Stewardship Code Report 2023

The Stewardship Code has 12 principles for asset owners and asset managers

We have structured this report to link directly to the relevant principles. For each section we have identified the principles to which this is linked and listed these accordingly.

Purpose and governance
1 Purpose, strategy and culture
2 Governance, resources and incentives
3 Conflicts of interest
4 Promoting well-functioning markets
5 Review and assurance

Investment approach
6 Client and beneficiary needs
7 Stewardship, investment and ESG integration
8 Monitoring managers and service providers

Engagement
9 Engagement
10 Collaboration
11 Escalation

Exercising rights and responsibilities
12 Exercising rights and responsibilities

In this report we have used the term customer to describe the end investors of our products and services.
Please refer to the glossary for an explanation of key terms used in this report.

Contents

Introduction from our Chief Executive Officer

Quilter is committed to providing trusted investment advice, good investment management performance and high-quality investment administration services to support clients and their financial advisers.

The financial services industry is in a unique position to help address the key issues facing our society today. We have a duty to be responsible in how we invest the money we are entrusted with and how we act as a business.

At Quilter, we believe responsible investment is an important part of delivering for our customers. Within our investment businesses we are stewards of our customers' assets. We exercise this stewardship through engagement with the companies and funds we invest in, including active voting and through the integration of environmental, social and governance ("ESG") factors into our investment process. We do this because we believe this engagement and analysis allows us to better identify risks and opportunities, thereby informing our ability to deliver long-term sustainable returns. Across Quilter we integrate customers' responsible investment preferences through our advice and suitability processes, enabling our customers to consider these preferences alongside risk and desired investment returns. This enables our customers to invest in line with their values and needs.

We believe acting responsibly is critical if we are to earn the trust of our customers and colleagues. We have a strong focus on creating a culture which is inclusive and recognise that we, like many in financial services, have more to do to ensure our colleague population is reflective of our society today. We also continue to consider the impact we have on the climate and seek to contribute towards the creation of a more sustainable world. We remain proud of the impact our charitable foundation, the Quilter Foundation, has had on our wider society since its launch in 2018.

We are committed to continuing our efforts in strengthening our stewardship capabilities and creating prosperity for the generations of today and tomorrow. This report describes the actions that we are taking to deliver these important commitments.

Steven Levin
Chief Executive Officer

An overview of Quilter and our governance framework

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. From our purpose to our governance framework, we aim to enable comprehensive and effective active ownership practices.

1. Our purpose and beliefs 1

Our business

Quilter is a leading UK-centric wealth management business and is listed on the London Stock Exchange and the Johannesburg Stock Exchange. Quilter plc is a holding company containing a number of companies (referred collectively to as the Group).

We have an adviser and customer offering spanning: financial advice, investment platforms, multi-asset investment solutions and discretionary fund management.

The business is comprised of two segments: Affluent and High Net Worth.

Our purpose

Our purpose is to help create prosperity for the generations of today and tomorrow. We strive to do this through supporting long-term advice-based relationships, delivering good investment management performance while maintaining consistently high-quality customer service.

Our approach to stewardship

Quilter recognises stewardship as a fundamental component of how we manage our customers' assets, and we fully support the UK Stewardship Code 2020. We were one of the first wave of signatories to the new 2020 Code. This report sets out how we applied the Code's principles for the financial year ended 31 December 2023.

Stewardship plays an important role in our approach to responsibly managing ESG-related risks and opportunities. Quilter is committed to our role as a steward of our customers' assets to protect and enhance long-term returns. This encompasses our engagement with investee companies and funds by considering ESG factors which could impact investor returns. We believe that for the majority of our strategies an approach of engagement rather than divestment is the most appropriate action to take. As an example, taking an approach of simply divesting from holdings with a higher carbon intensity could result in these subsequently being held by investors who do not place any importance on transitioning to a lower-carbon economy. In such a scenario, those investments will not have an incentive to change their behaviour, and this could impede a transition to a lower-carbon economy. Additionally, there is the paradox that some companies that have high carbon intensity are focused on developing solutions for a lower-carbon world.

Quilter has an overarching responsible investment philosophy which applies across the Group and covers both our Affluent and High Net Worth segments. The Stewardship Code Principles are particularly applicable to our two investment management businesses, Quilter Cheviot, which sits within our High Net Worth segment and Quilter Investors, within our Affluent segment.

Therefore, the scope of this report primarily relates to these two investment management businesses and to investment management activities carried out by our platform business in relation to our WealthSelect MPS.

As at 31 December 2023, the Assets under Management ("AuM") within the Affluent Managed Solutions is £27.6 billion[1] and the AuM within Quilter Cheviot is £27.0 billion; £54.6 billion[2] in total.

Affluent segment			High Net Worth segment	
Quilter Financial Planning	**Quilter Investors**	**Quilter Investment Platform**	**Quilter Cheviot Financial Planning**	**Quilter Cheviot**
Supports over 1,500 restricted financial planners in the UK. Advisers within our network partner with us to help them run and grow their business. Our national advice business, Quilter Financial Advisers, helps customers across the UK with all their financial planning needs.	Our fund management business provides advisers and their customers with multi-asset investment solutions to meet their needs.	Enables financial advisers to deliver the very best service to customers and their families, to help them achieve their financial goals. We offer a comprehensive range of products and investments through our award-winning online investment platform.	Specialises in helping customers with complex financial needs.	Our discretionary investment manager which offers bespoke portfolio management services to over 35,000 households.

[1] Total Affluent managed AuM of £27.6 billion includes Affluent core business of £25.5 billion and non-core business of £2.1 billion managed by Quilter Investors.

[2] Inter-segment dual assets of £0.3 million reflect funds managed by Quilter Cheviot and administered by Quilter Investors and the Quilter Cheviot managed portfolio service solutions available to advisers on the Quilter Investment Platform. This is excluded from Quilter's total reported AuM of £54.3 billion to ensure no double count takes place.

Both segments invest significant assets in funds. For our Affluent segment this represents almost the entirety of AuM and for our High Net Worth segment, where activities are carried out by Quilter Cheviot, this represents around 60% of AuM. Within this, Quilter Investors runs a significant number of funds for which the day-to-day investment is delegated to sub-advisers. Additionally, Quilter Cheviot owns direct holdings in equities and fixed income.

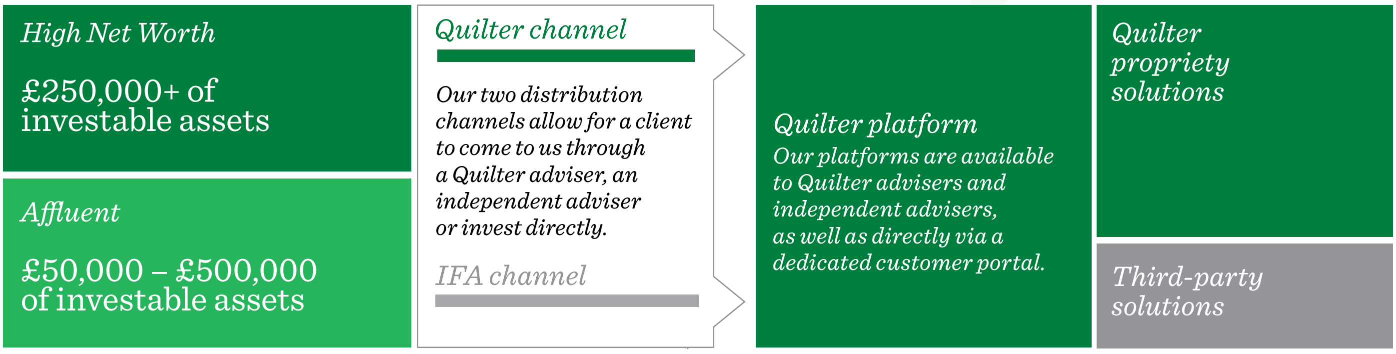
We believe that incorporating ESG factors into investment decisions and exercising active ownership helps to mitigate risk and identify potential opportunities, thereby contributing towards the generation of long-term sustainable returns. This is an iterative process, and we strive for improvement over the long-term.

We believe customers should have the information and choices available to enable them to invest in line with their values and needs. In 2022, we made tools and training available to our advisers across the Group, as well as the investment managers in Quilter Cheviot in order to incorporate identifying a customer's responsible investment preference within the advice or suitability process. This is an ongoing piece of work and we aim to continue to evaluate our proposition against our customers' responsible investment preferences. We provide a number of strategies for customers who have specific responsible investment requirements. These strategies all build on our foundation of stewardship. We did not add to our products or strategies ahead of the publication of Sustainability Disclosure Requirements ("SDR") in November 2023.

2. What we offer our customers 1

Our segments

Our two segments offer slightly different core propositions. Our Affluent segment serves a greater number of customers and is a single-expert proposition: customers have a single point of contact – either one of our advisers or their own – plus a more unitised investment portfolio approach. High Net Worth customers value a more bespoke discretionary-managed proposition.



Our customers use our products and services to meet their long-term financial needs and achieve their aspirations. Ensuring customers are at the heart of everything we do is critical to Quilter's long-term success. Maintaining strong relationships built on the delivery of outstanding service and outcomes, a positive reputation and trust are key to the longevity of Quilter's performance. The significant majority of our customers are classified as individual retail customers and we believe we have a duty to represent their interests, acting as a long-term steward of their assets.

On 31 December 2023 Quilter Cheviot had 647 colleagues. Of these, 216 are employed in an investment management role (174 investment managers and 42 trainees), and a further 22 employed within our Research team, and six within our Responsible Investment team.

On 31 December 2023, Quilter Investors had 76 colleagues, with 23 investment professionals, and five within our Responsible Investment team.

3. How we have developed our responsible investment approach and stewardship over time 1

Our timeline

Over a number of years we have evolved our approach to being a responsible investor.

