eight directors, as the chair is keen to oversee a smooth transition.

Outcome: This was a helpful meeting to understand the current situation of the trust. The disclosures are of a good quality, but they could be enhanced by including voting rationale. Additionally, its website is user-friendly for a retail consumer. Finally, we believe there is a solid succession plan in place.

Apple – Governance

Objective: To raise concerns related to transparency issues highlighted by several shareholder resolutions put forward at the 2022 AGM.

After receiving no response from the company, we voted in favour (against management) of four shareholder resolutions related to approving transparency reporting, reporting on forced labour, reporting on the median/racial pay gap, reporting a civil rights audit and reporting on concealment clauses. We are comfortable with the rationale on all these items, which cover a range of material ESG issues and will improve company reporting and transparency.

Despite concerns raised by our proxy advisor (ISS) over CEO compensation, we supported management on this item. We are comfortable with the amount awarded and have reached out to the company expressing a desire to see a timeline line stated on future equity grants. We would also have an opportunity to vote on future awards.

Outcome: We voted against management on four shareholder resolutions to improve transparency and voted to support management on CEO compensation.

Aptiv – Governance

Objective: To discuss concerns around executive pay and to seek more information on the supply chain management processes.

This was a high-level engagement on supply chains and remuneration. A more detailed conversation will be needed and we look forward to receiving more specific information on supply chain management auditing. Detail on supply chain management was light, although the company does audit any new supplier. This process includes an auditing of ESG risks and use of third-party data providers to assess suppliers.

We also raised concerns that the CEO pay ratio to the median employee is one of the highest in the S&P 500. The company reports that since 2018, CEO pay has increased by 4% relative to a 37% increase for the wider workforce. A significant amount of the company's workforce is based in Mexico where median salaries are lower. Given the material shareholder opposition to the CEO salary at the previous AGM, we encouraged the company to provide more information on how they are addressing this disparity and considerations around the living wage levels in Mexico.

Outcome: This was a high-level preliminary conversation on supply chains and remuneration, therefore a further detailed conversation is required. We look forward to receiving more specific information on supply chain management auditing.

Ashtead Group – Governance

Objective: To further clarify the remuneration policy and the re-election of the chair of the remuneration committee. Our proxy voting service provider (ISS) recommended voting against the remuneration report and the re-election of the chair of the remuneration committee. The latter recommendation is based on the view that the board's has not engaged with shareholders on concerns over the remuneration policy. We contacted the company, and we feel that the board has taken reasonable steps to engage with the company following dissent and address shareholder concerns. As an example, it engaged with over 50% of its shareholder register following the vote against.

Outcome: As there are no significant concerns regarding the remuneration package, we will be supporting management on both items.

Aspect Diversified Trends Fund – Governance

Objective: To discuss ratification of auditors and change in accounting standards.

Our proxy advisor recommended voting against the ratification of new auditors and the approval of a change in accounting standards owing to a lack of company explanation to justify the changes. We contacted the company for further information. A change in auditor is considered in line with best practice as the previous auditor had been used for several years. Management also considers the change of accounting standards (to US GAAP) to be better aligned with investors and common among the peer group.

Outcome: We are comfortable with the rationale provided and voting to support management on all items.

Associated British Foods – Environmental

Objective: We spoke to Associated British Foods (ABF) as part of our thematic engagement on water. This was part of our thematic engagement on water risk with companies in the food & beverage industries. ABF is a water- intensive company with significant operations in agriculture, a water-intensive sector. The aim of the discussion was to learn more about how the company is managing and mitigating water risk, allowing us to set a benchmark for future discussions. ABF discloses to CDP on water risk and has water targets in place.

As a business, ABF is dependent on water-intensive commodities and operates in water-stressed areas. These factors combined increase the materiality of water risk. The company's water risk management process is a bottom-up approach, relying on underlying operating companies to identify risks and manage them. This decentralised model covers companies of varying size and resource, and individual companies will be at different stages of their sustainability strategy. Although the company has created a forum to share best practice, it may benefit from more centralised water efficiency, and quality minimum standards and targets, but the variation of company activities would make this a complex exercise. Primark has recently hired a water expert, which is a useful step to broaden its approach to water risk in its operation and supply chain beyond their more established cotton-sourcing strategy.

Outcome: Water management efforts seem piecemeal across ABF and reliant on the management strategies of underlying companies. Top-down attention focuses more on meeting local legal minimum requirements.

AstraZeneca – Social

Objective: From our centrally monitored universe, we identified the companies that had more advanced family leave polices (where polices extend beyond statuary regulations), with the aim of gaining additional information on areas such as shared parental leave and flexible working.

AstraZeneca currently provides a maternity leave of 26 weeks of full pay, and six weeks of full pay for paternity leave. This benefit also covers adoption, and it is applicable from the first day of employment.

Family leave must fit into the wider inclusion strategy. To do so, it must allow for financial wellness and equitable reward. Additionally, it was important to ensure that the adoption was included in the policy.

Different countries have different statuary leave policies. However, when AstraZeneca is looking at the policies it offers in each region, it benchmarks based on what is best practice globally rather than on what is best practice in the country.

Benefits, including family leave, are part of the employee value proposition. If AstraZeneca wants to attract a diverse talent, having adequate family leave is essential. However, this is also important from a reputational perspective.

Two thirds of the staff are based in laboratories, which makes it difficult from a flexible working proposition. One third of the company is office based, and for these employees there is a flexible schedule which allows them to work two days per week in the office, as the company believes in the benefit of collaborative working.

When employees take leave, the method for distributing the workload is up to the manager. Usually, the vacancies are covered by contractors, but internal moves are also used.

There are currently no plans to increase the length of leave. However, AstraZeneca is looking into how to make the transition back from family leave easier for employees. Upon the return of employees from family leave, they are asked to fill in a survey to describe their leave experience and this feedback is essential to understand where the process can be improved.

Outcome: AstraZeneca is thinking about how to improve the experience of employees going on family leave. Whilst having a sufficiently long leave is important, having the right structures in place so that employees can confidently return to the workforce is also key. Additionally, employees would benefit from their line managers being trained on the process of family leave, as this will give them the tools to help their employees.

Aviva – Social

Objective: From our centrally monitored universe we have identified companies that have relatively advanced paternity leave polices, where polices extend beyond statuary regulations. We aim to gain additional information on areas such as shared parental leave and flexible working.

Aviva's family leave policy has been in place for four years and is now considered part of the brand. The policy allows for twelve months off, with the first six months keeping the same pay and benefits. The policy applies to both partners, irrespective of gender, and includes birth, adoption and surrogacy. Additionally, there is no requirement for partners to share the parental leave.

Family leave is a very popular benefit. Aviva's workforce has an even split of men and women, and the policy has been taken by over 2,500 people – of which almost half were men. However, there is a difference in the time taken. The average time taken by men is six months; women take an average of 12.

There is a clear cost implication when the company must backfill jobs, however, there is not a direct correlation.

For example, when 200 employees are off, that does not automatically translate to 200 extra salaries, and only a minority of maternity covers are backfilled externally. A positive side of parental leave cover is that it allows for internal development opportunities, by exposing employees to experiences and learnings that they might not otherwise had.

Another focus has been in giving employees information on what they might expect from the policy and scheduling a return-to-work plan. Line managers are also invited to learn about the process in dedicated sessions.

The company plans to expand this policy to Ireland, where the current leave package for parents is two weeks. When finalised, the introduction of this policy will clearly stand out as best practice.

There are no plans to change the benefits within the family leave policy in the UK, but the company will be looking at facilitating the back-to-work process for employees returning from extended leaves.

Outcome: Aviva is a leader in this area and was amongst the first companies offering equal parent benefits. This policy has benefited the company's reputation as a responsible employer, which has become part of its brand. The cost of the policy on the business is mitigated due to limited external backfilling.

Baillie Gifford Japan Trust – Governance

Objective: This engagement was part of our overall investment trust thematic engagement. This was our first meeting with the recently appointed chair.

We spoke with the chair about disclosures in the annual report. He is very keen to make the document useful to investors and is aware it is already quite long. We are open to the idea of a shorter report but communicated what disclosures would be helpful to us. The chair shared the plans for board succession and timelines for recruiting a fifth director.

Outcome: The call was helpful to understand the plans for the future of the trust. We had a productive dialogue on the current trust Governance and communicated our preferences for the disclosure of stewardship activities. We look forward to continued engagement.

Baillie Gifford US Growth Trust – Governance

Objective: This engagement was part of our overall investment trust thematic engagement.

We had a productive discussion on board oversight of the investment adviser, as well as communicating our expectation for responsible investment disclosures. The chair explained his views on board composition and general Governance of the trust. Finally, we discussed the trust benchmarking and the board's position on private equity.

Outcome: We welcome the receptiveness of the board to our suggestions. We look forward to reviewing the trust's TCFD report in next year's disclosures.

BB Healthcare – Governance

Objective: we have engaged with the board of the Trust and the manager on numerous occasions since 2019 urging them to provide full disclosure of the underlying holdings of the portfolio.

There have been various reasons given over the last three years as to why this is an issue for the Trust - notably the concern that other investors might replicate the strategy. We have argued that this is not a material issue and that all shareholders should have access (which is best practice) to the underlying holdings of this equity strategy.

Outcome: The trust has disclosed the full holdings information for the first time in the half-year report as a result of our engagement process.

BHP – Environmental

Objective: We continued our thematic engagement on climate-transition plans and disclosures with the largest emitters in the voting universe (scope 1 and scope 2 emissions). The first phase is engagement for information to get a better understanding of the quality of transitions plans and whether companies are taking (or not taking) appropriate measures to align with a future lower-carbon economy.

BHP's exposure to metallurgical coal and legacy oil/thermal coal assets makes the decarbonisation trajectory more complicated than peers like Rio Tinto. That said, in terms of target setting, BHP has not been as ambitious and does not appear to have committed as much capital expenditure to the decarbonisation strategy. Plans/expenditure on coal mine extension and expansion do not appear consistent with a net-zero trajectory, despite stating this as a goal. Similarly to peers, Scope 3 emissions from Chinese steelmakers present a challenge and there are individual projects ongoing to reduce the carbon intensity of clients. Further engagement may be needed to fully establish the scope and impact of these projects. The specific commitments to reduce emissions in shipping is a welcome level of detail in an area where BHP can exercise more agency. This is a solid framework, but overall the ambition seems to fall behind peers.

Outcome: This was an initial engagement to establish an opinion on transition plans. We would like to see further progress on Scope 3 emissions target setting and alignment of capital expenditure with a net-zero trajectory. Ongoing dialogue will be required.

Boohoo Group – Governance

Objective: To raise concerns related to approving the remuneration report, new Long-Term Incentive Plan (LTIP) and re-election of the board chair and the chair of Remuneration Committee at the 2022 AGM.

We engaged with the company on the above issues. In relation to the chair re-election, we recognise the actions taken in response to the supply chain issues identified, including the completion of the Agenda for Chain transformation programme. An initiative introduced to improve the Governance and the quality of supply chain management following a scandal in 2020. This process was externally verified by Sir Brian Leveson and KPMG.

We discussed the proposed remuneration policy with the company. While we understand that the bonus potential is on the higher side of the market, it is still broadly in line with peers. This is balanced by positive changes, particularly, with the integration of meaningful ESG metrics within the remuneration policy. However, we do not support the actions of the remuneration committee regarding the adjustments made to the annual bonus.

Outcome: We voted against the remuneration report as we do not see a compelling rationale for the discretionary adjustment to bonus metrics, especially in the context of poor shareholder returns. Further, we are opposed to the increase in the CEO bonus to 200% of salary, which is a significant amount for a company of Boohoo's size.

BP – Environmental

Objective: We continued our thematic engagement on climate-transition plans and disclosures with the largest emitters in the voting universe (scope 1 and scope 2 emissions). The first phase is engagement for information to get a better understanding of the quality of transitions plans and whether companies are taking (or not taking) appropriate measures to align with a future lower-carbon economy.

BP has outlined a transformative strategy to become an integrated energy company, punctuated by significant capital expenditure commitments to low-carbon solutions. This is a welcome move towards significant absolute emissions reduction in the short and medium term, and a move away from carbon-intensity targets used in less credible plans. With this, BP is effectively the first major oil company to acknowledge that oil and gas production will most likely need to be reduced in the short to medium term for the world to reach the Paris Agreement goals. One concern is the continuing sanctioning of high-cost projects that do not fit within a lower-demand pathway and hence run a heightened risk of destroying value in a decarbonising world. Net-zero considerations (and ten pay-back) periods are being built into new project plans.

Outcome: This was an engagement for information. We used this preliminary conversation to establish an opinion on the quality of BP's transition planning. We will continue to monitor progress towards aims and to encourage more detail to be disclosed on how Scope 3 emissions will be addressed.

Britvic – Governance

Objective: To raise concerns over the amendment to in-flight performance targets within executive remuneration.

In the run up to the 2022 AGM, the remuneration committee exercised discretion to amend the performance targets applicable to a portion of the in-flight awards made under the 2018 Long-Term Incentive Plan (LTIP) which were not scheduled to vest. Any amendment to in-flight performance targets is not considered best practice.

We engaged with the company and were comfortable with the board's rationale and use of discretion. In 2020, no short-term bonus was paid and there was no vesting of share options. Given the impact of Covid-19, instead of resetting targets, the RemCo agreed that 'gateway' measures must be met before deciding on applying any discretion. The company made no use of UK government support during the pandemic.

Outcome: Based on our conversation, we voted to support management.

Britvic – Environmental

Objective: To receive an update on the sustainability approach through a small shareholder group meeting.

The company gave an overview of the sustainability strategy and how the board has been involved in the agenda. In terms of general highlights, ESG metrics are now embedded into executive remuneration packages, comprising 20% of bonuses linked to the sustainability strategy. More specifically, some of the metrics cover increasing use of recycled packaging and reducing calories per serving. The company has had science-based targets (SBTs) related to carbon emissions since 2019 and has reduced its overall emissions profile (Scope 1 and Scope 2) by 29% since then.

Outcome: A useful catch-up meeting, which gave us a clearer picture of the company's sustainability strategy.

Compass Group – Governance

Objective: To raise concerns related to the proposed increase in the LTIP opportunity maximum, prior to the 2022 AGM.

The new remuneration policy looked to increase LTIP from 300% to 400% of salary for the CEO, and from 250% to 350% of salary for other executive directors. The company justified the proposed increase based on talent retention, peer benchmarking and the introduction of increasingly stretching targets relative to the 2019 policy. Total compensation will remain below market peer median following the increase.

Outcome: Based on our conversation, we agreed with the proposed rationale and voted to support management.

Diageo – Environmental

Objective: As part of our thematic engagement on water, we spoke to Diageo, a water-intensive company which scores an 'A' as part of the CDP Water disclosure framework and therefore a useful benchmark for future discussions in the target industry group.

Diageo focuses on its water stressed sites and takes a multi-faceted approach to ensuring regional water resilience in the areas in which they operate. Investment in wastewater processing is combined with water catchment-level projects, community outreach and political advocacy. The company adheres to best practice external reporting and standards on water stewardship (including WRI and CDP) and has an appropriate focus on supply chain water practices, which makes up most of its water 'footprint'.

Outcome: This was a positive conversation, which helped us to better understand Diageo's relatively comprehensive water risk management strategy. The company's water management process is integrated into its overall climate strategy, with water risk being the biggest climate change risk.

DS Smith – Environmental

Objective: As part of our thematic engagement on water risk management, we spoke to DS Smith, a global packaging company.

We spoke to the company on its management of water risk, and how it falls within the company's risk matrix. The company explained the paper mills' water usage, the efficiency measures it has in place, and how it uses geospatial mapping to locate the facilities in water stressed areas. Finally, we discussed the water usage reduction targets in place.

Outcome: The company has a best-in-class approach to publicly disclosing water risk and is making good progress to towards water reduction targets. An area for further monitoring is the link between board/group awareness of water risk and facility-level performance.

Water risk management and mitigation strategies appear to sit at a facility level. While this is perhaps understandable, it is not clear how the plans are driven or coordinated at group level. Given the company's dependence on fresh water and a material number of facilities operating in water-stressed areas, an acceleration in targets towards wastewater processing and usage would be welcome to increase operational resilience. Further, it is unclear how expensive water risk mitigation efforts are or could be. More information on this would be welcome.

Water risk is an issue that is not typically well disclosed by companies, but DS Smith is more transparent than most. The company is aware of the size of operations in water-stressed areas and are rolling out water mitigation plans to all relevant facilities.

DS Smith – Governance

Objective: To participate in the DS Smith consultation on the changes to the remuneration policy, which will be put up for shareholder approval at the 2023 AGM. We reached out to the Head of Rewards seeking clarification on the policy details.

Outcome: We received a prompt response with additional information. After discussing it with the relevant analyst, we found the rationale to be compelling. We communicated our support to the company.

EDPR – Governance

Objective: To raise concerns over the level of equity issuance and level of issuance excluding pre-emptive rights, prior to the 2022 AGM.

We asked the company for more detail on the rationale and reaction to the ISS recommendation. In summary, EDPR considers its approach to share issuance as reasonable and in accordance with market practice in Spain under the Spanish Companies Act. We understand the issuance request is common practice among listed companies in Spain, but we have determined to follow our internal view on share issuance.

Outcome: We voted against management on the item related to equity issuance.

Electronic Arts – Governance

Objective: To discuss a shareholder resolution proposing that any severance or termination payments over a certain quantum would require shareholder approval.

We spoke with the company to understand Electronic Arts' concerns. Overall, the board considers the proposal too prescriptive and impractical as it would implement a shareholder approval process on severance pay packages. The current double trigger policy provides those ranked as senior vice presidents and above with payments and benefits if their employment is terminated without "cause" or if they resign for "good reason" during the three-month period preceding or 18-month period following a change in control of the company. Electronic Arts explained that this is common amongst its competitors, and it considers it a necessity to ensure it can hire and retain the best talent. It was highlighted that the board has been responsive to previous shareholder concerns regarding say on pay issues, recently reducing overall executive pay significantly and changing the long-term incentive plan.

Outcome: We supported management given that this is the norm within its industry peer group.

Fever-Tree – Environmental

Objective: Fever-Tree is the only AIM-listed company that is part of the water thematic engagement. As such, our expectations for the granularity of disclosures are different than for the larger companies we have spoken to. Fever-Tree is the only company in this engagement that does not report to the CDP on water risk. Additionally, it operates an outsourcing business model, which means most of its water footprint is not under its direct operations.

Fever-Tree's business model means that no significant water risk sits within its direct operations. The core of the company's water strategy involves collaborating with partners and third parties to mitigate its indirect water risk. Fever-Tree is monitoring the water usage trends of its partners over time. For the ingredient suppliers, it has implemented a three-way auditing system to assess the quality of their operations. By outsourcing its manufacturing, Fever-Tree has translated its water risks from direct operation to its supply chain. Potentially, this reduces visibility, and even control, of water use attributed to its products. It is critical that Fever-Tree has a good supply chain risk management system in place. Indeed, from a broader sustainability perspective, it appears to be putting efforts into this, having recently hired a sustainability manager.

Outcome: The company has taken measures to address its water risk but there is scope to make further progress. However, we appreciate that there are resource constraints due to the size of the company and its business model. Currently, Fever-Tree does not report to the CDP on water risk and its water-related disclosures are minimal.

Fidelity China Special Situations – Governance

Objective: This engagement was part of our overall investment trust thematic engagement.

Main topics of discussion included succession planning, director shareholdings and stewardship disclosures. The current chair is stepping down after 12 years on the board, to be replaced by the current chair of audit committee. The chair reiterated the current stance that all directors should have shareholdings in the trust. We told the company that our expectation is for investment trusts to disclose voting records as well as more detail about the ESG integration pertinent to the trust.

Outcome: The meeting was useful to understand the current position of the trust. We are happy with the current composition of the board and the upcoming chair. We also used the meeting to communicate to the board where we think that the disclosure could be improved.

Fidelity European Trust – Governance

Objective: This engagement was part of our overall investment trust thematic engagement.

The chair spoke about the trust's ESG integration process, as well as disclosure of stewardship activities. We discussed thematic engagement with Nestlé, which is the trust's largest holding. While we think this a useful example, we also encouraged the board to include explanations of voting rationales, as well as voting at a trust level.

Diversity has been considered, as well as marketing experience, with its newest board hire. The chair prefers directors to own shares in the trust, yet he does not want to impose that opinion onto any of them. Currently one of the five directors do not own any shares.

Outcome: This was a useful meeting to further understand the plans for the trust. We are keen to see voting disclosure at the trust level, as well as voting rationale to add more context. We look forward to continued dialogue with the board.

Finsbury Growth & Income – Governance

Objective: This engagement was part of our overall thematic investment trust engagement. It was a collaboration between Quilter Cheviot and Quilter Investors.

We discussed the trust's responsible investment reporting; we are keen to see examples of engagements and more detail around the rationale for the voting decisions. The board has recently added a new director and the chair explained the recruitment process it followed. We spoke at length on the lead portfolio manager succession plan. The chair assured us that while this is not something he expects in the medium term, the board is considering it.

Outcome: It was a helpful meeting to understand the current direction of the board. We are keen to see examples of its engagements and voting rationale included in future reporting.

Frontier IP – Governance

Objective: To discuss concerns around share issuance and option awards.

Our proxy advisor raised concerns over the issuance of shares and awarding of share options at the company. We engaged with the CEO who outlined the company's specific staffing model and needs. It often recruits PhD graduates on lower base salaries with a higher balance towards the granting of share options. The share issuance and option awarding strategy is central to staffing processes.

We had recently participated in a consultation on the new remuneration policy. The key concerns are the possibility of unintended large pay outs, further increases next year and a lack of detail on the annual bonus KPIs. The chair quantified the proposed increase for the following year. We urged him to disclose this during the consultation so that investors are aware of this. It was also clarified that the KPIs for the annual bonus will be different from those of the long-term incentive. Finally, we recommended a two-year holding period for any share-based compensation.

Outcome: Based on our conversation, we are comfortable with the company rationale and voted to support management.

Fundsmith – Governance

Objective: To discuss the company's approach to considering Environmental and Social factors within the investment process, voting and engagement.

We met with the head of research and with the head of sustainability to discuss in detail how Environmental and Social issues are considered for different sectors, the approach taken to voting and engagement, and Fundsmith's position on net zero and the Task Force on Climate-related Financial Disclosures (TCFD). We suggested the manager should include more examples of engagements on Environmental and Social issues, given that examples in the current reporting are dominated by Governance issues, particularly remuneration. We have encouraged Fundsmith to make a statement about its position on net zero and also encouraged support of TCFD. We appreciate the reporting burden felt by smaller investment firms, but note that the fund is classified as article 8 under the EU Sustainable Finance Disclosure Regulation SFDR.

Outcome: We will monitor for an improvement in fund reporting on engagements related to Environmental and Social factors and will follow up at further meetings.

GCP Infrastructure Investments – Governance

Objective: To discuss concerns related to the independence of a board member prior to the 2022 AGM.

This concern was raised by our proxy advisor owing to the non-executive director (NED) in question being paid to shadow the board prior to taking up the board position. We engaged with the board and were comfortable with the management rationale for the situation. The board member provided no other services (other than to observe board functioning), therefore we do not see the independence compromised.

Outcome: We voted in favour of election of the NED at the AGM.

Greencoat UK Wind – Environmental

Objective: We continued our thematic engagement on the lifecycle of renewable energy infrastructure assets – specifically wind turbines and solar panels -- the first phase of which is aimed at gaining information and the learning of best practice.

We firstly discussed Greencoat's supply chain policy and supplier due diligence process. When purchasing a wind farm, Greencoat will complete extensive due diligence of the asset's supply chain in sourcing materials, to ensure the process is in accordance with its own internal policy. The investment trust confirmed it is not aware of conflict minerals being present or used in any of its wind farms. Greencoat usually invests in wind farms that have already been constructed, so the key decision point following any due diligence process is whether to invest or not.

Reducing carbon emissions in supply chains (scope 3 emissions for Greencoat) was not a key consideration. One identified method for reducing the trust's carbon footprint is working to extend the useful life of assets. The investment trust is also supporting various university initiatives focused on carbon reduction and it is open to using any ideas generated.

We discussed the treatment of assets at the end of their useful life. During the pre-investment stage of a wind farm, the due diligence process considers the recyclability of assets; there is an expectation for most materials to be recycled. As blade recycling is a complex issue, with limited technology, Greencoat's board is looking to support relevant research groups that are focused on finding solutions to it. At present, the trust has allocated c.£250,000 to universities for blade research and the ideas generated will contribute to the approach taken towards blade recycling.

Outcome: This was an engagement for information, which we will be using to improve our understanding of best practice within the lifecycle of renewable energy infrastructure assets. However, we found the level of detail provided to be limited, when compared to previous engagement on this topic. As a result, this meeting was unlikely to inform our understanding of best practice in these areas. We will consider whether future engagement is required to improve our understanding of how Greencoat is approaching these issues.

GlaxoSmithKline – Governance

Objective: To discuss the company's remuneration policy, with a focus on gaining further clarity around bonus arrangements.

We met with the company secretary to discuss the annual bonus targets, which have been adjusted from 200% of base salary to 300% of base salary. There were concerns that this increase was set against a backdrop of underperformance against TSR (total shareholder return) measures, and that such an increase could result in a focus on short-term performance.

It was acknowledged that while the current bonus pay-out sits at the top end of the top 10 UK companies, and that following the demerger, GSK will be part of the top 20 UK companies, the total compensation remains average globally in relation to industry group peers.

The newly proposed remuneration policy emphasises the importance of performance delivery. Around 40% of the targets are non-financial and the Remuneration Committee works with the Corporate Responsibility Committee to ensure targets are appropriate

Outcome: Based on our engagement, there appears to be a shift in the performance culture and a commitment to transparency regarding performance targets. As a result, we decided to support management at the upcoming AGM.

Halma – Governance

Objective: To discuss concerns related to appropriate shareholder outreach following the significant shareholder dissent lodged against the 2021 remuneration policy.

Our proxy advisor recommended voting against the remuneration report and the re-election of the remuneration committee chair at the 2022 AGM. The company's remuneration policy received significant dissent at the 2021 AGM (c.39% against) in light of concerns around the significant increases to both fixed and variable pay. We contacted the company to provide further information, and we believe reasonable efforts have been made to engage with major shareholders since the 2021 AGM. The company ran two shareholder consultation processes, writing to the largest shareholders (representing circa 25%-30% of shareholder capital).

Outcome: On the basis of our conversation, we are comfortable with the company's response and voted to support management on all items.

Haydale Graphene – Governance

Objective: To raise concerns over a proposed equity issuance.

We held dialogue with the company regarding a proposed equity issuance prior to the 2022 AGM. This issue was raised by our proxy advisor. After speaking with the company, we were comfortable with the issuance authority and given assurance that we would be brought into the discussion if the full extent of issuance was needed. The company, however, saw that event as unlikely.

Outcome: We raised concerns with the company. However, based on our conversation we were comfortable supporting management in this instance.

Henkel – Governance

Objective: To discuss the re-election of two shareholder board members over concerns related to independence and board gender diversity.

The board is only 28% independent, (across both the supervisory and management boards), with the shareholder-elected directors only accounting for 18% percent of the under-represented gender. We engaged with the company, which highlighted that one component of the board (the supervisory committee) has 33% women representation. The shareholder board also consists of five members of the same family, not considered independent.

Outcome: We voted against management on the re-election of both directors, and encouraged improvement in gender and independent representation.

Hermes – Governance

Objective: To raise concerns about a potential conflict of interest in the discretionary power to set executive remuneration and board independence.

Our proxy advisor recommended voting against the remuneration report, as the discretionary power to set executives' remunerations lies in the hands of the General Partner, leading to an important conflict of interest. The company remains unresponsive about significant dissent on compensation-related items raised at the last AGM. There are also concerns with the election of two board members, given the lack of independence at the board level. We received no response from the company.

Outcome: We voted against management on the remuneration report and the re-election of both directors.

Hipgnosis Songs Fund – Governance

Objective: We contributed to the shareholder consultation on a new remuneration policy proposal.

This was a high-level discussion, focusing on the board structure, along with the specialist requirements and activities of its members. The role of the board is more operational than is usual for traditional investment trusts and the time committed by directors is greater. Owing to the lack of comparable peers, the trust uses remuneration benchmarks that are more heavily weighted towards operational companies. There is no plan in place to expand the board in the near future, but any hiring would include gender and ethnic diversity considerations.

Outcome: The meeting was useful to understand the board's rationale on remuneration and the time commitment required of the board. It is a specialist sector and a tailor-made approach for the remuneration structure is appropriate and we are comfortable with the approach.

HSBC Group – Environmental

Objective: To receive an update on the sustainability approach through a small shareholder group meeting.

We engaged with HSBC Group's chief sustainability officer and global head of sustainable finance on developing transition-plan strategies and the announcement of sustainable finance investment pledges.

HSBC Group has made several high-level commitments over the past couple of years as it brings together a more cohesive group-level transition plan. This includes a commitment to publish and implement a policy to phase out the financing of coal-fired power and thermal coal mining in the EU and the OECD by 2030, and other regions by 2040.

The company has also committed to implementing a strategy to align its provision of finance across all sectors with the goals and timelines of the Paris Agreement. This will start with two of the most high-carbon sectors – oil & gas and power & utilities. The final strategy will be published in H2 2023.

Outcome: This was an engagement for information. Many of the aspects detailed above are encouraging, but the proof will be in the final published strategy. Engagement with existing clients will be key as HSBC remains a significant financer of fossil fuels, particular thermal coal. It is unclear how escalation will work in practice. There is more work to do and we will monitor developments.

HVPE (HarbourVest Private Equity) – Governance

Objective: We engaged with the fund to raise concerns related to board independence and the management of conflicts of interest.