2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024

Quilter Cheviot attained Tier 1 signatory status for the 2012 UK Stewardship Code

Quilter became a signatory to the United Nations-backed Principles for Responsible Investment

Responsible investment representation on the Quilter Cheviot Investment Oversight Committee

Responsible investment representation on the Quilter Investors Investment Oversight Committee

Quilter became a signatory to the 2020 UK Stewardship Code

Quilter joined the Institutional Investors Group on Climate Change ("IIGCC")

Quilter signed the Investor Agenda's Global Investor Statement on the Climate Crisis

Quilter published a statement supporting the goals of the Paris Agreement

Quilter set Scope 1 and 2 targets relating to its operational emissions target

Quilter retained its status as a signatory of the UK Stewardship Code

Quilter published its first disclosures aligned to TCFD for 2021

Responsible investment preferences incorporated within the advice and suitability processes across the Group

Expanded the WealthSelect range to include responsible and sustainable investment options (Quilter Investors)

Climate Assets Growth Fund was launched, 12 years after the Balanced Fund (Quilter Cheviot)

Quilter Cheviot and Quilter Investors participation in the CDP campaigns focused on encouraging target companies to disclose climate and other related data and to join the Science Based Targets Initiative ("SBTi")

Quilter retained its status as a signatory of the UK Stewardship Code

Quilter published its second disclosures aligned to TCFD for 2022

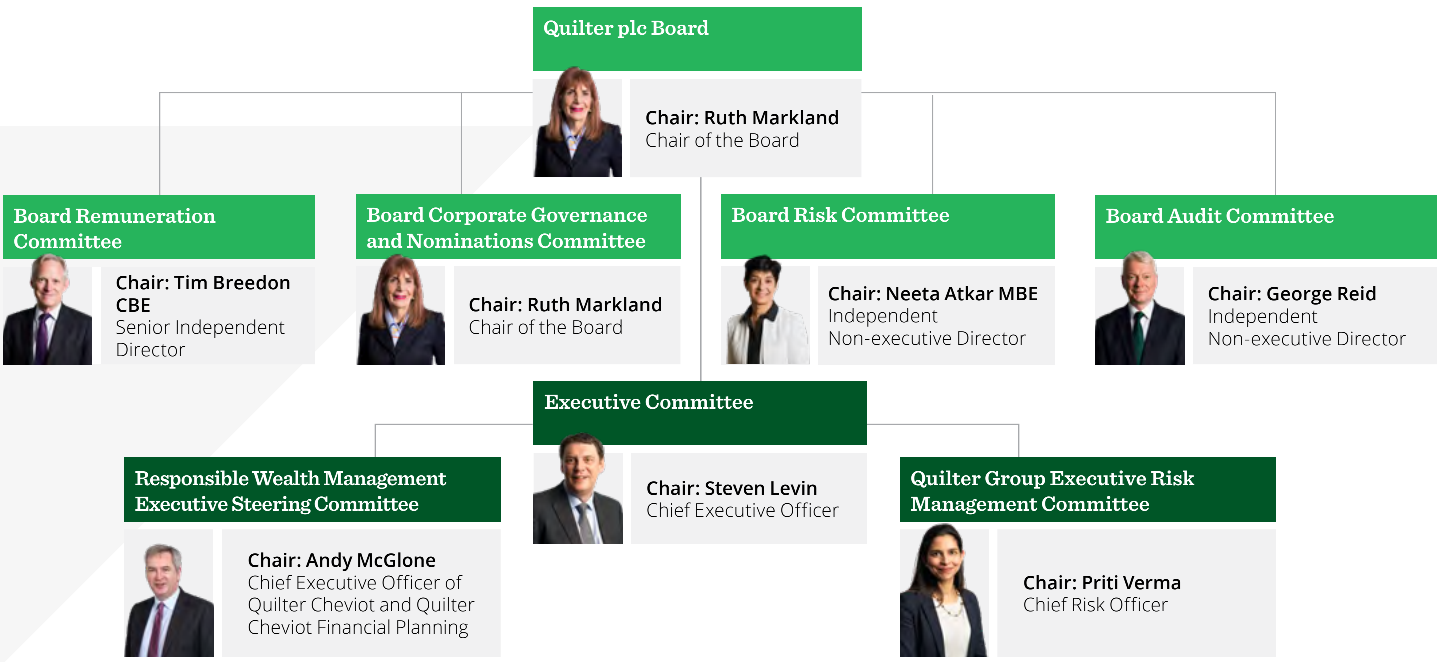
Quilter Cheviot participation in the IIGCC Net Zero Engagement Initiative, Climate Action 100+ and Nature Action 100

Quilter Cheviot and Quilter Investors participation in the CDP campaigns focused on encouraging target companies to disclose climate and other related data, and to join the Science Based Targets Initiative ("SBTi")

Quilter Cheviot and Quilter Investors to deliver Climate Action Plans for the investments managed on behalf of our customers

4. Our governance framework 2

Our governance structure is in place to facilitate our approach to responsible investment and stewardship across the business.



These governance bodies have the following responsibilities in relation to responsible investment and corporate sustainability.

Governance body	Responsible Investment and Corporate Sustainability	2023 activity
Quilter plc Board	The Quilter Board is accountable for the long-term success of the Group. The Board sets the Group's strategic priorities, including those in relation to responsible investment and corporate sustainability.	– Approved the approach to oversight of reporting and to oversight of Responsible Investment and the renaming of Responsible Business to Corporate Sustainability. – Confirmed Quilter's strategy, including the ambition to be a responsible investor. – The Board received reports from its Non-executive Director with responsibility for workforce engagement.
Board Risk Committee	Oversees the management of ESG risks, reviewing management risk recommendations and providing challenge and guidance on the structure and implementation of the Group's Risk Management Framework.	– Held nine scheduled meetings in 2023 to monitor and review the Group's risk profile and the effectiveness of the Group's risk management systems. – Reviewed and approved Quilter's climate change risk appetite statement and underlying measures. – Reviewed and discussed Quilter's annual climate-related scenario analysis exercise. – Received updates on longer-term climate-related risks within emerging risk updates. – Considered Quilter's TCFD-aligned disclosures and the supporting evidence.
Board Corporate Governance & Nominations Committee	Oversees the governance reporting requirements on behalf of the Board.	– Considered the reporting to the Board to ensure appropriate engagement with the Corporate Sustainability agenda.
Board Audit Committee	Oversees the principles, policies and practices adopted into the preparation of the financial statements of the Group and assesses whether annual financial statements comply with statutory requirements, including TCFD disclosures.	– Considered Quilter's TCFD-aligned disclosures and the verification process in order to support the disclosures made.
Board Remuneration Committee	Sets the overarching objectives, principles and parameters of remuneration policy across the Group, including consideration of ESG-related metrics and targets, which form part of the executive scorecard for reward purposes.	– The Committee reviewed the environmental measures within the Company's long-term incentive plan. The Committee continues to monitor market practice developments and expects the nature of weighting of climate-related measures within Quilter's executive incentive plans to evolve over the coming years.
Executive Committee	Supports the CEO in discharging his responsibilities for the management of the Group, including the management of climate-related risks and opportunities, as well as providing oversight of investment performance.	Members of the Executive Committee are members of the Executive Risk Forum and have significant representation on the Responsible Wealth Management Committee. In addition to this, the Executive Committee reviewed and approved the Group TCFD Report and received an update on Responsible Investment and Responsible Business (now Corporate Sustainability).
Quilter Group Executive Risk Management Committee	Assists the CEO in the oversight, challenge and monitoring of the management of risk and effectiveness of the system of internal control within the Group.	Met six times in 2023 to review, manage and monitor all aspects of risk management. – Received updates in relation to climate-related (physical and transitional) risks. – Received an update on climate-related risk appetite and key indicators.
Responsible Wealth Management Executive Steering Committee	Provides executive oversight and direction on our Responsible Wealth Management agenda, incorporating both Responsible Business (now Corporate Sustainability) and Responsible Investment.	Met four times over the course of 2023. – Agreed engagement-based framework for Scope 3 emissions for Purchased Goods and Services. – Reviewed and agreed Quilter's response to the Sustainability Disclosure Requirements. – Received an update on the wider ESG and climate-related regulatory landscape. – Received an overview of the component parts of a net zero investment plan in regard to the Group.

These governance bodies have the following responsibilities in relation to Inclusion & Diversity and the Quilter Foundation.

Governance body	Responsibility	2023 activity
Inclusion & Diversity Steering Committee	The committee is tasked with the successful delivery of the Diversity and Inclusion Strategy for Quilter; including the identification of tangible ways in which Quilter can become a more inclusive and diverse organisation, as well as targets by which to measure this change and hold the organisation to account for delivery.	– Oversight of the delivery of Quilter's Inclusion and Diversity Action Plan, including the review of management information and metrics to monitor impact and progress. – Tracking, monitoring and targeted action to achieve diversity data disclosure rates above industry standards. – Active sponsorship and engagement of cultural diversity network events and activities throughout the year, supporting communications, awareness and visibility. – A review of the Committee's membership and meeting frequency to maintain focus in 2024. – Agreed refreshed ethnic diversity targets for the senior management population.
Foundation Trustee Board	Legal responsibility for the Quilter Foundation and accountable to the charity regulator (the Charity Commission for England and Wales). Trustees oversee the management of the Foundation's assets (including appointment of investment manager), financial management, grant-making, fundraising and engagement, and partnership/impact monitoring.	Five meetings in 2023 including extraordinary meeting to sign off financial statement. – Reviewed and agreed the Foundation's policies and the terms and tenures of Trustees. – Approved strategic priorities – being a responsible funder, increasing engagement and governance. – Approved fundraising target. – Methodology for selecting strategic partners and Local Community Fund partners agreed.