The company explained that the current board structure has been in place since the creation of the fund and is written into the fund's articles. This permits the investment manager to have two employees on the board (that is, the two non-independent directors). The chair is mindful of potential conflicts of interests and manages this in two main ways. First, by monitoring the behaviours of the two directors in question and ensuring that he is alert for any bias. Second, by listening to the shareholders, both by engaging with them and monitoring the AGM votes.

Outcome: The key discussion point was the appropriateness of having two board members that are also employees of the investment manager and how the conflicts of interests are managed. As this is our first engagement with the board, we will support the re-election of the non-independent directors at the 2022 AGM. However, we have communicated our concerns to the board and will consider voting against directors employed by the investment manager at next year's AGM if put forward for re-election.

Intermediate Capital Group – Environmental Social Governance

Objective: We held a catch-up meeting with the interim chair.

We covered topics which included diversity strategies, succession planning and the company's net zero commitments. Our discussion covered a range of topics as this was very much a check-in conversation with no material concerns to raise. Succession planning is underway, with the current chair's position an interim one. The board have a shortlist of candidates and aims to make an appointment by the end of the year. An interesting development at a board level has been the appointment of the Chief People and External Affairs Officer as an executive member of the board.

The appointment was made to help focus the board's efforts on talent retention, recruitment and diversity – a skill set it needed. A specialist executive member focus on these topics is not common but good to see. The company has also confirmed its net zero strategy, aiming to reach that target by 2040 and have SBT aligned commitments in place. The funds tend to have relatively low GHG emissions, as they do not have large allocations to energy and mining, which are not seen as their traditional areas of expertise. All funds also exclude companies with significant coal, oil and gas activities. Given the nature of the asset class, engagement is a focus of the responsible investment process. Some investments have limited capacity for engagement, particularly secondaries, where they do not typically hold a board seat.

Outcome: This was a useful catch-up conversation. Chair succession planning is underway and verifiable net zero commitments have been made. We welcome the latest executive appointment to the board and will be interested to see if the additional focus on talent, retention, and diversity a measurable impact has moving forwards.

Intermediate Capital Group – Governance

Objective: To discuss the new remuneration policy to be proposed at the 2023 AGM, with the Interim Chair of the Board and Chair of the Remuneration Committee (RemCO). To initiate the discussion on the new remuneration policy, Intermediate Capital Group (ICG) provided some background context on the factors that had been considered. Since the last remuneration policy was voted on, the business has experienced a significant increase in scale, while performance has been ahead of expectations. As a result, ICG conducted a pay review of the executive team, which was supported by three external advisors. The review revealed that ICG's executive remuneration was below comparable peers in the private and public market. To address these findings, ICG is proposing a new remuneration policy, which will increase the executives' base salary and variable pay opportunity.

Outcome: From this engagement, we learned that the executive team's base salary and variable pay are the two main components of the remuneration policy being changed. We were comfortable with the rationale for the base salary being increased but expressed some concerns around the complexity of the new 'super-stretch' component of variable pay.

Investment Trust – Governance

We have anonymised the name of the holding as we feel that to disclose it would not be beneficial given the ongoing engagement process.

Objective: Escalation of engagement regarding Principles of Responsible Investment (PRI) signatory status.

As a first step, we communicated that the investment adviser should be a signatory to the UN-backed PRI. We followed this up with a discussion with the manager to talk about why they have not yet signed up to the PRI and to make clear the growing importance of ESG integration and engagement in our fund selection process.

We reviewed their revised policies on this. We then met with the chair and one of the NEDs. They provided more detail on the actions taken, including the use of an external consultant to validate the processes. However, there is very little external disclosure of ESG integration examples, let alone stewardship metrics or examples.

The manager expressed some concern that signing up to the PRI could be at odds with regulatory developments, specifically in the US. We do not believe the concerns are valid. We noted that we have passed on investing in a new fund that the manager is launching because of the lack of PRI signatory status.

Following on from our previous meeting we met the new chair to discuss PRI signatory status as well as stewardship and ESG integration disclosure. Additionally, we discussed the composition of the board. The investment adviser (manager) has a representative on the board, which is an uncommon position for UK listed investment companies. The manager is a laggard within our investment universe as most investment houses with whom we invest are signatories. We explained that we do not buy into new funds that are not signatories of PRI, unless there is a compelling rationale, and we do not think is the case in this instance. The chair noted that the manager's responsible investment work is to a higher standard than the PRI. We challenged this as the PRI does not have a standard per se, it provides external and independent auditing of responsible investment processes. We have no concrete evidence that this is the case, given the lack of external disclosure on stewardship and ESG integration activity by the manager.

We reiterated our view that, in the absence of alternatives, the PRI is the global standard that provides independent verification of responsible investment processes. We also discussed management representation on the board. We have concerns that this does not represent shareholders' interests well. The chair noted that this is not something that the board has discussed previously. When there is a conflict with the manager, the representative leaves the meeting. The board has had to deal with difficult situations in the past and this has not stopped the board from having the hard conversations with the manager. He will raise this issue at the next board meeting. More generally, it has a plan to refresh the board and there will be new additions to the board this year. The board aims to have no more "cliffs", rather, every two years, there will be a director retiring in a smooth fashion.

Outcome: We will continue to push the manager to become a PRI signatory. Additionally, we have provided the company with examples of best practice of stewardship and ESG integration disclosure.

Investment Trust – Governance

We have anonymised the name of the holding as we feel that to disclose it would not be beneficial given the ongoing engagement process.

Objective: Follow up on discussions with the chair regarding greater disclosure on how the investment trust manager integrates ESG factors within the investment process.

We were asked to review the proposed reporting on the investment trust's approach to responsible investment and the integration of ESG metrics. The proposed reporting is a good first step in the right direction, but we felt it would benefit from more examples of the manager's consideration of ESG factors, and less focus on the areas they do not invest in, which are less pertinent as the investment trust focuses on a specific sector.

Outcome: Continue to monitor progress on reporting.

Janus Henderson UK Absolute Return – Governance

Objective: A follow-up discussion on the integration of Environmental and Social factors within investment process, voting and engagement.

We met to discuss progress made on ESG integration. Some exclusions have been applied on more controversial areas and reporting includes a number of engagements on Environmental and Social issues, as well as engagements on Governance issues. We discussed team and central responsible investment resource, firm-level and portfolio-level exclusions, training, data sourcing and integration, and embedding the consideration of ESG factors into investment decision making.

Outcome: We will monitor progress.

Jet2 – Governance

Objective: To discuss concerns around board independence and remuneration.

The current remuneration policy allows options granted under the Share Reward Plan to be paid out subject solely to continued employment. We engaged with the company and the chair of the remuneration committee confirmed that a new policy, which will include performance conditions, will be presented at the next AGM. The current position relates to awards that were made during Covid-19 as it was felt that it would be difficult to incorporate meaningful performance metrics. One of the NEDs, who is regarded as non-independent owing to his length of tenure on the board, sits on the remuneration committee. Additionally, there is insufficient independent representation on the board, which has also hired executive search firm Korn Ferry to appoint two new independent members ahead of the next AGM. However, there is no discernible plan to replace the non-independent NED and therefore as this against UK best practice recommendations for a company of this size. We voted against his re-election.

Outcome: The next 2023 AGM will be critical in determining whether we support management on the new remuneration policy as well as changes to the board. In the case of the latter, if the percentage of women on the board still does not meet expectations, we will vote against the chair.

JD Sports Fashion – Governance

Objective: Two meetings to discuss executive remuneration.

The company proposed significant increases to the CFO's salary and continues to weight a large proportion of variable remuneration towards cash rather than share options. We spoke to the company to highlight these concerns. Since the dismissal of the CEO and chair, in the wake of controversies related to alleged price fixing, there has been a lot of change at the company, including a complete refresh of the non-executive board. The current remuneration structure pre-dates the new board, who has committed to putting forward a new remuneration policy at the next AGM. This will include a significant reduction of cash pay-outs (as well as other best practice measures). The management rationale behind the CFO salary increase was to secure the position in the wake of significant disruption. The CFO salary had been behind the market for some time and the new board believes his position is essential to supporting the challenging transition period for the company.

On the basis of our conversation, we voted to support the remuneration report. Given assurances of a policy restructure and that the CFO's salary increase is in line with peers, we are comfortable with the rationale given, but will monitor progress.

We met the new Chair of the Remuneration Committee (RemCo), to discuss the planned restructuring of the remuneration policy, and to discuss how JD Sports will improve corporate Governance.

The RemCo chair explained that JD Sports remains focused on delivering shareholder value with the existing strategy and made contact with all its strategic partners following the resignation. Despite his recent departure as chair and chief executive, Peter Cowgill will continue working with JD Sports in an advisory capacity to maintain continuity. The negative share price reaction has been mainly due to uncertainty from recent management changes and the broader macroeconomic environment.

Regarding remuneration, JD Sports has had a disappointing track record with corporate Governance and particularly remuneration compared to industry peers and the standard expected from a major UK business. To address these concerns, several changes are being proposed in relation to management's long-term incentive plan (LTIP), annual bonus and pension.

As a starting point, there will be an alignment of pensions between management and the wider workforce, and the annual bonus will have a portion deferred into shares. The annual bonus will be based on three metrics to balance the importance of revenue, profit before tax (PBT), and operational Governance. Operational Governance has grown in importance following recent acquisitions and management changes that require integration. The share-based compontent of the LTIP will increase and there will be a post-vesting holding period.

Finally, we discussed other elements of Governance improvement at the company and whether any material issues from the Sustainability Accounting Standard Board's (SASB) framework will be considered in the annual bonus. JD Sports' management team is undergoing training on accounting policies and practices, competition law and technology integration. On the material issues, consideration is being given to Social metrics such as diversity and inclusion, in addition to the Governance metrics being targeted in the annual bonus.

Outcome: This was a positive meeting, and we voted in favour of the new remuneration policy which received over 99% support. We will track Governance improvements.

JOHCM UK Dynamic – Governance

Objective: To hear an update on the team's work regarding integrating ESG factors into its process and engagement.

The team has undertaken significant work over the last couple of years to integrate ESG factors within the investment process, and sustainability considerations are an increasing driver of the investment decision making and engagements with companies. We discussed developments including the new central database that incorporates third-party data and records engagement notes. We also discussed whether the oil & gas holdings and investment bank holdings fit with how they are positioning their investment approach going forward. We were satisfied that this is a steady work in progress and that the team seems to be driven by credible long-term intentions. We will continue to monitor how the approach evolves.

Outcome: Work continues to roll out the ESG integration process to all portfolio holdings. We will follow up at our next meeting.

Johnson Service Group – Governance

Objective: To raise concerns over a proposed increase in executive salary.

Our proxy advisor raised concerns over the remuneration report being put forward at the 2022 AGM, more specifically a proposed increase in executive salary and award of bonus payments. We engaged the company to better understand the issue.

It is noted that the salary increases are in line with the wider workforce and that maximum bonus opportunities have been reduced by half. However, these adjustments do not adequately acknowledge the impact of Covid-19, which has caused the company to seek government support, furlough employees and suspend its payment of dividends.

Outcome: Based on our conversation and proxy advisor recommendation, we concluded that the remuneration arrangements were excessive, given that furlough support has not been repaid, especially as peers have taken a more measured approach. Therefore, we voted against the remuneration report.

JP Morgan America – Governance

Objective: The purpose of this meeting was to understand the due diligence process of recruiting the new co-fund manager, as well as discuss the board's oversight of stewardship activities, ESG integration as well as the disclosure of them and succession planning for the board.

The chair acknowledged that the integration of ESG factors as well as disclosure is an iterative process, and the board welcomes shareholder feedback, which will enrich its conversations with JP Morgan. We discussed various approaches, including excluding specific activities from an investment universe. On succession planning for the board, the longest-standing non-executive director (NED) is leaving at the next AGM and the current chair will be leaving within the next couple of years.

Therefore, consideration is being given to this within the recruitment process. Additionally, the board is debating an appropriate size for this group and is considering going back to a six-director model, which could give it more flexibility on succession. Another area of further interest for us, is how investment trusts are seeking to attract the next generation of investors. The board is aware of the small number of individual retail shareholders within its share register, and actively looking to increase it. The board is also aware of the balance between looking for new interest within the retail market and the costs associated with marketing. Additionally, the board is working to increase the public visibility of the fund managers, as that will also help improve awareness of the investment trust across retail shareholders.

Outcome: We will follow up regarding the appointment of new co-manager with the investment manager in the upcoming meeting. Additionally, we have provided the company with examples of best practice stewardship disclosure and ESG integration. We will monitor the progress of improved disclosure. Quilter Cheviot was asked to attend a private session with the board to provide thoughts on various topical subjects including responsible investment. The investment advisor did not have representatives at the meeting. We reiterated our previous feedback on responsible investment disclosure and provided additional feedback and views on other issues which, given the nature of the meeting, we will not disclose publicly.

JP Morgan Emerging Markets – Governance

Objective: This engagement was part of our overall investment trust thematic engagement.

The board is looking to temporarily add another director to smooth out succession plans. We discussed the recruitment process, and the chair outlined the skills he is looking for in the new hire. The board has done a good job on responsible investment disclosures in the annual report – we particularly welcome the inclusion of engagement examples and voting rationale. Finally, we talked about the appointment of the new portfolio co-manager.

Outcome: We are pleased with the current direction of the trust and look forward to continued dialogue.

JP Morgan Global Emerging Markets Income Trust – Governance

Objective: This was a catch-up conversation with the board chair. Topics of discussion included board transition planning as the chair is retiring in 2022.

The board is actively seeking a diverse candidate. The trust has been successful in hiring women candidates and we discussed further details on recruitment practices and the 'Nurole' platform in particular. Nurole is a hiring platform, which does not rely on headhunters but candidates putting themselves forward.

Outcome: This was a catch-up conversation, but we also requested more information to be published on voting and engagement activity. This seems to be taking place but is not disclosed particularly well at the trust level.

Kion – Social Governance

Objective: To explore how the company is addressing gender diversity concerns at the board level and across its wider workforce. Kion is domiciled in Germany, which means the company is subject to both German domestic and European regulations. Sitting within the manufacturing space, Kion faces industry-wide challenges in attracting and retaining women with the required technical skills and experience.

The current female representation on the supervisory board is 31%. The company is working towards increased female representation on the supervisory board to meet Germany's Women on Board Directive regulations. As yet, the company has not set a deadline to meet these targets. Our discussion with the company highlighted one drawback – the staggered director elections. Directors serve four-year terms. This means changes cannot be brought in across the short term. However, the company does not appear to be particularly proactive in industry group or government-level initiatives to improve the talent pool.

The company highlights the challenges in recruiting women into construction and operational roles as there is insufficient women with the required technical skills and experience. Outside of manufacturing roles, however, there is higher female representation. There are a few internal initiatives to retain talent, but it is not clear how focused the company is in improving gender diversity outside of the board level, which is mandated by regulation. The company runs leadership programmes with a focus of increased female representation across second-level management. Where possible, women with the relevant expertise are hired into positions, but it was reiterated that the candidate pool is often small.

Outcome: This engagement highlighted the challenges Kion is facing in hiring more women into a traditionally male-dominated space. While we acknowledged some industries face specific challenges in recruiting and retaining women, we would welcome a more proactive and detailed timeline from the company in setting meaningful targets and the route to achieving them. This includes a more cohesive and visible top-down DEI strategy, and evidence of external engagement with stakeholders to increase the overall potential talent pool, both at executive and overall employee level. We will continue to monitor Kion's progress following the publication of its next annual report. If board diversity is not improved over a 12-month horizon, we will consider using voting rights to express our disapproval.

Linde – Governance

Objective: To discuss a shareholder proposal on eliminating supermajority vote requirements.

We engaged with the company to discuss a shareholder proposal calling for the repeal of the company's supermajority vote provisions at the 2022 AGM. This would only apply to proposals where supermajority voting is not required by law. The application of any non-supermajority issue is relatively narrow, and we believe where it is applied, it enhances minority shareholders' voices.

Outcome: The elimination of the supermajority threshold, where legally permissible, is considered a positive step for the company and we voted to support the shareholder resolution.

Linde – Environmental

Objective: We continued our thematic engagement on climate-transition plans and disclosures with the largest emitters in the voting universe (scope 1 and scope 2 emissions). The first phase is engagement for information to get a better understanding of the quality of transitions plans and whether companies are taking (or not taking) appropriate measures to align with a future lower-carbon economy.

Linde is a carbon-intense company, which is aware of the pressing need to reduce carbon emissions. Scope 2 emission reductions should carry through with a decarbonisation of national energy systems but, based on our conversations, significant reductions in Scope 1 emissions are contingent on technological advances in scalable green hydrogen production. The latter seems to be the motivation behind a carbon-neutral target rather than a more ambitious net-zero one. While this is understandable, more information on the potential path to longer-term absolute carbon emission reductions would be welcome. The granularity of wider ESG metrics reported should also be commended, particularly in water emissions. More information on research and development efforts as well as capital committed to scaling green hydrogen would give a clear picture of the longer-term preliminary pathway to net zero.

Outcome: This was an engagement for information. We used this preliminary conversation to establish an opinion on the quality of Linde's transition planning. We will continue to monitor progress towards aims and to encourage the disclosure of more detail on how Scope 3 emissions will be addressed.

Lloyds Bank – Social

Objective: From our centrally monitored universe we have identified companies that have relatively advanced paternity leave polices, where polices extend beyond statuary regulations. We aim to gain additional information on areas such as shared parental leave and flexible working.

The Lloyds Bank family leave policy is divided between maternity (63 weeks leave; 20 of which are paid) and paternity (19 weeks; 6 of which are paid). These benefits also include adoption.

The diversity and inclusion strategy at Lloyds Bank is structured around four pillars: inclusive insight, inclusive behaviour, inclusive design and inclusive society. Inclusion is an evolving space and Lloyds Bank says it consistently benchmarks its performance and policies against both industry peers and companies outside the financial sector.

The company's corporate slogan is "helping Britain prosper". For Lloyds Bank, this means inclusion and that its workforce should represent its customer base. The banking group is looking to increase the number of women in its senior workforce. Having a strong family leave policy, which is effective from day one, helps it achieve that goal. It notes that this approach has helped it recruit some senior female leaders, as it believes that life events should not prevent someone from joining the company.

Measuring the policy's impact on retention is difficult, but Lloyds Banks says, anecdotally, it has appeared to help attract senior leaders. It claims the return levels after family leave are very high and there is no claw back if an employee chooses to leave the company straight after family leave. Keep in touch days are used to facilitate employees' return after family leave. These days can be taken flexibly; some employees take them throughout the leave, others prefer to use them towards the end to aid the transition back into the workforce.

For leave of less than six weeks, workload is usually distributed amongst peers rather than seeking a replacement. For longer periods of family leave, internal movements to cover vacancies are typically implemented as secondments to allow colleagues exposure to different areas of the business. When colleagues return to work, even after 52 weeks, they come back to the same position they left.

Outcome: Lloyds Bank is thinking about how it can help employees through different life stages. It recognises that having strong family leave policies is important to attract and retain female talent.

It provides 20 paid weeks to primary caregivers, which includes equal benefits such as pension contributions. Lloyds is also thinking about how to smooth the transition back to work as parent. A big part of this is training line managers to understand their staff's position and help them through the process.

L'Oréal – Governance

Objective: To raise concerns related to executive- and board-level remuneration.

Leading up to the 2022 AGM, concerns were identified surrounding the compensation of the chair and CEO, particularly two long-term compensation plans that would continue to pay out after the CEO's departure without being pro-rated.

We contacted L'Oréal to provide further clarity on the compensation plan and retirement policy. L'Oréal states it applied a revaluation coefficient in respect of salaries and pension contributions published by the French state pension fund. From our perspective, and that of our proxy advisor, this is not considered best practice under the local corporate Governance code.

Outcome: We voted against the remuneration report owing to lack of clarity provided by the company and the compensation plans not being pro-rated, which we considered an example of excessive remuneration practice.

LVMH – Governance

Objective: To address concerns relating to board independence and executive remuneration.

The number of independent members of the board is not in line with best practice, and the functions of the chairman and CEO are combined, which is another independence concern.

The remuneration report and remuneration policy lack disclosure on the level of achievement of the performance conditions of both the short term incentive plan (STI) and the LTIP. The company does not disclose targets or pay-out scales for the annual bonus. The nature of the LTIP criteria, the vesting scales and the performance periods are also not disclosed. The cap on the exceptional remuneration is not disclosed. We received no response from the company.

Outcome: We voted against management on the multiple items on remuneration (report and policy) and the re-election of two directors, including the chair.

Marks & Spencer – Governance

Objective: To raise concerns with the remuneration report being put forward at the 2022 AGM.

The departing CEO's notice period consists of 18 months rather than the 12 months considered best practice under UK Corporate Governance Code. Additional concerns included the appointment of co-CEO positions, who will individually be paid at similar levels to the outgoing CEO despite the shared role. The competitively positioned salaries should also be considered relative to the company's declining market capitalisation over recent years.

Outcome: Based on the engagement, we are more comfortable with the strategic direction of employing co-CEOs. Howrever, are not comfortable supporting an 18-month notice period for the departing CEO. We voted against the remuneration report at the 2022 AGM.

Mercantile – Governance

Objective: This engagement was part of our overall investment trust thematic engagement. We wanted to discuss responsible investment disclosures, board composition and marketing.

The chair explained how the board ensures proper oversight of the investment adviser, from offsite board meetings to regular reporting. We discussed the current responsible investment disclosures and indicated the aspects we believe could be improved.

Outcome: This was a useful meeting to gain further understanding into the trust's Governance and its oversight of the investment adviser. The chair was receptive to our comments, and we look forward to seeing enhanced responsible investment disclosures in upcoming reports.

Mondelez – Environmental

Objective: This discussion was part of our thematic engagement on water risk with companies in the food & beverage industries. Mondelez is a water-intensive company with significant links to agriculture, which is also a water-intensive sector. The aim was to learn more about how the company is managing and mitigating water risk, allowing us to set a benchmark for future discussions. Mondelez discloses to CDP on water risk and has water targets in place.

Mondelez is in the early stages of its water stewardship journey and its current focus is mainly on the direct operations. More work is required to fully understand what risk lies within the supply chain. Given its history, other areas such as child labour and deforestation, are higher agenda items due to the material reputation impact. These areas of risk management appear more advanced than water management.

Outcome: Mondelez is aware of this and is taking some of the learnings from these projects to strengthen its water management. Mondelez strategy is using some best-in-class practices, such geospatial mapping to identify high-risk sites and integrating some technologies such as water condensation to reuse water in its factories.

National Grid – Environmental

Objective: We continued our thematic engagement on climate-transition plans and disclosures with the largest emitters in the voting universe (scope 1 and scope 2 emissions). The first phase is engagement for information to get a better understanding of the quality of transitions plans and whether companies are taking (or not taking) appropriate measures to align with a future lower-carbon economy.

National Grid has set out an ambitious plan to reduce Scope 1 and Scope 2 emissions, most of which will take place by 2030. The company has made quantitative absolute reduction targets for Scope 3, but these are less ambitious and more reliant on general decarbonisation of the UK/US energy system. National Grid has been an early participant in the Science-Based Targets initiative (SBTi) process, having received validation of its carbon-reduction plan and committing to net-zero validation. This is an encouraging certification and is increasingly seen as a measure of a credible transition plan.

One inconsistency, and presumably a barrier to net-zero planning, is the company's US power generation capacity, specifically an oil-fired power plant on Long Island (New York). This represents 45% of Scope 1 and Scope 2 emissions. This is a legacy operated from the purchase of Geronimo Energy. National Grid has limited agency in the fuel used by the power plant and has contractual obligations in place until the contract with the New York authority expires in 2027. Overall, National Grid has been proactive in building a detailed, absolute reduction strategy and one that has been externally verified by the SBTi.

Outcome: This was an initial engagement to establish an opinion on transition plans. We will continue to monitor how US operations and legacy fossil-fuel generation affects the net-zero strategy execution.

NatWest – Social

Objective: From our centrally monitored universe we have identified companies that have relatively advanced paternity leave polices, where polices extend beyond statuary regulations. We aim to gain additional information on areas such as shared parental leave and flexible working.

NatWest's new Partner Leave policy commences in January 2023. It will provide the opportunity for new parents, irrespective of gender, to take leave for a whole year. Half of this leave will be fully paid, with an additional 15 weeks being covered at statutory maternity or paternity pay rates. This represents a significant move in gender equality in the workplace. We explored the motivations behind these new policies and the expected outcome on workplace culture.

To formulate the Partner Leave policy, NatWest engaged with several stakeholders across the group. NatWest is undergoing a digital transformation integrating the use of Workday. The company is building workflow tools that enable employees to access information on how maternity leave may impact holiday leave, pay, benefits, and includes additional links to flexible working policies.

NatWest has integrated a flexible working policy that goes above statutory entitlements, focused on term-time working and compressed working hours. With effective resource planning, this provides employees the chance to partake in secondments and develop skills in business areas to which they may otherwise not have exposure. The company provided a long lead time between announcing the policy and the go live date to facilitate as many employees as possible to benefit.

Outcome: Unsurprisingly, the feedback so far has been overwhelmingly positive. NatWest acknowledges that Social agendas are a rising priority and being ahead of the curve allows for increasing employee expectations to be met and even exceeded. Senior leadership has widely promoted the incoming policies and, by providing this opportunity, it hopes to lead to increased employee engagement and better retention.

However, the company does not have plans to measure the success or progress of the policy. We would encourage the company to track its implementation and effect on employees and the business.

NextEra – Environmental

Objective: We continued our thematic engagement on climate-transition plans and disclosures with the largest emitters in the voting universe (scope 1 and scope 2 emissions). The first phase is engagement for information to get a better understanding of the quality of transitions plans and whether companies are taking (or not taking) appropriate measures to align with a future lower-carbon economy.

NextEra is one of the most carbon-intense companies in our holding's universe (on a Scope 1 and Scope 2 emissions basis). This is owing to legacy coal/oil-fired generation capacity and the remaining generation fleet, which is majority natural gas fired. This does not account for the company's direction of travel. NextEra is one of the early movers into renewables in the utilities sector in North America. No company outside of China produces as much power through solar and wind. The company has set a clear objective to be fossil-fuel free by 2035 and has targeted green hydrogen as the route to doing this by adapting current gas-fired plants and retiring oil/gas ones.

From a strategic perspective, this is welcome. More specifically, science-based carbon reduction targets or a quantitative pathway to net zero are lacking. NextEra argues that any net-zero target would be disingenuous as key technologies on which their strategy depends – green hydrogen, battery storage – are not yet scalable. We have encouraged more quantitative targets, aligned with science-based methodologies, to be put in place. High-level strategic ambitions are welcome and the company has a track-record of making progress on these. However, externally verifiable commitments improve accountability and transparency.

Outcome: This was an engagement for information. We used this preliminary conversation to establish an opinion on the quality of NextEra's transition planning. We will continue to monitor progress towards aims and to encourage the company to produce a net-zero strategy.

Nike – Governance

Objective: To discuss concerns around remuneration ahead of the upcoming AGM.

Our proxy voting service provider flagged concerns around the adjustment that had been made to the executives' annual bonus performance, which resulted in a higher pay out, as well as the share / cash balance within the long-term incentive. The latter is geared towards cash and the vesting is not linked to performance metrics. Nike has said it will increase the share allocation to 50%, however the timeline is not clear. Upon engagement, Nike explained that the adjustments to the annual bonus were made owing the re-emergence of Covid-19, which continued to have a material impact on operations and performance, it would have set fewer challenging targets; hence it had applied a discretionary uplift. Further details regarding the transition

plan of performance share units (PSU) will be provided in next year's proxy.
Outcome: Overall, the changes to the compensation plan seem to lack clarity, and the PSUs are based on a time-vested basis, which is not considered best practice. We would also welcome further clarity regarding the timeline of PSUs. Therefore, we voted against management.

Ocado – Governance
Objective: To raise concerns about diversity at the 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), which are all held by 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; 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. We 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.

Ocado – Social Governance
Objective: To explore how the company is addressing gender diversity concerns at the board level.
The company has fair representation of gender diversity at senior management levels and across the wider employee base. Talent development and succession planning are the responsibility of the People Committee and Ocado highlighted the structural challenges that the board faces. The company works alongside recruitment consultants to expand the search for qualified candidates. Ocado had broadened its current non-executive search to the US and across different industries. Rightly, the board seeks to balance hiring talent with the required expertise alongside reaching the expected board gender diversity targets.
The company acknowledges it can be challenging to address gender diversity in different geographical contexts. Ocado uses recruitment teams to carry out marketing to attract a diverse pool of applicants. The company does not have specific gender targets but focuses on creating a positive and attractive employee culture through family friendly policies and female and parents' community networks.
The company recently also established a 'Women in Tech' mentoring programme to develop female talent. People metrics form part of the overall remuneration policy for directors, which sits within their personal objectives. Currently, there is no specific focus on diversity and inclusion metrics, so we would welcome the incorporation of such metrics into both the short-term and long-term incentive plan.
Outcome: The company acknowledges the importance of diversity at the board level and across the wider workforce. However, we are concerned this positive dialogue is not translating into improving board gender diversity, with performance relatively static since 2018. We reiterated our expectation to see significant progress towards meeting the 33% threshold by the next AGM or we will use our voting rights to express disapproval. The board expects to appoint another female member by the end of the year and a further addition, ideally, within 18 months.

PepsiCo – Environmental
Objective: We spoke to PepsiCo as part of our thematic engagement on water. The focus of this thematic engagement is the food, beverage & tobacco industry group. PepsiCo is a water-intensive company, which scores an 'A-' as part of the CDP Water disclosure framework. PepsiCo is also a customer-facing bran, which means that public perception of its water risk is an important factor to consider in understanding water management and risk mitigation.
PepsiCo's operations are complex. This means that managing water risk with a cohesive strategy and targets can be difficult. However, it has been making progress on its water stewardship. The unveiling of the PepsiCo Positive strategy last year puts in place water efficiency targets for all third-party operations by 2030. Additionally, $2.5billion raised in green bonds indicates major investment into sustainability improvements.
Outcome: The selection of 'best-in-class' and 'world-class' targets depending on the water stress also demonstrates that PepsiCo is thinking about water stewardship and focusing on areas where the company will make a difference to the water basin.