Our investment management businesses' governance framework links directly into Quilter with the CEO of Quilter Cheviot and the Managing Director of Quilter Investors being ultimately responsible for the delivery of our responsible investment activity and both are members of the Responsible Wealth Management Executive Steering Committee. In each business, an Investment Oversight Committee oversees the responsible investment activity with the respective Heads of Responsible Investment being members/attendees of these.

Within our Quilter Cheviot business, the Responsible Investment team meets regularly with the research teams and has representation within the Investment Funds, UK and International Stock Selection Committees.

We have an internal forum of responsible investment champions across Quilter Cheviot; these are members of staff (across different functions) with an interest in responsible investment. The forum has two main purposes:

1) to create experts across the business in responsible investment from both an internal and an external perspective; and

2) to generate discussion and ideas about how we best serve our customers' interests in responsible investment.

Within Quilter Investors, responsible investment practices are incorporated within the existing governance structure. The Responsible Investment team is formally represented on the two main investment forums: Management Investment Forum ("MIF") and Sub-advised Funds Forum ("SAFF"). The Head of Responsible Investment Affluent reports directly into the Chief Investment Officer at Quilter Investors, who has executive oversight for responsible investment.

5. Our role in society, and inclusion and diversity 1 4

We believe a company's value goes beyond making a profit, we can also play a role in addressing wider societal and environmental issues. This means acting and investing responsibly. In the section below we focus on how Quilter acts responsibly.

Inclusion and diversity

- Quilter is tracking positively against the five strategic areas which underpin our I&D Action Plan, the continued focus on encouraging diversity disclosure data has yielded positive results.
- Quilter received a Gold standard for LGBT+ Equality within Financial Services following completion of the LGBT Great Inclusion Index Benchmark Tracker ("iiBT") for the first time.
- We committed to engage in open and supportive conversations about disabilities and health conditions, and have made significant changes to our main offices to ensure our workspaces are accessible for all. This includes implementing hearing induction loops, automatic door functionality at Quilter House and Senator House.
- Quilter launched its Wellbeing Library providing easy access to external crisis support for urgent care and support services including its new partnership with Stella, an online menopause clinic and app.

The Quilter Foundation

- In 2023, The Quilter Foundation marked its five-year anniversary and celebrated with a summer event bringing together a host of charity partners, beneficiaries, and internal stakeholders and supporters.
- The Foundation formed a new partnership with employability charity partner, The Brokerage, to support underrepresented young people into professional services.
- Total fundraised in 2023: just over £124,000 (includes Local Community Fund fundraising, matching, gift aid and donations made to DEC appeals).
- Over £109,000 has been granted to 15 colleague and adviser nominated charities through the Local Community Fund.
- Colleagues and advisers have dedicated over 725 hours of volunteering with charity partners and local organisations.

Quilter Foundation | Celebrating 5 years

The Quilter Foundation marked its five-year anniversary

£124,400

Total fundraised in 2023

725 *hours*

of volunteering with charity partners and local organisations

6. Climate action 1

Task Force for Climate-Related Financial Disclosures

We disclose climate-related information, aligned with the Recommendations and the Recommended Disclosures of the TCFD annually alongside our Annual Report. We disclose our Scope 1 and Scope 2 greenhouse gas ("GHG") emissions annually in our Annual Report and in our Group TCFD Report. We have a target to reduce these emissions by 80% by 2030, from a 2020 baseline. Since 2018, we have prioritised the procurement of energy for all our offices from renewable sources. All of the buildings where we control the energy contracts now run on renewable energy tariffs. Our Scope 1 and Scope 2 emissions in 2023 were 61% lower than our 2020 baseline.

Example

Colleague sustainability survey

In October 2023, we ran our second Quilter sustainability survey. This survey was designed to analyse the change in colleague habits from the first survey, delivered in June 2022, and provide an opportunity for colleagues to share their views on how we can act more sustainably. The results allowed us to update our office-specific emissions for Scope 3 emissions (Employee Commuting), allowing us to produce accurate carbon emissions figures in this area for the second year in a row. In the 2023 survey, we modified the question set to be able to analyse small habitual changes colleagues had made to their behaviours by allowing colleagues to select multiple commuting methods and the relevant weighting of these to their commute. This highlighted where colleagues had made incremental changes to their journeys, and will help us understand, going forward, the impact of our support for colleagues.

As a result of the colleague feedback, we were able to make considered adaptations of the office environment to make sustainable behaviours easier; for example, recycling guidance and education was created for all offices and placed at every bin and increased promotion of sustainable travel initiatives such as our carsharing platform and the Cycle To Work Scheme. The feedback also helped create a focused plan of action for the year ahead. We currently intend to repeat this survey to track the impact of our improvements and reflect on engagement.

Investments

We manage our exposure to climate-related risks within our investments by considering climate-related issues, alongside wider ESG factors, within our investment and stewardship activities. Climate change is one of three thematic priorities guiding our engagement activity which is detailed in the investment sections of this report.

Our customers

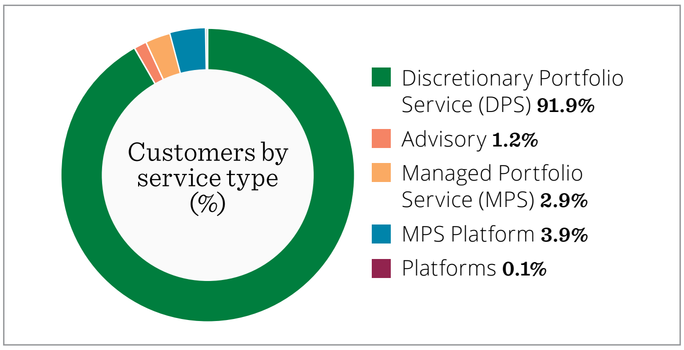
Our customers use our products and services to meet their long-term financial needs and achieve their aspirations. Ensuring customers are at the heart of everything we do is critical to Quilter's long-term success and our strategy is focused on delivering good customer outcomes through whatever channel customers choose to access our services, growing our business segments and improving efficiency.

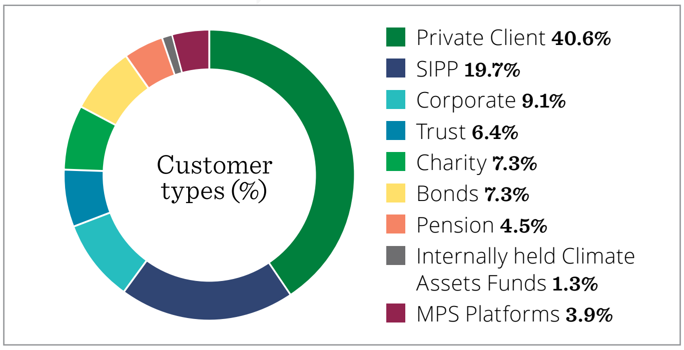
7. Our customer base 1 6

Quilter aims to be the best place to obtain trusted financial advice in the UK. We offer customers financial advice and quality-assured investment choice, through an open and transparent model, with competitive pricing at every part of the value chain. We are committed to operating and investing responsibly, for the long-term benefit of all our stakeholders.

We are long-term investors on behalf of our customers. Our investment teams' focus is on long-term investment ideas rather than adopting a trading mentality. Our customers will have their own specific time horizon for their investments. However, we do not invest in short-term strategies which for this purpose we define as less than three years. The majority of our customers invest on a five-year plus time horizon.

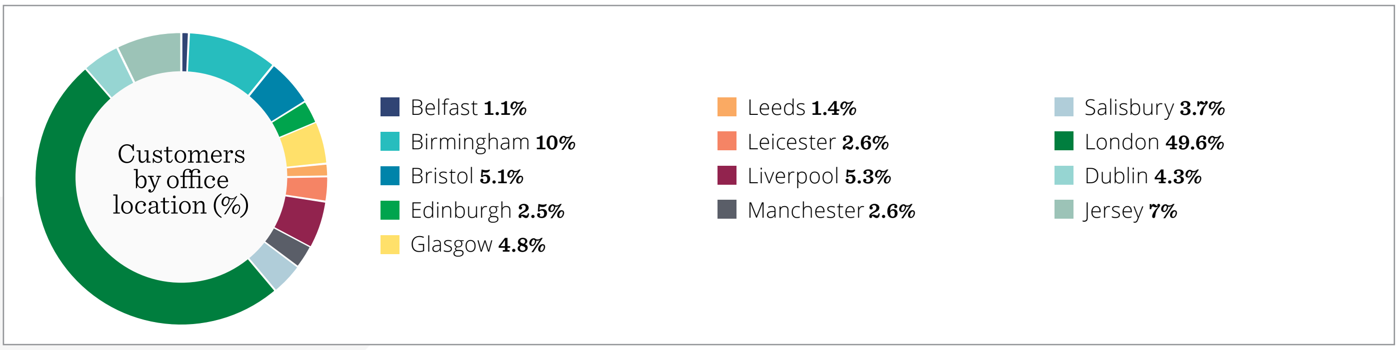
Within our investment businesses, as at the end of December 2023, Quilter Cheviot provided services to over 35,000 households and £27.0 billion in AuM. The splits, shown as a proportion of AuM, by service and customer type are shown below.





Private customers make up the largest customer type grouping, with the vast majority of customers (just under 92%) using our Discretionary Portfolio Service. 55.3% of our customers are advised, with the remainder being direct customers of Quilter Cheviot.

Quilter Cheviot has offices across the UK, and in Dublin and Jersey. The split of AuM by geographic office is shown below.