Pernod-Ricard – Environmental
Objective: As part of our thematic engagement on water risk management we connected with Pernod-Ricard, a global drinks company.
Pernod-Ricard's sustainability strategy is focused on four main pillars: nurturing terroir, valuing people, circular making and responsible hosting. Water risk is included in the company's triennial risk analysis overview, and it uses the Aqueduct tool to map which sites are located in water risk areas.
Work has been undertaken internally to understand current water use in direct operations. However, as is the case with every business that relies on agricultural commodities, most of the water footprint is in the supply chain. Pernod-Ricard is in the early stages of creating a methodology to track the water usage and risk of its suppliers. For direct operations, it uses geospatial mapping to locate the sites that are located in water stressed areas. For those sites, it has a target to replenish 100% of the water consumed. It also has a 20% water use reduction target for every site, from a baseline of 2018 use. However, it is not looking into the efficiency variability between sites as a reference point.
Outcome: Pernod-Ricard is taking some measures to manage water risk in its direct operations, but it has room to improve its understanding of this risk in its supply chain. A key development would be to develop comparators between sites to understand efficiency drivers and areas to focus on.

Pershing Square – Governance
Objective: To discuss stewardship and ESG related disclosure as well as composition of the board.

We met with the chair for the first time to formally discuss the manager's approach to responsible investment. The manager is based in the US, where the investment industry is facing several issues around how it approaches responsible investment. Over time, it will become clearer which of these issues are more pressing and which are more tenuous. The board includes a representative of the manager, and we discussed the pros and cons of having a non-independent board member.

Outcome: Continue to monitor the trajectory of the responsible investment related disclosure as well as alignment to the UN backed Principles for Responsible Investment.

Persimmon – Governance

Objective: To participate in the consultation on the incoming CFO's remuneration arrangements.

We met with the chair of the Remuneration Committee (RemCo) to discuss the appointment and remuneration of the new CFO. The RemCo chair provided an overview of the recruitment process and explained in further detail the profile of the incoming CFO, who is seen to have a flexible set of capabilities and broader strategic value.

We also discussed the cultural changes within the business with the steps it has taken to refocus on customer satisfaction and improving customer service.

Outcome: A useful catch-up meeting, we highlighted that gender diversity could have been more balanced throughout the hiring process. We will continue to monitor other areas of diversity.

Polar Capital Technology Trust – Governance

Objective: To meet the new chair and discuss the trust's responsible investment disclosures, board diversity and investment strategy.

The newly appointed chair explained the new changes being implemented by the trust. We had an opportunity to discuss our views on disclosure, directors shareholding, and board oversight of the investment adviser. The board has achieved 50% gender diversity but continues to work towards the Parker Review targets. We also suggested a review of the gearing policy and the index used to benchmark performance fees.

Outcome: The call helped us to understand the current direction of the trust. There are a number of ongoing responsible investment-related changes, and we will continue to monitor the developments. The chair's view of the role of an investment trust board aligns with our own and time will tell whether her receptiveness to our suggestions will result in change. It is worth noting that we are the only shareholder that has raised the subject of responsible investment-related disclosure with the chair.

Princess Private Equity – Governance

Objective: This engagement was part of the overall investment trust thematic engagement. Additionally, we wanted to understand the board's role on the recent suspension of the dividend and the decision to stop further new investments.

The chair explained that the board was informed of the suspension of the dividend and new investment last minute. He admitted this was a lack of communication from the manager. The board has a non-independent director who works for the investment adviser, it also has two directors who have served terms of over nine years, which is viewed as best practice. Finally, four out of the six directors are based in Guernsey which limits the talent available – the NEDs have limited private equity experience bar the manager's representative.

Outcome: The current board composition does not seem to provide sufficient oversight or challenge to the manager. Additionally, the board is not independent with a director appointed by the manager. Given the aforementioned concerns, Quilter Cheviot has independently taken the decision to escalate the engagement and has communicated its intentions in writing to the board.

Prosus – Governance

Objective: To engage with the company on remuneration ahead of the upcoming AGM.

Our proxy voting service provider recommended voting against both the remuneration report and policy as it had identified several concerns. Namely: 1) the quantum of the award 2) the high proportion of non-performance related elements within the long-term incentive 3) the ability to make discretionary adjustments to the short-term award We contacted the company to understand its position. From Prosus' perspective it highlighted that both executive salaries and non-executive fees were not being increased. It operates in a competitive industry (technology platforms) and the overall package must reflect that to retain staff. The company felt it had engaged well with investors to explain how the company strategy links to the remuneration policy, and, as part of that process, it had increased the weighting to ESG-related targets from 5% to 31% within the short-term award this year. From 2023, it will disclose the specific targets retrospectively. On a separate note, ISS flagged concerns with the company's share buyback programme, however, we believe this will assist with the discount management and therefore supported management.

Outcome: While we appreciate the competitive nature of the environment in which Prosus operates, we felt the overall quantum of remuneration was unjustifiably excessive and voted against the report and the policy.

Renishaw – Social Governance

Objective: To explore diversity plans at the board level alongside the progress of both external and internal diversity programmes.

Across the board of directors, senior management, and the wider employee base the company has low levels of gender diversity. Like industry peers, Renishaw highlighted overarching challenges associated with drawing women into the sector. The company regularly engages with schools, colleges and universities to increase awareness of STEM-related career paths. In 2021, Renishaw engaged with more than 13,000 students and more than 30% of all events were focused on underrepresented groups. Challenges arise in attracting diverse pool of applicants; however, the company states such grass roots activity has been positive in attracting talent. Additionally, through 'Priority Projects', Renishaw has taken steps to address the employee attrition rates.

The company has updated how it monitors and recognises performance, as well assessing where it fits amongst its peers on overall package competitiveness. The company has hired Willis Towers Watson to remodel company job architecture and how roles are graded to ensure there is a transparent career pathway throughout the company to attract employees to grow within the firm. The board does not have any gender-specific diversity targets in place and there are no plans to create them. This is surprising and we would like to see them brought in. Current board gender diversity stands at 25%. Whilst the company has outreach programmes in place and employs recruitment agencies to facilitate diverse hiring goals, there is an absence of a coherent corporate approach to not only gender diversity but diversity and inclusion more broadly. System modernisation will allow the company to harness broader sets of diversity data, yet the value will lie in how the data is used, and whether that is for target setting and/or tracking developments over time. Diversity and inclusion targets are not currently embedded within executive remuneration. HR is working alongside the board to address this.

Outcome: Overall gender diversity performance remains low. We note that the company is operating in a traditionally male dominated industry, but we will monitor progress over the next 12 months and expect the company to improve gender diversity at the board level over this time horizon.

Sage – Social Governance

Objective: To explore how the company is addressing gender diversity concerns at the board level and across its wider workforce.

Sage has a board-level DEI Policy and a group-wide DEI Policy through which the company sets out targets and ambitions to increase gender diversity across all levels of the company.

The company's experience of using recruitment consultants is broadly positive. Sage values their expertise and the process has often delivered candidates who the board may not usually consider. The main challenge is finding female leaders at the non-executive level. This is due to the smaller talent pool of qualified women with industry experience. The issue is further amplified when looking to hire ethnically diverse female candidates. The company has introduced a five-year goal that no more than 60% of positions within any executive or management team will be held by the underrepresented gender. Over the past few years, the company has also established a series of networks that allow members to connect to individuals within and outside of the organisation.

Outcome: The company acknowledges where it is underperforming on diversity, particularly at board level, and has provided a time horizon to meet the FCA comply or explain proposal. The company expects board diversity to improve over the next six months and the number of women in senior roles to increase across the next 18 months to 2 years. It also expects to meet the 40% board-level gender diversity requirement in this timeframe. The board is currently discussing proposals to include diversity targets as part of ESG metrics and to incorporate those targets into the executive long-term incentive play. We will continue to monitor the progress of Sage and look to engage with the company further following its 2023 annual meeting to assess progress made in achieving greater female presentation at the board level and progress against diversity targets throughout the organisation.

Sainsbury's – Social

Objective: To raise concerns around a living wage provision to third party contractors.

A shareholder resolution at the 2022 AGM called for the company to apply for living wage accreditation, including a commitment to ensure third party contractors received the living wage. Sainsbury's currently pays the living wage to all direct employees and was one of the first companies to do so. It estimates that around 60% of contactor staff are paid this rate. It is opposed to apply for accreditation as it would be required to meet specific pay benchmarks set by an external party. As staff wages are the company's largest cost, it does not want to lose control of this decision. We spoke to the CEO and chair of the board and are comfortable with the commitments to pay direct staff the living wage as well as track and increase the proportion of contractors paid at this level. Third party contractors make up a small minority of the employee base.

Outcome: We voted to support management on this item but have communicated our expectation that the proportion of contractors being paid minimum wage will increase. We will monitor the situation.

Schroder Oriental Income Trust – Governance

Objective: This engagement was part of our overall collaborative investment trust thematic engagement, undertaken with Quilter Investors.

The chair described the investment adviser's approach to responsible investment disclosures. While the approach to ESG integration is disclosed, examples and the detail around engagement and voting is lacking. We also discussed the change in lead portfolio manager and the board's oversight of the investment adviser. Finally, we spoke about the marketing of the trust.

Outcome: This was a helpful conversation with the board. The trust's ESG integration approach is clear, however, we welcome more engagement and voting disclosure. We look forward to continued dialogue with the board.

Scottish Mortgage – Governance

Objective: This was the first engagement with the board of Scottish Mortgage (SMT) as part of the overall investment trust thematic engagement.

We discussed the board's oversight of the manager including which decisions fall solely under the board's discretion. The board is compliant with the Hampton-Alexander and Parker review targets. Finally, we communicated t our expectations for disclosure on responsible investment as well as in the monthly factsheet.

Outcome: SMT is already disclosing its stewardship activities, but further work can be done to integrate these disclosures in the annual report. We anticipate the board will have some rotation in the coming years, and we expect diversity to be considered. We look forward to continued engagement with SMT's board.

Smithson Investment Trust – Governance

Objective: The purpose of this engagement was to meet the new chair and outline our expectations for ESG and stewardship disclosure, as well as to discuss fees and the growth of the fund.

ESG related and stewardship disclosure: The trust has examples of how it identifies Governance concerns, however the disclosure on how it integrates Social and Environmental aspects is lacking, as is detail on its voting record and engagement activity. The chair promised to take this feedback into consideration; this will be discussed with the board. Share buyback policy: The chair explained that due to the market falls at beginning of the Covid-19 pandemic, the board consulted with its broker on share buybacks. It was advised to wait and see how the market would react, which it did, even though preparations had been made to make the purchases. The investment trust buys back regularly. In the past, the investment adviser (manager) has been keen to use an alternative to the house broker; however, the board has agreed with the manager that the house broker will be used for transactions. The fund has grown very rapidly, while the fee has not reduced, meaning the manager is benefitting from this increase in scale, and, conversely, shareholders are not.

The chair's view is that the manager carried the cost of the initial public offering and has invested heavily in the fund. The manager has a firm stance on fees, and therefore the chair does not think it would be receptive to a conversation about lowering these costs. The board, however, is mindful of the costs and has made some progress in lowering the fees of the broker substantially, even though it acknowledges that 95% of the cost of running the fund is related to the manager. From our perspective, the role of the board is to protect the interests of its shareholders. A clear example of these is on fees, where we expect the board to exert influence over the manager. Holdings' disclosure: This is currently on a six-monthly basis; moving to quarterly would be a positive step as most investment trusts disclose their positions monthly. It was agreed that the chair would progress this.

Outcome: There are several areas that we will monitor and follow up on in future engagements including fees and disclosure on holdings as well as anything ESG and stewardship related.

Tesla – Environmental Social Governance

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 CO2e emissions data at a company level.

Throgmorton Investment Trust – Governance

Objective: To promote better disclosure of stewardship and ESG-integration activities.

Better disclosure has been an ongoing point of engagement for investment trusts. At Throgmorton, differentiating the Trust has been a topic of much debate on the board. There is an understanding that more can be done to update the website so that information is specifically about Throgmorton as a company. From our perspective, reporting all of Blackrock's activity is not helpful as we want to see what is happening at the Trust level and we would like to see more ESG integration examples within the reporting.

Outcome: We will continue to monitor developments and will form a voting position over the next 12 months.

Total Energies - Environmental

Objective: We continued our thematic engagement on climate-transition plans and disclosures with the largest emitters in the voting universe (scope 1 and scope 2 emissions). The first phase is engagement for information to get a better understanding of the quality of transitions plans and whether companies are taking (or not taking) appropriate measures to align with a future lower-carbon economy.

Total's shift towards renewables generation and gas production is clear. Total has a detailed plan for reducing Scope 1 and Scope 2 emissions, on an absolute and interim basis, and was one of the first companies to set net-zero targets for Scope 3 emissions. These targets are as comprehensive as most of the top climate-performing oil and gas majors, but there are still gaps. There is a focus on Scope 3 emissions from European customers, but it is not clear how and when this will be measured on a worldwide basis. There is a lack of clarity over the use of carbon offsets. It is unclear how the company will significantly increase fossil fuel production, particularly oil (unlike peers such as BP) and also achieve net-zero emissions. The company has signalled how it aims to become a lower-carbon company, but despite its announcements the route to becoming a net-zero company is relatively opaque.

Outcome: This was an engagement for information. We used this preliminary conversation to establish an opinion on the quality of Total Energies' transition planning. We will continue to monitor progress towards aims and to encourage the company to produce more tangible detail on how it will address all Scope 3 emissions.

TRIG - Environmental

Objective: We continue our thematic engagement on the lifecycle of renewable energy infrastructure assets – specifically wind turbines and solar panels. The first phase is based on engagement for information and the learning of best practice.

Our first topic of discussion was supply chain management. During the pre-investment stage of a new asset, TRIG will use negative screening to assess the sustainability of a project's supply chain process. This will allow the investment trust to only establish partnerships where there are shared values. After the initial negative screening assessment, TRIG will then complete detailed due diligence of supply chains to verify the origin of assets and ensure they have been responsibly sourced.

Our second discussion point was the treatment of assets at the end of their useful life. As part of TRIG's due diligence, it assesses the percentage of assets that can be recycled, and the quality of land being used for the renewable projects. TRIG will also consider how to establish a process to cut down on the transportation of materials to reduce emissions.

TRIG has established a process to continuously refine its due diligence and acquisition approach in the pre-investment stage. The next stage of this refinement will involve the implementation of a circular economy policy to ensure appropriate waste management plans are set out at the project level. The trust will also take the policy to potential partners to manage expectations and help it identify any gaps.

Outcome: This was an engagement for information, which we will use to improve our understanding of best practice around the lifecycle of renewable energy infrastructure assets. From the supply chain discussion, we learned that TRIG uses negative screening, detailed due diligence and engagement to ensure all projects and partners are in line with the trust's core values.

From the conversation on the treatment of assets at the end of their useful life, we learned that TRIG will be establishing a circular economy policy and is part of various industry research groups. One of TRIG's projects in France will be reaching the end of its useful life in 18 months. This will provide an opportunity to improve understanding, with more detail to be provided to investors. This was a very positive meeting, and we look forward to learning more from the project that will soon reach the end of its useful life.

Unite Group – Governance

Objective: A follow-up conversation from an engagement in 2020 to raise our concerns that executive pension contributions are not in line with the wider workforce, as per the best practice of the UK Corporate Governance Code.

The company secretary confirmed the remuneration committee committed to a three-stage reduction to bring the pension contribution level for the CEO and CFO down to the broader workforce rate over a reasonable timeframe. The first two reductions moved the contribution to 17% and then 14% of salary, taking effect on 1 January 2021 and 1 January 2022 respectively. A final reduction to 11% of salary will take effect on 1 January 2023, bringing the CEO's and CFO's pension contributions in line with that offered to the wider workforce. This is in line with UK best practice.

Outcome: The company is on track to meet UK best practice standards for pension contributions.

United Utilities – Social Governance

Objective: To explore diversity plans at the board level and progress of both external and internal diversity programmes.

United Utilities performs well on diversity across senior management and the wider workforce. Challenges faced by the company include the geographical location of the head office (Warrington) and the industry being traditionally male dominated. Louise Beardmore was announced as CEO 'designate' and currently sits on the board; she will take over once the current CEO steps down in early 2023. Beardmore was previously Customer Service and People Director and has played a pivotal role in establishing the company's D&I strategy.

The company aims to improve diversity through its talent programme to train and develop women into senior roles. The Aspiring Talent programme focuses on areas such as Operations where there has been persistent underrepresentation of female leaders. Externally, the company works with recruitment agencies that focus on diverse hiring. By partnering with these specialist recruiters, the company works with local communities more effectively to attract female talent and a wider ethnic minority cohort. The company's need for talent with a STEM skill set poses challenges and the company recognises progress is incremental.

The company recently engaged with a D&I specialist provider and conducted an audit of the company's diversity status. United Utilities uses a maturity model to anchor the company's diversity strategy and to measure progress. The company also supports the government's Kickstart programme by providing placements in various roles across the Northwest. This scheme supports groups in local communities that are traditionally overlooked.

Outcome: Overall, United Utilities has demonstrated a cohesive approach to diversity. The company provides ample examples of where diversity is considered at every level throughout the company and there is a robust D&I strategy in place. We welcome ongoing monitoring of both internal and external diversity programme outcomes.

Vestas – Environmental

Objective: Renewable energy infrastructure is often perceived to be automatically sustainable, given its contribution to net zero ambitions, but there are – as always – many factors to consider. An important one is the end-of-life plan for these assets. In addition, the sourcing of infrastructure assets or raw materials is also important, ensuring thought is given to ethical and sustainability considerations early in the lifecycle too. We view Vestas as a potential benchmark against which we can frame other companies and investment trusts.

There are several important considerations across the lifecycle of renewable energy infrastructure assets from a sustainability perspective, however, we specifically focused this engagement on supply chain management and the treatment of assets at the end of their useful life. Vestas achieves sustainable supply chains by i) performing due diligence on all its suppliers and ii) specifically engaging with c.50 identified strategic suppliers to ensure an alignment of commitments. On waste, Vestas is committed to a 50% reduction by 2030 and the company will work with its strategic suppliers to ensure there is an alignment of commitment. It will track the progress of this quarterly. Vestas works closely with suppliers and has an influence on the supply chains. Vestas has asked suppliers commit to reducing scope 3 emissions; for those that have not, Vestas is seeking alternative suppliers where there is better alignment. This has a direct impact on employee remuneration as one third of the employee bonus structure is related to emissions avoided. There are currently three solutions for achieving blade recycling: mechanical shredding, cement co-processing and degasification. These solutions are the most mature but are not widely available or cost effective. As a result, the company is working through various research groups and initiatives to make projects more cost effective and increase the scale of recycling.

Outcome: Our engagement for information will become our benchmark for future engagements with other companies and renewable infrastructure investment trusts. From the discussion on supply chains, we learned that Vestas are following global best practice and are actively engaging with strategic suppliers to reduce waste and GHG emissions. On the topic of turbines at the end of their useful life, the company is actively involved in the redesign of wind turbines to improve recyclability and industry research groups to further recycling technology. While it is not an asset owner, and thus does not have responsibility itself for turbine recycling, it is significantly contributing to efforts in this important area. There is clear and transparent reporting on progress with these initiatives within the company's sustainability reports. It undertakes ongoing dialogue with policymakers on establishing EU-wide frameworks and Vestas has created a circular strategy which sets out its ambition with respect to turbines across their useful life. The level of detail provided was sufficient and we are pleased with the outcome of the engagement. Future dialogue with the company is planned.

Walgreens Boots Alliance – Governance

Objective: We sought dialogue with the company to raise concerns related to its failure to respond to 2021's 'say on pay' vote result.

In response to last year's failed say-on-pay vote, the proxy included disclosure regarding feedback received from shareholders. However, disclosure of engagement efforts was incomplete. More concerning, the pay programme changes did not fully address the most prominent shareholder concern regarding the use of positive discretion to increase 2020 LTIP.

Outcome: Despite multiple efforts to initiate dialogue, the company failed to respond. We voted against the remuneration report and election of directors. We also voted to support a shareholder resolution (against management) to reduce the ownership threshold for shareholders to call a special meeting.

Walt Disney – Social Governance

Objective: To raise concerns related to transparency issues highlighted by several shareholder resolutions put forward at the 2022 AGM.

After receiving no response from the company, we voted in favour (against the management) of four shareholder resolutions related to approving calls to report on lobbying payments & policy, human rights due diligence efforts, gender/racial pay gap. A resolution was also tabled to reduce the ownership threshold for shareholders to call a special meeting. This measure could improve shareholder voice.

Outcome: We voted against management on four shareholder resolutions to improve transparency on material ESG issues and voted to reduce the ownership threshold for shareholders to call a special meeting.

Weir – Social Governance

Objective: To explore how the company is addressing gender diversity concerns at the board level and across the wider workforce.

Weir performs poorly in terms of gender diversity across all levels, even when accounting for industry-wide challenges. Only 17% of positions within the company are held by women. The board has made several changes recently to address this. This includes appointing a female chair and two female non-executive directors. However, the company struggled in a recent search to find female candidates with expertise in mining. When approaching board diversity, the company perceives the main challenge to be the conflict between market demand for female candidates and the concern that candidates may be 'over-boarded' and have insufficient time to devote to the company.

The company uses executive search firms to attract a diverse range of candidates for director and senior executive positions. The company believes that a key challenge in attracting female candidates from outside the business is that many prospects are often content in their existing role and, therefore, less willing to search for new positions. The company is focused, therefore, on filling roles internally and will always advertise roles internally for a period. Another key focus area is increasing the intake of female graduate engineers who can then progress through the company.

Weir is using the Workday HR system to track progress and data over time. However, development is in early stages. The company highlighted challenges in tracking different data points. Gender diversity, for example, is easier to track than other areas that are more reliant on self-identification. We fully appreciate this challenge.

ESG-related measures were recently introduced as part of the company's remuneration policy. Improving gender diversity is one of the baskets of ESG measures that in aggregate count as a 20% weighting towards the 2022 annual bonus.

Outcome: The company has firm-wide initiatives in place to focus on improving gender diversity and is in the process of updating the board diversity policy and a D&I policy for the wider employee base. However, there is an absence of a clear firm-wide strategy to address gender imbalance across the workforce. We would welcome the tracking of data of both internal and external programmes to better assess company progress and commitment to improving diversity.

Whitbread – Social Governance

Objective: To explore how the company is addressing gender diversity concerns at the board level.

Despite performing well on gender representation at the management level and across its wider workforce, Whitbread has experienced a decline in gender diversity at the board level in recent years.

The company has set timelines to improve board diversity. The board aims to increase board female representation by two candidates prior to the next AGM. Following this, an additional appointment in expected across the next 12-18 months. Korn Ferry, a recruitment consultant, will be used to assist in the hiring of new board members. The company also highlighted some key challenges in hiring senior-level female executives, particularly the industry push to

hire experienced non-executive members, which is depleting the executive talent pool – candidates are choosing NED positions over C-Suite positions.
Outcome: Overall, the conversation was positive. Whitbread has short-term plans to increase board gender representation and it is expected to align with the FCA targets in the medium term. The company expects two female non-executive directors to have joined the board by the 2023 AGM. We expect the positive dialogue to translate into better board diversity at the next meeting, but we will continue to monitor developments.

Xylem – Environmental
Objective: This was a catch-up conversation to receive a general update on the company's sustainability strategy.
We ran discussed the company's sustainability performance. Over the past few years, the strategy has pivoted from just footprinting operational emissions to looking to incorporate a new set of goals that focuses on the impact of their suppliers as well as the company's impact on the local communities in which it operates. Xylem has a 2050 net-zero plan in place and is currently working with the Science-Based Targets initiative (SBTi) to get this externally verified.
Outcome: Positive update from a company that inherently has a sustainable focus given the nature of its products/services. It was encouraging to see that various sustainability criteria are being progressed internally, including a net-zero plan.

Young & Co's Brewery – Governance
Objective: To raise concerns regarding ex-gratia discretionary payments made during the fiscal year.
We contacted the company to seek further clarity on the item above. The company indicated that the discretionary addition to annual bonus payments was put in place in light of the challenges the company has faced during the pandemic and the exceptional performance over this period.
Outcome: Typically, we do not support upward adjustments (or additions) to in-flight bonus awards. Therefore, we voted against the Financial Statements and Statutory Reports at the 2022 AGM.

FUND ENGAGEMENT

We invest in funds managed by other investment firms. Below are some of the third-party fund engagements we have carried out over the last year. We have anonymised this given the nature of the discussions. We track the developments and outcomes over time.

The engagements are split into four areas:

1. The firmwide approach to responsible investment

2. Manager and strategy approach to responsible investment

3. Engagement on ESG risk and exposure

4. The firmwide approach to net zero

1. The firmwide approach to responsible investment

Third party manager - senior responsible investment leader

Objective: Evaluate the progress made on voting and engagement.

We discussed how resource has been added to the team and how it intends to take a measured year-on-year approach to setting stewardship expectations, so that companies have time to act. One particular focus of discussion was the lack of apparent support for shareholder resolutions in the US. The firm's view is that the wording of many of these is not conducive of their support; additionally, it feels it is constrained in filing or co-filing proposals itself. We discussed Exxon and the progress made since the changes to the board in 2021. We also discussed the firm's focus on TCFD, targets and disclosures, and the need to push for capital expenditure to be in line with the decarbonisation plans set out by companies. Finally, we talked about what the firm believes are limitations for engaging in favour of transition plans and new capital expenditure that are aligned to 1.5 degrees.

Outcome: We found the level of ambition that came across to be more muted compared to a previous update. We know that the firm is navigating a difficult environment, particularly in the US, and that work could also be going on behind the scenes. As a follow-up, we arranged a separate meeting to focus on their net-zero commitment and a meeting with the head of sustainability.

Third party manager – private equity

Objective: Update on how the firm is integrating ESG factors into its process and engagements.

The fund is managed using a fund of funds strategy, investing in third-party private equity funds. We discussed how an ESG manager scorecard is used, which is intended to give a picture of the quality of the approach being taken, considering how the fund approaches ESG factors within the process and in the standard reporting, due diligence reporting and incident reporting. The scorecard has evolved over the years, to include climate change and diversity and inclusion indicators, for example. We understood how the approach differs, whether it is a direct co-investment or secondary investments, with engagement with portfolio companies taking place mainly with direct co-investments - helping set out an ESG policy, for example. We discussed the firm's participation in a net zero / Science Based Targets initiative working group that is working to produce guidance.

Outcome: We felt the firm has a sound approach to ESG integration and engagement within the private equity space. We will be looking to see how it approaches making net-zero commitments.

Third party manager – private equity

Objective: To understand the approach to responsible investment as a private equity firm.

We discussed the exclusions that are applied, and ESG factor assessments, which include questions relating to climate change, data privacy and company culture. Work is being undertaken on diversity and inclusion, including on gender diversity and diversity of social backgrounds. There is a process in place to provide feedback to companies and set out action points to monitor progress over time. We also discussed the firm's commitment to the Net Zero Asset Managers initiative and targets for the underlying holdings to have science-based targets.

Outcome: This is a private equity firm investing in technology buyouts. We saw many elements of best practice in the approach. While ESG factor assessments do not influence the valuation assumptions for investments, there are exclusions on certain product involvements and work is undertaken with companies to improve on the action points identified. We were particularly glad to hear of the focus on issues, like lack of gender diversity in technology.

Third party manager – firm update

Objective: To understand the latest firm-level developments, around ESG integration and data analytics.

We discussed the ongoing work to upgrade ESG data analytics, using mainstream ESG data providers as well as new data sets and climate data, and, also, the addition of proprietary scores. The sustainable investing team has assessed the various strategies through an ESG integration lens; this process will be continued over time to ensure ESG factors are being embedded in decision making. We discussed the current environment where there has been a backlash against 'ESG' and how the firm advocates that responsible investment is linked to fiduciary duty. The firm's net-zero plan has been considering three drivers and the firm was in the process of submitting its NZAM plan to the IIGCC (Institutional Investors Group on Climate Change). The firm has a focused list of engagement targets, which includes Exxon.

Outcome: We were pleased to hear that the firm is expanding its climate analysis resource, as well as working to extend and upgrade the data analytics that are delivered to investment desks.

Third party manager – firm update

Objective: To evaluate progress to integrate ESG factors into the investment process and engagement activity for the two funds we invest in.

We discussed the progress made to formally consider environmental and social issues alongside governance issues in the investment process, and how ESG information is recorded after analyst meetings. Governance remains the firm's starting point, as ESG data is more limited for Asia - which is where the firm invests - compared to Europe; the firm believes corporate governance to be of greater importance in Asia, given company ownership structures. The firm's engagements benefit from being a member of the Asian Corporate Governance Association (ACGA). We discussed the firm's reservations about firm level net-zero commitments, the exclusions now in place for the Article 8 funds, and the new reporting on mandatory adverse indicators. We discussed the long-held position in Tata Power and the engagements with management on the thermal coal assets, including on the alignment of corporate lobbying with environmental targets.

Outcome: The funds have always had a focus on governance and a low carbon intensity at a portfolio level versus their benchmark indices. The funds are now classified as Article 8, with various formal exclusions now in place. We shared our view that, as Article 8 funds, it is important to see environmental and social characteristics promoted as well as governance; additionally, that there is value in asset management firms having at least a policy setting out the importance of net zero and environmental considerations. Finally, that we strongly encourage the third-party managers we invest in to engage with companies to set science-based targets.

Third party manager – firm update

Objective: To discuss the central sustainability team's progress to further embed ESG factors in investment manager decision making, following a meeting with the manager of a specific strategy where we felt there were improvements to be made.