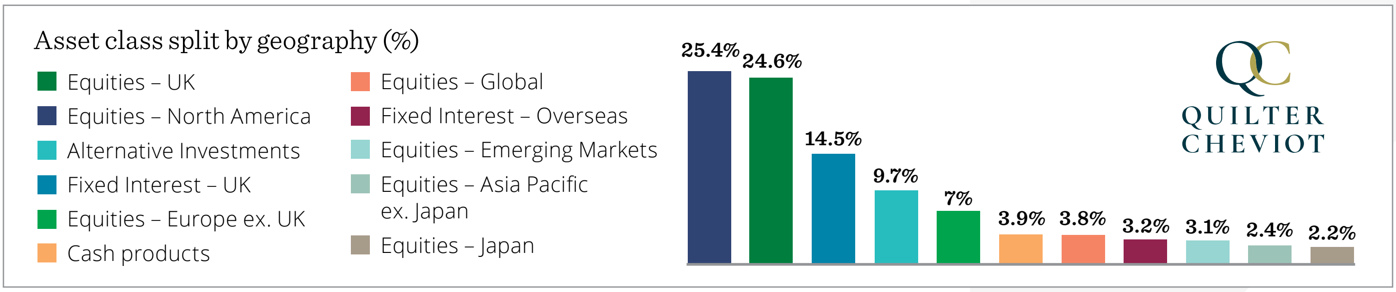


We undertake stewardship on behalf of our discretionary customers through our discretionary and managed portfolio services. Within all service types, customers are able to instruct us to vote on their holdings. We also have a further £2.0 billion in assets under administration within our execution only and advice & dealing services. These customers are also able to instruct their voting.

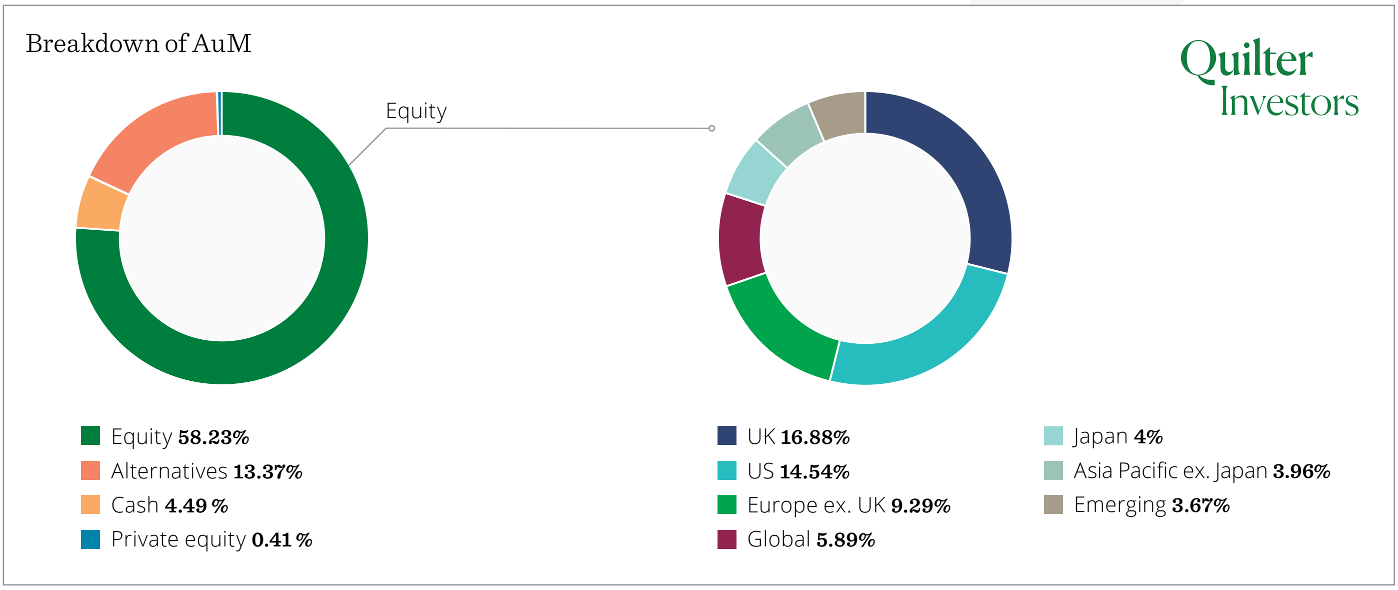
Our Quilter Investors business, as of December 2023, manages £27.6 billion on behalf of our customers. Quilter Investors' products are available to customers via their financial advisers and across a number of platforms. Our customer base for these solutions can be mostly classified as individual retail customers, serviced via platforms, with a long-term investment outlook.

8. Geographic split of our customers' assets 6

At Quilter Cheviot just over 68% of AuM are in equity holdings – this is via direct holdings as well as through third-party funds. As at 31 December 2023 our fund holdings within our centrally monitored universe amounted to £14.9 billion.



At Quilter Investors, 58% of our AuM is invested in equity. Below is a breakdown of our asset classes as of 31 December 2023.



This is unaudited data at end of December 2023

9. Customer feedback and consumer advocacy 1 6

We receive feedback from our customers on an ongoing basis and utilise formalised frameworks to ask for their views to help inform our strategic decision making.

Following on from the Quilter Cheviot 2021 customer survey, we revisited this in 2023. The survey's main focus is customer satisfaction and enables us to understand how we are perceived in representing and acting in our customers' best interests. Around 1,500 clients completed the responsible investment focused questions.

We used the same three questions in order to monitor trends:

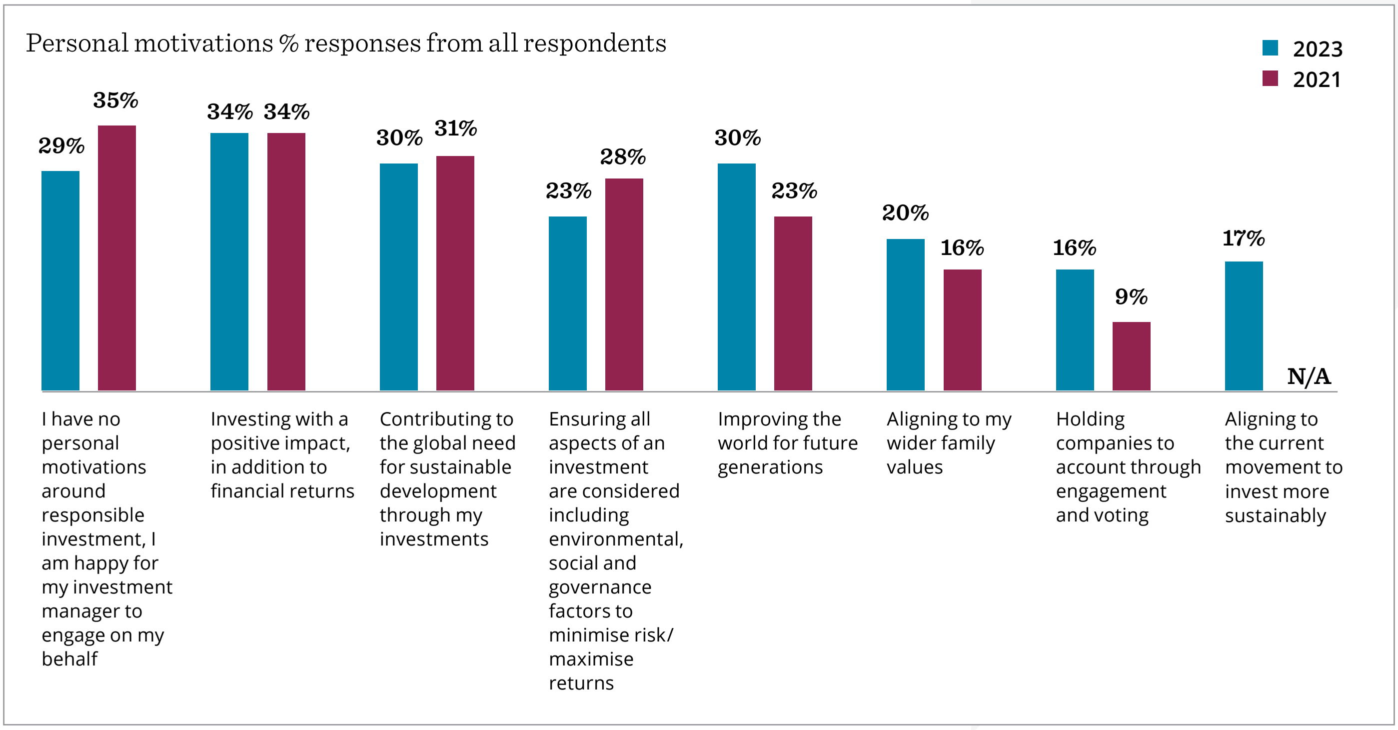
- To what extent has your view on responsible investment changed in the last 18 months?
- What personal motivations drive you to consider responsible investment?
- Which of the following factors are most important to you when considering responsible investment?