Training on ESG integration and other topics related to responsible investment is provided to fund managers but is not compulsory. We gave our view that the delivery mechanism for the training is critical due to the technical nature of the topic. Using engaging speakers to explore and discuss ESG issues can help managers fully appreciate related risks and understand why focusing on sustainability is important. The firm is rolling out new analyst ESG ratings and it expects them to add more clarity and structure to the process. It aims to offer deeper analysis, which is more granular and captures impact and financial materiality.

The ratings will include a climate assessment, considering alignment to energy transition goals, as well as building in considerations of a "just transition". By providing tools of value, the firm hopes to appeal to fund managers who have not yet engaged with ESG factors when making investment decisions.

Outcome: This was a positive update, and we will follow up in due course to hear how the new ratings are being used by the investment desks in practice.

2. Manager and strategy approach to responsible investment

Third party manager - UK equity

Objective: To follow up on our previous engagement and to track progress regarding the integration of ESG factors into the investment team's decision making and engagements.

We discussed their progress rolling out ESG data and analytics to the investment desk and why the previous system they had been working on is not being used on a day-to-day basis. The firm has a climate focus universe of 1,000 companies. However, there is limited overlap with the fund's holdings - which number just 13 companies - given the inclusion of smaller companies within the fund's investment universe. We discussed their progress on Diversity & Inclusion at a firm level and their thinking around the diversity of the UK team, which remains predominantly white male, although we realise that not all diversity is evident in photos. We were pleased to hear there is a female portfolio manager joining the team in the next few weeks.

Outcome: The firm has made less progress than we expected on rolling out more sophisticated data that is used on a daily basis by the investment desks. We have given feedback about the progress we would like to see by the time of our next engagement.

Third party manager - US equity

Objective: To understand more about the firm's approach to considering environmental and social factors, given the greater focus on governance in the past.

The firm focuses on financial materiality when considering ESG factors and believes that governance factors will be financially material for every company, whereas financial materiality for environmental and social factors can vary by company, industry and region. The firm has increased analyst resource to spend more time on environmental and social issues, especially as climate change has become a bigger issue for companies. ESG issues are also considered by internal investment committees. We discussed third-party data use and an ESG data dashboard that helps them, for example, understand the impact of a higher carbon price on company earnings. We also discussed some of the fund's high emitting holdings.

Outcome: This is an Article 6 fund with a value bias. There remains a focus on governance, but it was good to hear the firm is building out analyst resource to have more time to consider environmental and social issues. It was also positive to see that the checklist questions asked within the ESG risk framework include important environmental and social factors, rather than being dominated by governance-related questions. We will continue to evaluate progress, including looking for expertise on environmental and social issues across other members of the team.

Third party manager – fixed income

Objective: To understand the approach to ESG integration and engagement and any changes made to the process, now that the fund has been added to the firm's sustainable fund range and classified as Article 8 under SFDR.

We discussed the rationale for classifying the fund as Article 8 and moving it to the sustainable fund range. We discussed the exclusions now in place and how these have had no material impact on the portfolio, with exposures like tobacco sold down in recent years. There is now a requirement for the fund to hold a set proportion of the portfolio in companies that maintain sustainable characteristics and for the rest of the portfolio to show improving sustainable characteristics. We discussed the engagement activity and views on green bonds, sustainability and sustainability-linked bonds, which will be held when seen to be attractive.

Outcome: We have been invested in the fund for several years. This was the first meeting focused on ESG integration / engagement since the fund was moved to the sustainable fund range. ESG and climate risk comes across as being embedded in the fund manager's investment thinking, though the motivation for this to be a sustainable fund also came across as being client demand driven. We will watch for how the portfolio evolves from here, and the enhanced framework that has been put in place for engaging with the issuers with a low sustainable rating that are seen to be 'improvers' in the fund.

Third party manager – cash / money market

Objective: To understand whether ESG considerations are feeding into the investment process and engagement for the fund.

This was a meeting with the fund manager to discuss the approach being taken to consider ESG factors within the process, which includes a feed of third-party ESG data. There are some screens that are acknowledged to have minimal impact as the fund is predominantly made up of financials. Although this strategy has very short-term positions, given its mandate), it does have positions with the same issuers, and therefore is in a strong position to engage with issuers. The firm is able to evidence how engagement has driven change at its issuers - for example, proposing and achieving amendments to a bank's coal exclusion policy.

Outcome: ESG factors are being given some consideration, primarily to reduce portfolio risk. Royal London also engages with holdings, both at team level and centrally.

Third Party Manager – Asia equity

Objective: Follow up to a meeting in which we identified areas for improvement.

The manager outlined how he views the analyst ESG ratings on the firm's proprietary research system, which can be drilled down to sub-categories to help understand specific issues. We discussed the ESG risks for two stocks, a shipping company and a fertiliser manufacturer and supplier, along with how the manager considered the information. He did not feel these risks changed his investment thesis and therefore retained the holdings.

Outcome: The manager remains much more focused on governance in his investment thinking than on environmental or social factors. As an Article 6 fund under the Sustainable Finance Disclosure Regulation, this can be partly justified, given its focus on Asian companies and corporate ownership structures in the region. We will continue to assess how the manager is making use of the ESG data and any training provided.

3. Engagement on ESG risk and exposure

Third party manager - engagement on Rio Tinto

Objective: Deep dive into engagement activity with global mining company Rio Tinto, following publication of its workplace culture report in early 2022.

We had spoken about Rio Tinto briefly at our meeting with the fund manager. As a follow-up, we asked the firm for an overview of engagements with Rio Tinto over the past year. The firm had identified that workplace culture was a specific concern. We knew that the firm had engaged with Rio Tinto in the first quarter and had asked for metrics on how progress in improving the culture will be measured. Our focus was on understanding whether the metrics the firm was pushing for have been put in place and if there had been further engagements with Rio Tinto on this.

Outcome: We were provided with reasonably detailed information regarding the nature of the engagement activity. Rio Tinto has put in place 26 concrete actions to be implemented over the next two years and we will re-engage with the firm over the course of this period to monitor progress.

Third party manager – UK equity – engagement on Antofagasta

Objective: Update on whether there have been any changes to how ESG factors are included in the process, any change to the acceptable universe given that the fund has strict exclusionary criteria, and how net-zero targets are being approached at fund level.

We discussed the inclusion of Antofagasta in the fund, on the basis that where extractives were previously excluded, they are now permitted where companies are mining metals that are critical for the transition, of which copper is one. We discussed the conduct issues that have been assessed and why it was felt that Antofagasta is now an acceptable exposure. We also discussed the potential challenges of meeting 2030 portfolio decarbonisation targets when a fund is constrained by an income mandate and various ethical exclusions. We gave our view that engagement with portfolio holdings to encourage them to set and meet science-based targets is more important than portfolio carbon intensity, given the importance of real-world change.

Outcome: We discussed changes to the team following a corporate event and changes to the acceptable universe. As a follow-up. we have asked for clarification about the fund's net-zero targets given its income and ethical constraints.

Third party manager - US equity – engagement on Exxon

Objective: Deep dive into the fund manager's exposure to Exxon to gain an understanding of how climate risk is factored into the team's investment decision making and engagement.

We had a call with the portfolio managers and stewardship team to discuss their analysis and engagements with Exxon. We discussed the team's increased interest in the stock after new board members were elected in 2021. This followed the Engine 1-led activism, which the asset manager supported by voting for the election of three of the four proposed new non-executive directors. Our discussion included the ambition of the environmental targets that Exxon has set to date, whether the team expects to see Exxon disclose scope 3 emissions data and set targets, and whether they are engaging on lobbying alignment. We pushed back on the view put forward by the portfolio manager that oil supply has been constrained by those advocating ESG considerations, rather than being constrained by factors such as Russia's war in Ukraine.

Outcome: This is an Article 6 fund that does not have a net zero or sustainability objective. The asset manager is a signatory to the Net Zero Asset Managers initiative and our discussion was focused on understanding how their engagement strategy aligns with this, as well as the consistency between the thinking of the investment and stewardship teams. As the fund that currently has the largest exposure to Exxon out of our funds under coverage, we have urged them to use their access to management to engage more on climate action, including in regards its lobbying activity. We also reiterated our view that the oil supply has been constrained by a number of factors, not just ESG considerations.

Third party manager – US & global equity - engagement on EOG Resources

Objective: This was a follow-up meeting to focus on a specific strategy, having discussed the firm's wider net-zero approach.

The strategy is following the Net Zero Investment Framework methodology and there is an emphasis on engagement. The team has been engaging with EOG Resources, which is involved in hydrocarbon exploration; the holding provides the fund with energy exposure and an ability to engage with management. Additionally, there is the ability to use voting rights to foster change, which the fund manager has used to reinforce its view that EOG should report on Scope 3 emissions and to add another woman to the board. A further aspect of the discussion was how the manager was thinking about the social impact of companies' transition plans.

Outcome: We believe the fund team is showing thoughtful consideration regarding the strategy's approach to net zero.

Third party manager – engagement on Xinjiang Goldwind

Objective: A call with the fund manager about a company that is held in the fund, following allegations it is using forced Uyghur labour.

Xinjiang Goldwind is a leading wind turbine maker in China that has allegedly been using polysilicon linked to forced Uyghur labour. We discussed when the fund manager became aware of the allegations, the review of the evidence at the time, and monitoring of the company since then. The holding has since been sold within the fund.

Outcome: We see this as an example of how ESG issues can be complex. We do not want any investment to be linked to Uyghur labour. However, there is a broader issue that China currently dominates the global market for polysilicon with a very significant proportion coming from the Xinjiang region. Polysilicon is needed for the production of solar panels and wind turbines, which are required for the energy transition. The manager has divested the holding, but we will continue to consider how other holdings are evaluated and engaged with regarding any further links to Uyghur labour in their supply chains.

Third party manager – Asia equity – engagement on specific holdings

Objective: Follow up on a meeting last year to monitor progress on ESG integration.

We discussed specific holdings to better understand how the manager considers ESG factors. We focused on Metro Pacific Investments (MPI) and Cikarang Listrindo, both of which are involved in thermal coal production. MPI has recently decided against a project to add further coal capacity and has stated its intention to move further towards renewables. Cikarang Listrindo has also decided to add no further coal assets, instead is focusing on building solar capacity.

As a whole, the geographic region in the manager's remit is still at an early stage on its sustainability journey. The manager considers ESG factors from a risk mitigation perspective and is mindful of markets where setting climate-related goals needs to balance with meeting the needs of populations.

Outcome: The manager is increasingly focused on setting expectations for its underlying companies, and we will continue to monitor progress.

4. The firmwide approach to net zero

Third party manager - net zero

Objective: To understand better the approach the firm has chosen for the Net Zero Asset Managers initiative and how this commitment sits alongside its 2030 net-zero statement.

We discussed the firm's Science Based Targets portfolio coverage approach, the difficulties in committing to targets where some sectors do not have Science Based Targets Initiative (SBTi) methodologies in place yet, and the data constraints for the firm's large investment universe. We challenged the wording of the net-zero statement, which makes no reference at all to 1.5 or 2 degrees, or the Paris Agreement. Neither does it say whether there will be engagement with companies to encourage them to set and improve decarbonisation strategies. We discussed what fiduciary duty means for passive holdings when climate risk is seen as investment risk.

Outcome: It is hard to fully assess very large institutions that we know risk being told they are breaching their fiduciary duty as part of the anti-ESG backlash we have been seeing, particularly in the US. As it stands, the net-zero statement makes us question why the firm has signed up to the Net Zero Asset Managers initiative.

Third party manager – net zero

Objective: To understand how the firm is approaching its Net Zero Asset Managers initiative commitment.

The firm is using the Net Zero Investment Framework (NZIF) methodology and now has 70 funds within this framework. The process involved individual fund managers agreeing to the net zero commitment, and then gaining fund level and regulatory approval. The firm uses data from multiple

sources and considers eight metrics when evaluating companies' plans; a rating is given to each holding, to reflect their progress towards net-zero alignment.
Outcome: Our meeting with the responsible investment team gave comfort that the manager is focused on engaging with companies to decarbonise, in line with delivering 1.5 degrees of warming.

Third party manager – net zero
Objective: This was a follow-up meeting regarding progress on ESG integration and, in addition, to understand the firm's approach to net zero and views on the Net Zero Asset Managers initiative (NZAM), which the asset manager has not joined, to date.
The ESG-focused investment team has been expanded and new ESG data and analytics have been rolled out to the investment teams. This is going to be developed further from here to deliver greater flexibility, but this already reflects significant progress. We discussed the firm's rationale for not signing up to NZAM and reservations about committing the firm's total assets under management to net zero. We explained that we are keen to see all the fund houses we invest with sign up to NZAM, and note its caveats around client mandates, regulatory environments and the need for governments following through on their own commitments. We also gave our view that engagement and real-world change is key, not making changes to portfolios.
Outcome: It was helpful to hear about the progress made on ESG factor analytics, which we will then be able to consider further at our next meetings with the fund managers we invest with. We will continue our discussion on NZAM at our next meeting.

Third party manager – net zero
Objective: To understand why the firm has not signed up to NZAM, whether its net-zero ambition is credible or not.
We discussed the firm's net zero ambition and the rationale for not signing up to the Net Zero Asset Managers initiative at this stage. The firm explained that among its key concerns are that their client mandates do not have net-zero objectives and, also, the potential for the NZAM commitments to change over time. This has not stopped the firm setting its own net-zero ambition which is primarily focused on the integration of ESG factors within the investment process, identifying high emitting issuers that are lagging peers, and an active ownership agenda which includes being part of Climate Action 100+.
Outcome: We will continue to engage with the firm on its net-zero ambitions.

COLLABORATIVE ENGAGEMENT

We participate in collaborative engagements alongside other investors. In 2022 we participated in the following:

CDP Non-Disclosure Campaign – Environmental

Objective: We joined 263 investors from nearly 29 countries to urge 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 (CO2e) annually.

The campaign aims to increase environmental disclosure among companies that either have never disclosed or have 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 we hold within our centrally monitored equity universe.

Outcome: Climate change, deforestation and water security have become material issues to many industries. Therefore, consistent, comparable data is key to addressing the associated risks and opportunities. We believe 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.

CDP Science-Based Targets Campaign – Environmental

Objective: To accelerate the adoption of science-based climate targets in the corporate sector, by collaboratively engaging companies on this matter.

The latest Intergovernmental Panel on Climate Change report makes it clear that without immediate and deep emissions reductions across all sectors, limiting global warming to 1.5°C will be impossible. Science-based targets provide a roadmap for reducing emissions at the pace and scale that science tells us is necessary to avoid the most catastrophic effects of climate change.

Outcome: We have joined a coalition of 274 financial institutions representing US$36.5 trillion to ask specific companies to commit to a target. Of the companies targeted 47 are holdings within our direct equity centrally monitored list.

Signatory of: PRI Principles for Responsible Investment

Modern slavery in the UK - Social

Objective: The purpose was to engage companies that would have not met reporting requirements under the 2015 Modern Slavery Act.

In 2021, we joined a group of UK investors lead by Rathbones through the UN backed Principles for Responsible Investment platform.

Outcome: All the 44 target companies have responded and as at September 2022 there are eight companies who will be releasing new statements and three companies that are amending statements to become fully compliant.

30% Club Investor Group Executive Search firms in the UK – Governance Social

Quilter Cheviot co-lead this engagement; the findings will be published in 2023.

Find it, Fix it, Prevent it – Social

The prohibition of slavery is one of the world's most widely asserted norms. Regulation outlawing forced labour, human trafficking and slavery is to be found in international human rights law and in the legislation of many sovereign states. Further, eradicating modern slavery is one of the UN Sustainable Development Goals. This collaborative engagement will focus on UK listed companies in specific industry groups which have been identified as being higher risk in regards modern slavery.

Investor Statement on the Seasonal Worker Scheme – Social

As an adjunct to the Find it, Fix it, Prevent it campaign CCLA brought together ten long-term institutional investors with £806bn assets under management and advisory with investments across UK listed retail, hospitality and food production. The statement outlined our concern that migrant workers in the UK, recruited and employed through the government's Seasonal Worker Scheme (SWS), are being obliged to pay excessive fees to agents and middlemen in addition to other fees, travel and visa costs for crucial, but temporary roles, supporting the UK's food sector. This results in a high risk of debt bondage, one of the key indicators of forced labour.

PRI Advance endorser - Social

As part of Quilter, we are an endorser of the UN backed Principles for Responsible Investment Advance program. This is a stewardship initiative where institutional investors work together to take action on human rights and social issues. Investors used their collective influence with companies and other decision makers to drive outcomes for workers, communities, and society.

IN THE SPOTLIGHT

RI REELS

Insights into Quilter Cheviot's approach to responsible investment, as well as topical issues.

Positive Change

Kirsty Ward, Responsible Investment Analyst; Melissa Scaramellini, ESG Fund Research Lead

Melissa discusses our Positive Change strategy; a funds-based approach to responsible investing.

WATCH VLOG

The use of data

Kirsty Ward, Responsible Investment Analyst; Nicholas Omale, Responsible Investment Analyst

Nicholas discusses the development and ongoing management of data dashboards.

WATCH VLOG

Sustainable Investment

Kirsty Ward, Responsible Investment Analyst; Toby Rowe, Sustainable Investment Specialist

Toby discusses Quilter Cheviot's approach to sustainable investment.

WATCH VLOG

Source of images: iStock

Introduction to Quilter Cheviot's responsible investment team

The team shines a light on their day-to-day role and experience.

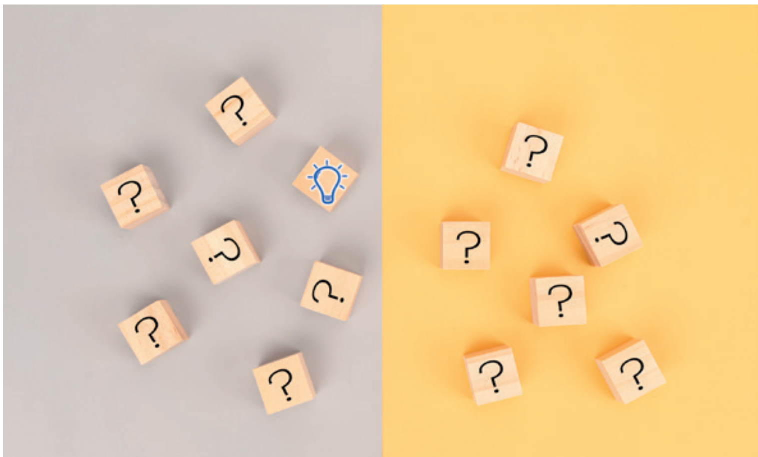
WATCH VLOG

AGM voting season

Kirsty Ward, Responsible Investment Analyst;
Greg Kearney, Senior Responsible Investment Analyst

Greg Kearney highlights the importance of proxy voting season and looking ahead, what we can expect to see.

WATCH VLOG



Incorporating responsible investment preferences

Kirsty Ward, Responsible Investment Analyst;
Duncan Gwyther, Chief Investment Officer

Duncan Gwyther discusses responsible investment preferences and how these are incorporated in order to meet clients' investment outcomes.

WATCH VLOG

Source of images: iStock

OUR RESOURCES AND WHAT WE DO

Overview of our activity across our discretionary holdings at Quilter Cheviot:

Activity	Universe
Voting	Discretionary holdings within the UK, US and European equity monitored lists where we have voting rights including: • MPS (Managed Portfolio Service) Building Blocks • Climate Assets Balanced Fund and Climate Assets Growth Fund • Quilter Cheviot Global Income and Growth Fund for Charities • Quilter Investors Ethical Fund • AIM Portfolio Service This includes our UK, US and European equity and investment trust monitored lists; as well as holdings in the AIM Portfolio Service and UK holdings where we own more than 0.2% or £2 million of the market cap. *Additionally, clients are able to instruct voting on their behalf.*
Engagement	• UK, US and European equities within the monitored list • Funds held on the centrally monitored list • AIM Portfolio Service holdings • UK holdings where we own more than 0.2% or £2 million of the market cap.
ESG integration	All holdings within the centrally monitored universe of equities, funds and fixed income.

We use the ISS proxy voting service in order to inform our decision making, however we do not automatically implement its recommendations. When we meet a company to discuss governance issues, the research analyst does so alongside the responsible investment team as we are committed to ensuring that responsible investment is integrated within our investment process rather than apart from it. As part of Quilter, we became one of the first wave of signatories to the 2020 Stewardship Code.

UK STEWARDSHIP CODE

Where clients wish to vote their holdings in a specific way, we will do so on a reasonable endeavours basis; this applies whether the investment is in the core universe or not, and also to overseas holdings. We have ensured that two clients were able to instruct their votes over the last quarter.

For information regarding our approach to responsible investment, including our response to the UK Stewardship Code and our voting principles, as well as more granular detail on how we voted at each meeting please visit our website Responsible Investment | Quilter Cheviot.

External data provider	Purpose
ISS	**To assist with our active ownership agenda as well as an additional ESG data source** *Voting platform* – we use ISS to inform our decision making. Recommendations are made based on the agreed voting policy. We do not always vote in line with ISS' recommendations. *Governance risk-oriented data* – focussed on board structure, compensation, shareholder rights and audit & risk oversight. Informs decision making for governance engagements and is an input into the equity ESG dashboard. **To provide data for ESG integration and for engagement** *Climate solutions* – directly reported and modelled GHG emissions data and corporate climate performance information (including scenario alignment and disclosure against external frameworks e.g. Science Based Targets Initiative).
Sustainalytics	**To provide data for ESG integration and for engagement** Equities: we use the ESG data as an input into the ESG dashboards, as well as the high-level information provided in the company reports, as well as the *carbon risk rating*. This also includes exposure to specific *product involvement* areas and *controversies*, as well as *sustainable product* areas. Companies that breach the *UN Global Compact* are also highlighted. Funds: this feeds into the Style Analytics tool to provide the research team with more granular detail regarding ESG factors and underlying holdings.
Ethical Screening	**To screen on a negative and positive basis in line with the client policy as well an additional ESG data source** 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. SDG alignment – this is used for the Climate Assets strategy which identifies holdings and their alignment to the UN Sustainable Development Goals.
CDP	**To provide data for ESG integration and for engagement** Equities: incorporating metrics from CDP's global disclosure system into the dashboards as well as providing data for engagements.
Other publicly available data	**To provide data for ESG integration** The equity ESG dashboards use data from multiple sources including publicly available data from NGOs and other entities, such as FAIRR; we also use these data points to inform our engagements.

EQUITY RESEARCH

Identifying ESG risks and opportunities

Active engagement with companies on ESG related matters

RESPONSIBLE INVESTMENT

Overall responsibility for active ownership (engagement and voting) and industry collaborations

Working alongside the research teams to continually enhance our ESG integration approach

Quantitative ESG data

Strategic and regulatory developments

EQUITY RESEARCH

Proprietary ratings at a fund level

Active engagement with funds on ESG related matters

Gemma Woodward
Head of Responsible Investment

Greg Kearney
Senior Responsible Investment Analyst

Nicholas Omale
Responsible Investment Analyst

Ramón Secades
Responsible Investment Analyst

Kirsty Ward
Responsible Investment Analyst

RESPONSIBLE INVESTMENT AT QUILTER CHEVIOT

Active ownership and ESG integration – for 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.

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. To ensure 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.

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.

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.

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.

* For UK, North American and European equity holdings

** Climate Assets Balanced Fund and Climate Assets Growth Fund.

GLOSSARY

Active ownership: This is where investors actively use voting and engagement to influence the management of companies with respect to environmental, social or governance factors. Similar principles are also used by investors in other asset classes such as fixed income, private equity or property. This will also involve active participation in industry and peer group collaborative initiatives.

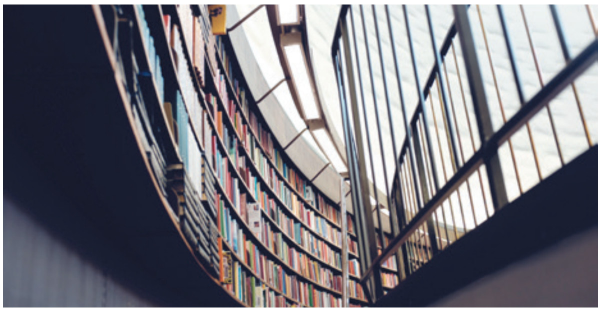
Clawback (and malus): Incentive plans should include provisions that allow the company, in specified circumstances, to ensure that a recipient:

- forfeits all or part of a bonus or long-term incentive award before it has vested and been paid – this is called 'malus' and/or
- pays back sums already paid – this is called 'clawback'.

Disapplication of pre-emption rights: Existing shareholders do not have first refusal on new shares and therefore their holdings will be diluted.

ESG (Environmental, Social, and Governance): The risks and opportunities related to ESG issues. **Environmental** - relating to the environment such as resource, water and land use, biodiversity, pollution, atmospheric emissions, climate change, and waste. **Social** - relating to the relationship between companies and people, such as their employees, suppliers, customers, and communities. Examples of social issues of interest to investors include health and safety, labour standards, supply-chain management, and consumer protection. governance - relating to the governance of an organisation, also referred to as corporate governance. Examples include board composition, executive remuneration, internal controls, and balancing the interests of all stakeholders.

Long-term incentive plan (LTIP): A type of executive compensation that pays out usually in the form of shares company. The reward is linked to performance metrics and the pay-out will be calibrated in line with the achievement of these. The quantum of the pay-out is linked to multiples of salary.



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Net zero: Achieved when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period. Where multiple greenhouse gases are involved, the quantification of net zero emissions depends on the climate metric chosen to compare emissions of different gases (such as global warming potential, global temperature change potential, and others, as well as the chosen time horizon).
Definition sourced from the IPCC.

NEDs (Non-Executive Directors): These are directors who act in advisory capacity only, however they should hold the executive directors to account. They are not employees of the company, however they are paid a fee for their services.

Over-boarded: Where non-executive directors are deemed to have a potentially excessive number of non-executive positions and the concern is whether they have sufficient time to contribute to the board of the company.

Pre-emption right: These give shareholders first refusal when a company is issuing shares. Premium listing: This was previously known as a primary listing for the London Stock Exchange. A company with a premium listing is expected to meet the UK's highest standards of regulation and corporate governance.

Principles of Responsible Investment (PRI): The world's leading voluntary initiative on responsible investment. Launched in 2006 it now has thousands of investor signatories globally who commit to adopt six principles for responsible investment and report against these annually. Although voluntary and investor-led the PRI is supported by the United Nations.

Proxy voting: Where a shareholder delegates their voting rights to be exercised on their behalf. Often voting rights are delegated to investment managers who exercise votes on investors' behalf. Votes are used to express shareholder opinions to company management.

Responsible investment: A strategy and practice to incorporate ESG factors in investment decisions and active ownership.
Definition sourced from the PRI.

Restricted share plan: Some companies (and indeed investors) prefer the use of these plans as opposed to LTIPs (see above). The idea is that this type of plan encourages long-term behaviours and does not have the same use of targets that you would see within an LTIP. Therefore, it is expected that companies which adopt such an approach award a lower amount than would be seen under an LTIP which has a variable structure dependent on performance outcomes.

SID (Senior Independent Director): The SID position is taken by an independent NED. The SID often plays a critical role in ensuring communication channels are open between the board and shareholders.

Stewardship: The responsible allocation, management, and oversight of capital to create long-term value for investors and beneficiaries leading to sustainable benefits for the economy, the environment, and society.
Definition sourced from the Financial Reporting Council (FRC).

Task Force on Climate-related Financial Disclosures (TCFD): The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information.

Tender – bid waiver: This is the right to waive the requirement to make a general offer under Rule 9 of the Takeover Code.

Total shareholder return (TSR): Is a measure of the performance of a company's shares; it combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage.

UN Sustainable Development Goals (SDGs): The 2030 Agenda for Sustainable Development adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 UN Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth - all while tackling climate change and working to preserve our oceans and forests.
Definition sourced from the UN.

Voting: Shares in listed companies typically come with specific voting rights which can be exercised at the company's annual general meeting or extraordinary meetings. They can be used as a means of expressing the opinion of the shareholder about how the company is being managed. This is also referred to as proxy voting when voting rights are delegated, for example to investment managers who exercise voting rights on an investor's behalf.

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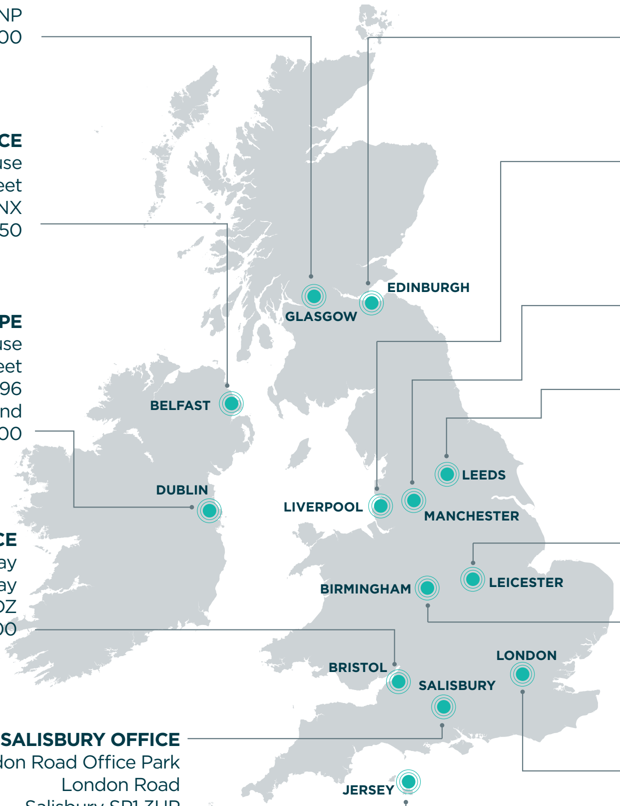

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