In response to the first question about how a customer's view might have changed over the last 18 months:

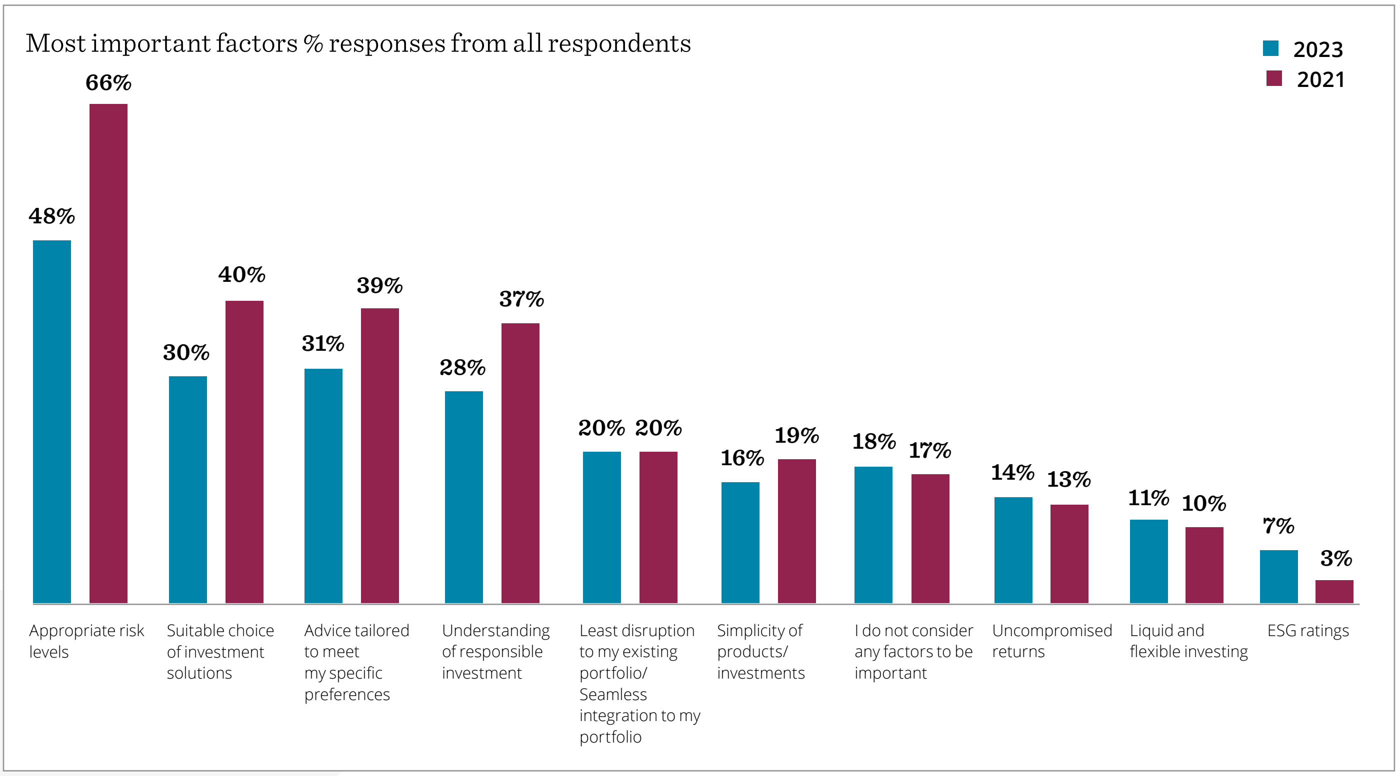
- 67% of customers say their view on responsible investment is unchanged.
- 7% are much more willing to consider it and 17% are more willing.
- 3% are far less willing and 3% are less willing to consider it.

When we asked the question in 2021, 61% said their view was unchanged, whereas 26% were much more willing to consider it and 11% were more willing.

In regards personal motivations, we have compared the responses from the two surveys. The question regarding alignment to the current movement to invest more sustainability was not asked in the 2021 survey. Below these headline numbers, it is notable that younger and female customers are more interested in responsible investment. Fewer respondents have no personal motivations around responsible investment, and more are interested in holding companies to account through stewardship activities of engagement and voting.



The third and final question focused on the most important factors when considering responsible investment. Notably, customers placed lower emphasis on appropriate risk levels, their understanding of responsible investment and having a suitable choice of investment solutions. This may be an indication of the mainstreaming of responsible investment.



In relation to the UK Platform, we have expanded our feedback channels in 2023 by launching a new Customer Experience survey alongside our existing post-interaction and post-transaction survey. The purpose of this new survey is to collect insights on a broader range of subjects, including how we are meeting Consumer Duty requirements, Digital, Communications and Brand. A working group that has representation from each of these areas has been set up to drive improvements from the insight gathered from all our surveys and this activity will feed into our Affluent Customer Committee for escalation and oversight.

In addition, we have also launched a new advised Customer Community and have 380 customers signed up who we work with for things like testing the clarity of communications or digital usability testing. Feedback metrics have remained consistent with 2022 and 2021, remaining stable when market conditions were not ideal. Our post-interaction and post-transaction Net Promoter Score in 2023 was 43, slightly down in comparison to 2022 and 2021 (47 and 46 respectively). Market conditions do influence our feedback scores strongly – performance is a driver of customer satisfaction and generally scores improve when investment values grow.

Consumer advocacy

During 2023, Quilter continued to campaign on long-term savings issues impacting our customers and broader consumers. Key updates over the past 12 months are as follows:

- Following the Government's steps to improve pension taxation on healthcare workers, Quilter wrote to the Department of Health and Social Care to instruct the NHS Business Service Authority to contact members directly to explain how applying for pension lifetime allowance ("LTA") protection might impact their overall outcome and ultimately result in LTA charges being refunded. These members had paid significant LTA tax charges simply because they failed to fill out a form.
- Quilter raised awareness of the growing number of lasting Power of Attorney ("PoA") applications being rejected. We obtained new data showing that over 130,000 applications had been rejected due to mistakes since 2018, and helped to raise awareness of how this can be avoided. It is critical that people get PoAs registered successfully while they have mental capacity.
- Quilter campaigned to raise awareness of the state pension top-ups deadline. Under normal rules it is only possible to fill gaps in a National Insurance record up to six years after the year in question, but people had the opportunity in 2023 to go back an extra ten years. Quilter helped to raise awareness of this in the national media, encouraging people to check their records via the online state pension forecasting tool.
- With the Government calling on older workers who dropped out of the workforce in the pandemic to return to help ease chronic labour shortages, Quilter campaigned for an increased Money Purchase Annual Allowance ("MPAA") for those who have stopped work and ceased pension contributions and now wish to resume paying into a defined contribution pot. The MPAA rose from £4,000 to £10,000 in the March 2023 budget.

10. External ratings 1 5

External, independent ratings are another way of assessing how effective we are in serving the best interests of our customers.

In 2023, we were recognised at the FTA Adviser Service Awards in the following categories:

Quilter

- 4 stars in Investment Providers
- 4 stars in Protection and Pensions
- 3 stars in Platforms

QUILTER CHEVIOT

- 5 stars in Investment Providers
- 4 stars in Discretionary Fund Management

Quilter won the "Best Platform for ESG" award at the ESG Clarity Awards for the European and UK region, retaining the title.

11. Our external education and training 1 6

In 2023, responsible investment experts from around the business participated in and hosted a number of external webinars and events.

Examples include:

- greenwashing explainer videos for advisers and customers;
- RI Reels, a responsible investment vlog;
- webinars for paraplanners, advisers and charities;
- participated in the UKSIF Leadership Conference;
- adviser firm meetings specifically geared towards Responsible Investing; and
- promoted the first-year track record of the Responsible and Sustainable portfolios along with adviser education on how these portfolios operate.

We have also developed an array of materials on our websites, which provide educational content to our various customer bases. This includes videos and information on subjects including climate change, building responsible investment into the advice process, fund governance and ESG opportunities for income investing; as well as providing easy access to documents such as our annual reporting on stewardship and other responsible investment activity, responsible investment guide and policies.

Other industry events:

We contributed to a number of different panels and discussions hosted by numerous organisations including UKSIF and TISA to exchange views and debate. The focus of a number of these events has been on how we make stewardship activity and responsible investment accessible and understandable to customers.

Investment: Quilter Cheviot

Stewardship at Quilter Cheviot is one of the pillars in our responsible investment approach which sits alongside the integration of ESG factors and screening within our investment process.

In this section we have provided specific examples of engagement. In some cases (particularly for funds) we have chosen not to do so as we feel it would be unhelpful to the ongoing engagement process.

12. Our philosophy 7 9

"At Quilter Cheviot and Quilter Cheviot Financial Planning, we have a duty to make sure that we are considering environmental, social and governance issues throughout our investment process and through our engagement with the companies we invest in on behalf of our customers. We believe that being a responsible investor is an important element in working towards a sustainable future for the next generation. As a business that tailors its services to the specific needs of our customers, we strive to meet their responsible investment objectives."

Gemma Woodward, Head of Responsible Investment, High Net Worth

Quilter Cheviot believes in active investment management and provides bespoke investment solutions, designed to deliver superior risk-adjusted returns for longer-term investors. On behalf of our customers, we invest in a wide range of asset classes using a combination of direct investments and third-party managed funds. We believe the best way to meet the challenges of today's dynamic market environment is through a carefully controlled investment framework that combines the skills of a dedicated research team with those of experienced investment managers. Quilter Cheviot's approach can be summarised as follows:

- identify future trends;
- adapt style to market cycle;
- our global outlook informs asset and sector allocations; and
- being a responsible investor is part of our process.

Responsible heritage – why invest responsibly?

With a heritage dating back to 1771, we understand the importance of taking a long-term view and investing for future generations. As a responsible investor, Quilter Cheviot is committed to its role as a steward of customers' assets to protect and enhance long-term returns. This encompasses our engagement with investee companies, through proxy voting and face-to-face dialogue, as well as considering ESG factors which could impact shareholder returns.

We believe incorporating environmental, social and governance considerations into our investment analysis and stewardship activity is important for the following reasons:

- a more holistic approach: integrating ESG information into the investment process can help to mitigate risks and identify opportunities;
- the double bottom line: in addition to potentially enhancing long-term returns, we believe taking these factors into account will benefit other stakeholders, creating environmental and societal value, not just economic gains;
- policy drivers: there are multiple regulatory developments progressing the case for implementing responsible investment and requiring immediate action. These include the Taskforce on Climate-related Financial Disclosures ("TCFD"), the new UK regulation Sustainability Disclosure Requirements and the 2020 UK Stewardship Code; and
- supporting customer demand: public awareness of ESG issues and customer demand for responsible investment solutions is growing. We implement a firm-level responsible investment process that covers all discretionary holdings but can take a more targeted approach for customers who want their portfolios to reflect their specific interests or preferences.

Our beliefs

Responsible investment is an umbrella term for different investment approaches: our role is to enable customers to pick the right approach for them, within the appropriate risk profile.

- There is no such thing as an ESG fund or an ESG company: all will take different approaches so cannot be directly compared.
- As a responsible investor, the main pillars of our approach are to analyse ESG data to better inform investment decisions, and to proactively engage with the companies and funds we hold on behalf of our customers (active ownership).
- In our role as a steward of our customers' assets, we protect and enhance long-term returns through responsible investment.

We have adopted the Investment Association's and UN PRI's responsible investment framework which defines responsible investment as:

'A strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership'.

Stewardship – (also known as active ownership) involves engaging with companies and funds. The purpose of this dialogue is twofold: improve our understanding of how they are managing material ESG issues and to improve their management and disclosure of such issues. Engagement may be carried out individually or in collaboration with other investors. Stewardship also includes voting, either in person or by proxy, which involves formally expressing approval or disapproval through voting on company resolutions at general meetings. Additionally, we facilitate customer instructed voting, therefore our customers have the ability to exercise their own stewardship.

As a responsible investor we will use voting rights (where appropriate) to further the long-term interests of our customers and we have established a set of voting principles which guide how we vote. Discretionary customers' holdings held in our nominee's name will be voted in accordance with Quilter Cheviot's decision, as the voting of holdings reflects our investment thesis, unless otherwise instructed by a customer.

ESG integration – is the explicit and systematic inclusion of ESG issues in investment analysis and decisions – to better manage risks and improve returns. This is integrated into the investment process and our research teams are responsible for incorporating this into their ongoing analysis of investments.

Embedding ESG factors within our investment decision making is integral to our responsible investment approach. This is not about excluding companies or funds, but evaluating their management of ESG issues. We will adopt different approaches depending on whether we are investing directly or via funds.

ESG screening – across Quilter we have a firm-wide restriction on any direct investment into cluster munitions and anti-personnel landmines including within our sub-advised funds, as well as any indirect exposure within active funds that we may hold.

13. Our responsible investment activity across Quilter Cheviot 7 9

Quilter Cheviot works collaboratively to implement and enhance our stewardship and responsible investment processes. There are nuances in how this is delivered given the different end customers and underlying investments.

Quilter Cheviot, as a discretionary investment manager, has nearly 6,000 lines of stock held on behalf of our customers, of which a significant portion by number, but not by value, are cherished or legacy holdings which our customers wish to retain. Therefore, the focus of our stewardship activity is on material positions. As an example, our voting universe represents 98% of the assets where there are voting rights.

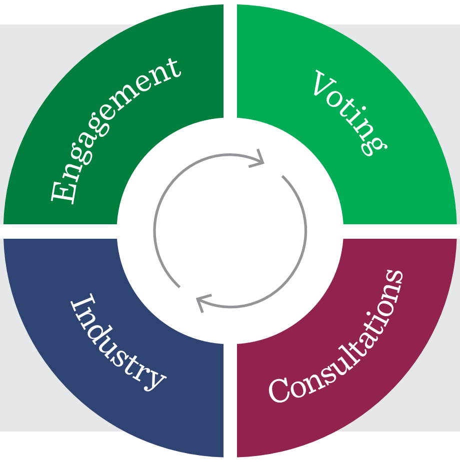
Within our equity monitored list we have around 320 companies and within our fund monitored list we have around 440 funds including investment trusts. This represents a significant proportion of our overall AuM and our focus for voting and engagement is on these holdings as well as companies held within our AIM Portfolio Service and those listed in the UK where we hold more than 0.2% of the market capitalisation or £2 million.

Quilter Cheviot's approach to stewardship and responsible investment

Activity	Process
Voting	Client portfolios with discretionary holdings within the equity monitored lists where we have voting rights ▸ MPS building blocks; ▸ Climate Assets Funds; ▸ Quilter Cheviot Global Income and Growth Fund for Charities; ▸ Quilter Investors Ethical Fund; ▸ AIM Portfolio Service; and ▸ Libero Balanced This includes our global 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 capitalisation. Additionally, customers are able to instruct voting on their behalf.
Engagement universe	The equity monitored lists. 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 capitalisation.
ESG integration	All holdings within the centrally monitored universe of equities, funds and fixed income.
Screening	Ethical and values-oriented investment based on customer requirements is incorporated on an individual customer basis, informed by their specific ethical preferences and values within Quilter Cheviot's discretionary portfolio service. These will vary from customer to customer and will focus on sectors, industries or individual companies.
	Specific negative screens may also be applied for funds that have clear ESG-related or sustainable objectives, for example the Quilter Investors Ethical Equity Fund and the Quilter Cheviot Climate Assets Funds. These may either be excluded completely or subject to tolerance bands, such as revenue contribution, depending on the strategy.

Active ownership has a multi-faceted approach:

- Collaborations
- Thematic
- Business as usual



- In conjunction with the relevant analyst
- Informed by our Proxy Adviser but decision is ours

- Active members of industry body committees and working groups

- Quilter and industry response to FCA consultations

Advance is a Quilter endorsed initiative.

We use external data providers and other publicly available data to undertake our active ownership and ESG integration work. Details of the data providers we use may be found in the Resources section further on in this report.

14. Our thematic priorities 4 7 9

Our thematic priorities across Quilter are shown below. There are key megatrends that we believe are material to longer-term sustainable investment returns for our customers and have the potential to have a significant impact on other stakeholders and the planet as a whole. As such, these are increasingly considered as part of the ESG integration and stewardship work undertaken by Quilter Cheviot.

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. (Source: United Nations).

Through our stewardship process we commit to engage companies and funds to understand their decarbonisation plans with the aim to encourage alignment with net zero pathways and disclosure against globally recognised standards (such as the Science Based Targets Initiative).

UN Sustainable Development Goal ("UN SDG") alignment

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. (Source: United Nations).

Through our stewardship process we commit to engage companies and funds to better understand or improve performance on issues such as decent work and pay, human rights in the supply chain, and health and safety, as well as inclusion and diversity.

UN SDG alignment

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. (Taskforce on Nature-related Financial Disclosures).

Through our stewardship process we commit to engage companies operating, and funds investing in, high impact sectors to better understand how they are managing and mitigating risks related to deforestation, water usage and biodiversity.
We commit to engage to improve company and fund performance where they are not meeting the standards expected by us.

UN SDG alignment

These themes inform the following activity:

- proactive thematic engagements;
- collaborative engagements;
- ESG risk exposure engagements;
- third-party managers' approaches to net zero; and
- ongoing voting and engagements.

15. Stewardship and direct equities 7 9

Direct equity engagement is a key component of our stewardship activity and informs our voting decisions and feeds into our investment research process. By engagement, we mean speaking directly to boards of companies about the issues that concern us and understanding their general approach to material ESG issues.

Any engagement typically includes the relevant research analyst. Our central teams of analysts provide a dedicated investment research resource with no conflicting commitments; the research teams monitor investee companies and funds on an ongoing basis and regularly meet company management. It is imperative that ESG considerations sit within the investment decision-making process and are not outside it and therefore engagement is principally undertaken in conjunction with the relevant analyst.

Our engagement activity for direct equities falls into three buckets:

- Reactive
- Proactive
- Business as usual

Reactive – to an AGM/SGM resolution or controversial event, as well as follow-ups to previous engagements

Example

Hermes International – Follow-up from 2022

Objective: Prior to the 2023 AGM we engaged the company on concerns relating to board independence, executive remuneration and equity issuance.

Hermes is a family-controlled business with the majority of voting rights held by the Hermes family. There are long-held concerns regarding board and committee independence, notably the family control of discretionary powers to set executive remuneration. The company has indicated that a change in board or committee independence levels is not a priority. That said, executive remuneration does not stand out from peers. Given many of the historic concerns related to the family ownership model, we chose to focus the conversation on recent equity issuance proposals. The company has proposed a series of equity issuance (some up to 40% of issued capital) and share buy-back items. Our proxy adviser raised concerns that the 10% guidelines for issuance without pre-emptive rights are not respected and the possibility of use during a takeover period is not excluded. The company confirmed that they have no specific aims or targets for these proposals but want to give themselves a full range of tools to operate in a changing environment over the next 26 months. This explicitly includes equipping themselves with tools that could be used in a takeover defence. The company also recognises that their business model does not necessarily lend itself to best practice governance but believes that this has enabled a long-term focus that has delivered value to shareholders and the wider employee base.

Outcome: We voted against a range of issues, including director re-elections and remuneration proposals, owing to lack of board and committee independence, as well as the presence of controlling shareholder involvement in executive remuneration processes. We also voted against equity issuance items where 10% pre-emption limit guidelines were exceeded, or anti-takeover measure use was not explicitly defined. We would prefer individual items to be put to shareholders when they are needed, rather than approving a raft of measures in advance.

Example

JPMorgan

Objective: We engaged with the company to discuss several shareholder resolutions on the 2023 AGM agenda. Items of interest were on topics including board chair independence, climate transition planning and political expenditure reporting.

A shareholder resolution requiring an independent board chair has been placed at many US company AGMs in 2023. Given the widespread combined CEO/chair positions at large US companies we typically support management where a strong lead independent director position can be demonstrated. This is the case at JPMorgan (JPM). The company has also committed to separating the CEO and chair positions at the next CEO appointment.

We discussed items related to shareholders having the ability to call a special meeting: the current threshold to do so is set at 20% of shares and the shareholder proposal calls on this to be reduced to 10%. Currently, 20% does not appear to be out of line with good US market practice.

On a shareholder resolution requiring further reporting on political expenditure, we also believe JPMorgan's practice to be in line if not slightly above the market. JPM publishes all political donations and memberships of trade associations.

Finally, we discussed a shareholder resolution requesting further climate transition reporting, specifically on aligning financing activities with 2030 Greenhouse Gases ("GHG") targets. JPMorgan is one of the world's largest financers of fossil fuel companies and projects. It has released carbon intensity reduction targets for activities related to financing of high-carbon-emitting sectors. It is also a prominent member of the Net Zero Banking Alliance and has committed to aligning lending and investing portfolios to net zero by 2050. While the company has established detailed sector level intensity targets, more focus on how these diverse metrics come together to align with the overall net zero pathway would be welcome.

Outcome: We voted to support management on all items apart from the shareholder resolution requesting further reporting on aligning interim climate transition activities and targets, where we voted against management (and in favour of the resolution).

Example

American Express

Objective: We engaged the company to discuss concerns related to executive compensation and a shareholder resolution on submitting executive severance agreements to a shareholder vote.

Our proxy adviser raised concerns surrounding a significant increase in CEO total compensation, primarily driven by a large one-time equity grant. The company highlighted the stretching total shareholder return (TSR) target embedded into this award, but there are still concerns over the relatively short sustainment period which could reward short-term share price spikes. Additionally, there are concerns over the transparency of the short-term incentive plan where the majority of the corporate component is based on goals for which quantified targets are not disclosed. On the AGM agenda, there was also a shareholder resolution requiring the company to submit large severance arrangements to a shareholder vote.
The company has a severance agreement policy in place, with a recommended cap on the amounts paid which is lower than the cap proposed in the shareholder resolution.

Outcome: We voted against the advisory resolution on executive compensation as we share concerns regarding the large equity grant and its structure. We voted against the shareholder resolution on severance agreements as the company already has a robust policy in place.

Proactive – may include thematic engagement; where we have conducted research on a specific topic and look to engage with the most material actors

These themes influence the work we undertake within our investment management businesses as well as our priorities as Quilter.

Climate change

What does a good climate transition plan look like?

In the last quarter of 2023, we launched our review of company climate transition plans. This is a thematic engagement with some of the largest carbon emitters within portfolio holdings with the aim of measuring progress on corporate climate strategies and, where lacking, encouraging alignment with best practice. This is an ongoing dialogue that will require systematic monitoring. Within the second cycle of the engagement, we will engage with c.10 companies representing c.85% of direct equity scope 1 and 2 emissions exposure within discretionary holdings. We concluded the first phase of this engagement in the first quarter of 2022 and our goal is to carry out a full review on a 24-month basis. This ongoing engagement enables us to establish what the key tenets of a good climate transition plan look like:

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 is not 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 emissions reduction legislation.
8. A willingness to take ownership of Scope 3 emissions and building these into carbon reduction targets.

We will continue to monitor and engage with our most material high emitting investee companies on their climate transition planning.

Example

BP

Objective: We recommenced our ongoing thematic engagement on climate transition plans and disclosures with the largest emitters among our direct equity holdings (scope 1 and 2 emissions). This systematic engagement process is conducted on a 24-month cycle. The first phase was very much engagement for information and this second iteration will look to assess progress against previously stated plans. We will be speaking with c.10 companies representing c.85% of direct equity Scope 1 and 2 emissions exposure within Quilter Cheviot's centrally monitored direct equities. We will be reassessing the quality of transitions plans and whether they are taking (or not taking) appropriate measures to align with a future lower carbon economy.

BP has announced some of the most ambitious carbon reduction and capital expenditure targets of the global oil and gas majors, but in February 2022 pared back elements of climate transition goals, including a watered-down target to reduce oil and gas production. A destabilising factor, from a strategic perspective, includes the dismissal of CEO Bernard Looney over misconduct allegations. Looney was a key architect of the climate transition plan, with questions being raised not only on the future commitment to the transition strategy but also the governance performance and company culture in light of his exit.

This engagement gave us a clearer view on the strategic importance of the company's "transition growth" pillars – convenience, EV (Electric Vehicle) charging and bioenergy being the short to medium-term drivers of performance – with more capital expenditure dedicated to these areas. At this point investment in renewables power volumes is playing a supportive role in feeding into EV charging provision and energy trading – rather than creating a scalable mass generation business of itself. Hydrogen activities are nascent and again centred on decarbonising existing activities rather than forming scalable and commercial businesses themselves. On methane emissions – current reduction targets are related to estimated intensity measures, but this will switch to an absolute reduction target of 50% by 2030 once the ability to measure (rather than estimate) is realised. A focus on methane is welcome – more work needs to be done on working with partners and non-operating entities on expanding this effort, as it is one of the most effective ways of reducing emissions in the short term.

Outcome: This update on progress is set in the context of weakened oil and gas reduction targets and a departing CEO who was key to driving their transition strategy. Externally, the company is committed to the current, ambitious transition plan that is in place (and will be restated in 2025), but whether an incoming CEO would have a different strategic focus remains unclear. Pressure from a segment of shareholders to focus on more of a US-orientated oil and gas expansion strategy remains (versus European-based transition demands). We requested a commitment to shareholder voice on transition strategy by committing to regular general meeting agenda item approval. Our conversation was consistent with previously stated plans, and we will monitor developments moving forward.

Human rights

Pulling the thread: Labour Standards in the apparel industry

Employing over 300 million people across its value chain, the scale and reach of the apparel industry presents a number of human rights risks. These risks include low wages, precarious working conditions, harassment, health and safety breaches, the inability to form unions and the absence of adequate grievance mechanisms. The potential of adverse events is often more acute in the supply chains of companies that utilise a "fast-fashion" sales model. This model relies on companies catering to ever-changing consumer tastes as quickly as possible. In addition to labour concerns, the fast-fashion business model often follows the 'take-make-dispose' linear trajectory which can result in a cycle of unsustainable resource exploitation and extensive waste production. The lack of transparency throughout the complex supply chains for both materials and labour coupled with the price-driven culture can result in an increased risk of modern-day slavery. Another challenge faced by the apparel industry is the reliance on self-regulation and self-auditing which compounds the above risks further.

The engagement programme targeted our most material holdings with apparel manufacturing and retailing activities. We included companies using commonly categorised 'fast fashion' models and those with longer production cycles. All the companies have complex, global supply chain arrangements with third-party manufacturing facilities typically clustered in China, Turkey, India, Bangladesh, Pakistan and Morocco. Our discussions covered five main areas of labour standards within the supply chain:

- governance of labour standards;
- auditing process;
- challenges in addressing issues beyond the primary supplier;
- grievance mechanisms and remedial actions; and
- wage setting.

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

Example

JD Sports

Objective: We engaged JD Sports as part of our 2023 thematic engagement on labour standards in supply chains in the apparel sector.

The company is predominantly an apparel retailer with a small private label manufacturing process (c.7% of sales). The company is highly dependent on sourcing products from very large apparel companies like Nike and Adidas. Given the profile of the brands it works with and the well-established supply chain monitoring processes in place, JD Sports has a light-touch due diligence approach which involves reviewing policy alignment at the onboarding stage. The management and monitoring of human rights risks at the small private label activities does not appear to be as robust as other apparel companies with whom we have engaged. The company does not supplement the reports through regular in-house audits, and it does not have an internal supply chain grievance mechanism in place. The company will stop working with suppliers with critical issues and will assess human rights risks when onboarding a supplier, however, we believe that it appears to capture little real-time information on labour standard performance. Again, it is noted that the private label business is a small part of activities, but it lacks some of the key tools (like in-house auditing frameworks, a third-party auditing procurement process etc.) used at other apparel producers to mitigate human rights risk in globally distributed supply chains.

Outcome: This was a useful conversation to benchmark performance. While we are comfortable with the approach to onboarding new product partners for retailing activities (which represents most sales), monitoring of human rights risks in the private label supply chain appears less robust. We have highlighted these gaps to the company and will continue to monitor progress.

Clean bill of health? Product safety and litigation risk in the pharmaceutical and healthcare industries

Managing product safety is key for companies as it can impact financial prospects, as well as trust amongst consumers, suppliers and investors. Product safety breaches are described by the US Consumer Product Safety Commission (CPSC) "as the unreasonable risk of injuries and deaths associated with consumer products'. Healthcare and pharmaceuticals companies are especially vulnerable to product safety issues. Failure to undertake adequate testing for drugs and medical equipment can lead to recalls, which not only have an economic impact but also reputational ramifications. In the most extreme cases, the products can lead to the injury and death of customers – which may result in litigation. Litigation can be hugely expensive. For perspective, the largest ever corporate fines in US history have been awarded against pharmaceutical companies. The litigation process may take years, and until the case is resolved there is a degree of uncertainty that in some instances may have implications for the company's valuation. Additionally, the reputational damage of these high-profile cases may become embedded in the customer's vision of the brand. Finally, there is the human cost when drugs or medical equipment fail the patient.

The engagement programme targeted our most material holdings in the healthcare equipment and services and pharmaceuticals industry groups, focusing on their approach to risk regarding litigation and product safety issues. Specifically, we have identified product quality and safety, and product labelling as being key material issues that are likely to affect a company's financial performance. It is hard to quantify the risk associated with healthcare litigation. Unresolved litigation may impact a company's valuation; however, it is not until the disputes are resolved and the final settlement amount is confirmed that the real effect on the company can be seen. We engaged with all companies approached for engagement except for Merck & Co. who did not respond. Our engagement discussions targeted a better understanding of four main areas:

- governance of product quality and safety;
- operational product safety and quality processes;
- litigation risk management; and
- off label use and marketing risk.

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

Example

AstraZeneca

Objective: We engaged with AstraZeneca as part of our 2023 thematic engagement on product safety and litigation risk. The aim of the conversation was to better understand how companies in the pharmaceutical and healthcare industries are managing risks in these areas.

Product safety management is a key component of business strategy as it can impact revenues, as well as trust amongst consumers, suppliers and investors. Product safety breaches are described by the US Consumer Product Safety Commission (CPSC) as the unreasonable risk of injuries and deaths associated with consumer products. Failures in product safety can lead to litigation which can incur significant costs. With AstraZeneca we recognise the science and quality-focused approach that has been driven by the CEO and board. Digital information gathering and sharing from product development to post-approval outcomes appears to be a key factor in shaping the Global Quality team's ability to proactively monitor and react to adverse incidents. It is encouraging to see that both litigation and product quality are seen as key board matters, with reporting lines into the audit committee. For peers, quality management seemed predominantly executive driven. Although it is difficult to compare litigation strategies across the sector, given the lack of transparency, it is also encouraging to see proactive management of emerging litigation issues, close monitoring of sector-wide events and regularly board scrutiny of litigation strategies.

Outcome: This was an informative conversation, and we appreciated the company's openness in describing the product quality/safe journey as well as an overview of litigation strategy. We have found that other companies engaged in the campaign have been less willing to discuss litigation, so the level of transparency was welcome. This openness may be encouraged by the company's lack of major litigation events in recent years. AstraZeneca feels it has a good story to tell in terms of governance, quality processes and culture – and we broadly agree.

Natural capital

We have partnered with global NGO – CDP (formerly the Carbon Disclosure Project) and joined their 'Forest Champions' programme to assess our deforestation risk with our universe of monitored direct equities. This deep-dive analysis assessed the performance of each company across a number of factors, including different deforestation commodity exposure as well as level of supply chain transparency. The assessment was completed in December 2023, and we will use the analysis to launch a thematic engagement with companies most exposed to deforestation risk in Q1 2024. Additionally, in December 2023 we were formally named as a lead engager for Rio Tinto as part of the Nature Action 100 collaboration.

Separately, we are regularly monitoring investee companies for controversies and other nature-related risk events. Below is an example of a reactive controversy-based engagement carried out in 2023.

Example

Veolia Environnement

Objective: To address concerns related to allegations of human rights abuses and biodiversity management at the company's San Silvestre landfill site (Santander, Colombia).

We received an alert from one of our controversy monitoring providers that highlighted allegations of human rights abuses and poor biodiversity management at one of the company's Colombian landfill sites. A large NGO had documented continued alleged impacts to nature and the health of the local Patio Bonito community from contaminants entering waterways. There were also allegations of human rights defenders, who were raising these concerns, being threatened by local actors (with no alleged direct connection to Veolia). We were frustrated in attempts to clarify the details of the situation with the company. It took us over four months to establish a dialogue. We eventually did receive a detailed response from the local management team who claim that many of these concerns are legacy issues from the poor management of the site prior to acquisition in 2019. According to the company, the site has now obtained the highest internal certifications on operational management (ISO 9001, ISO 14001, ISO 45001). In the first year of operations Veolia reconstructed (and reinforced) the lagoon's holding waste that could be a potential source of contaminants. Senior management continue to play an active role in monitoring the site (deemed as high risk). Surface water continues to be monitored on a biannual basis at four run-off points near the site and analysed by an accredited external laboratory. The findings continue to show compliance with local standards and show extremely low (or undetectable) levels of heavy metals – one of the principal water quality complaints. The company also highlighted the efforts to engage local stakeholders through meetings with communities, municipal authorities, environmental authorities and local universities. Over the past year 400 external participants from the above institutions have visited the site.

Outcome: There were significant difficulties in getting a response from the company, which does not reflect well on the quality of shareholder engagement. However, the eventual response provided was detailed. Veolia has made specific efforts to remediate a recently acquired, previously mismanaged site. The measures from regular water quality monitoring to senior management attention does provide some degree of comfort that the situation is being managed. We will continue to monitor the situation moving forward and will consider reflecting our disapproval at the quality of shareholder engagement at the 2024 AGM.

Business as usual – where no immediate concerns are identified but as part of maintaining communication

Example

Experian

Objective: We met with Experian to receive an update on its sustainability business strategy.

There has been internal evolution to bring more co-ordination to its sustainability activities. In terms of risk, a data breach is the most material for the business. There has not been a major breach for many years. Experian is working on data that shows the percentage of the revenue that could be linked to SDGs. However, it is hard to audit these numbers. We used this opportunity to ask Experian about its executive remuneration. The company confirmed that executive pension contributions are now aligned with the wider UK workforce.

Outcome: A helpful conversation to understand the evolution of Experian's sustainability strategy.

Example

Intermediate Capital Group – Follow-up from 2022.

Objective: We met with the newly appointed chair to engage on the group's diversity strategies, the recently approved remuneration policy 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. This was our first meeting with the chair, William Rucker (appointed in 2022). The company continues to be a relatively strong performer when it comes to gender diversity, with 41% of top management positions being held by women. Board gender diversity recently dropped to 36% following a Non-Executive Director ("NED") departure. In response to us raising the topic of diversity strategy, we were assured that diversity will be a key focus in hiring new members in 2023/24. The company recently amended the structure of the remuneration policy, switching to a more traditional percentage of salary framework for executive long-term incentives. The board was looking to simplify compensation while keeping levels competitive – we supported these changes. The company has made progress on its Net Zero Strategy, aiming to reach that target by 2040 and have Science Based Targets ("SBT") aligned commitments in place. The funds tend to have lower GHG emissions, as they do not have large allocations to energy and mining (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 with the recently appointed chair. No material concerns raised as the company continues to progress verified net zero commitments and maintains a focus on talent, retention and diversity.

The role of engagement within our ESG integration process for direct equities

Our engagement activity also forms part of our overall approach to integrating ESG factors within our direct equity holdings.

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

1. Qualitative analysis identifying challenges and opportunities.
2. Quantitative data overlay using multiple ESG data sources to create proprietary sectoral, fund and model dashboards.
3. Active ownership through voting and engagement.

As well as the work carried out by the Responsible Investment team to engage for change, key parts of our work are carried out alongside the equity research analyst to engage for information. This information is collected and fed into the analyst's investment thesis.

Example

Texas Instruments

Objective: We engaged with the company to discuss concerns related to relative climate performance, information security and diversity practices following our biannual review of the ESG factors within our proprietary ESG dashboards.

Our review highlighted a few areas of concern: carbon emissions, information security disclosure and low relative board gender diversity. Unlike peers who have licensing agreements with third parties, Texas Instruments (TI) manufactures most of its products and therefore takes ownership of the associated scope 1 and 2 emissions. TI's focus is on a short/medium-term emissions reduction plan, focusing on the main components of the scope 1 and 2 emissions (use of fluorine gases and energy inputs). On diversity, there is concern that the company may not be developing, attracting and retaining a significant pool of talent – and performance could improve in this area, and we would encourage TI to publicly disclose targets. The company was able to confirm it has received certification on information security standards. It also confirmed that it does not disclose details of specific insurance policies and follow all laws where disclosure of specific breaches is required, but does not disclose anything that is not legally required. This is an improvement on the data sourced from our ESG data providers but does not provide transparency or complete comfort across their information security process.

Outcome: The engagement helped to improve our understanding of the company's GHG emissions performance management. The company does not provide a significant degree of transparency on information security standards. Gender diversity performance looks to have stalled, and the company has not outlined the targets and strategic vision that could be a catalyst for improvement. We will monitor these factors moving forward.

Example

DSV

Objective: We engaged the company to better understand how DSV will be managing potential human rights risks in its joint venture with the Saudi Arabian government in providing logistics services to the country's flagship Neom project.

The company was recently brought under coverage which, as per our responsible investment process, triggered a deeper analysis into the ESG performance of the company. The company performs well on the material indicators reviewed, but on controversy screening the association with the Saudi Arabian Neom project is negatively flagged. Neom is a new urban area planned by the Saudi Arabian government in the north-west of the country. There are multiple reports of human rights abuses associated with the development, including forced displacement of the local tribal population and punitive legal action against protesters. DSV is in the final stages of agreeing a joint venture to provide a range of logistic services for the project.

Although the company has not been implicated in any adverse events, we wanted to understand how DSV will be managing the risk associated with operating in a potentially contentious area with a high level of risk related to human rights abuses. On engagement the company outlined its commitment to its human rights policy and code of conduct, adherence to which has been built into the partnership agreement. DSV suggested that appropriate break clauses related to any events that had an unacceptable level of reputational risk, were built into the agreement. Such a break would not be cost free but there was some contractual protection. In terms of managing more endemic risks such as modern slavery, DSV was keen to highlight its history of operating in the Middle East as well as its established processes. The company does use agencies to contract workers but will be using third-party auditors to assess subcontractor performance on an ongoing basis. Intensive training programs are also provided. High-quality reporting will be essential to monitoring performance and the company has committed to publishing a series of ESG-related KPIs (key performance indicators) related to operations, once underway. One KPI we have requested are identified incidents of modern slavery and remediation action. We have requested to view the human rights due diligence conducted as part of the project scoping. The company agreed that this would be made available and admitted an error in not releasing this sooner.

Outcome: This was a useful conversation in establishing the company's due diligence efforts and approach. It is positive to see that certain thresholds have been included in the partnership agreement. We will monitor the development of the partnership moving forward and are unlikely to put the company forward for customers with more robust responsible investment preferences until a significant positive track record related to the project is established.

16. Stewardship and third-party managers 7 8 9

We invest in closed (investment trusts) and open-ended funds on behalf of our customers. We evaluate our managers to determine their approach to engagement and the integration of ESG factors on our behalf; we see engagement as an ongoing conversation. This collaborative approach allows us to build rapport and develop mutual respect. It enables us to better understand the managers we are investing with and their approach. It is also through this direct dialogue that we believe we can exert influence and make a difference. When concerns or material issues arise, we engage directly with our managers as our first and preferred course of action. We believe it is equally as valid to address ESG-related issues as an engaged investor as it is to take a divestment or exclusionary approach.

We are also firmly of the view that different asset classes and strategies may require prioritisation of different ESG considerations and that different approaches to ESG integration may be equally valid. This is also very applicable in the case of stewardship as shown below.

Stewardship in different asset classes

Asset class	Engagement and voting
Equities	Ability to use voting rights and engage with the board as well as company management.
Fixed Income	While they do not have voting rights like shareholders have, large fixed income houses can influence the funding structure of issuers. They can also engage on similar matters to equity investors and reconsider their funding if no progress is made.
Property	Incorporation of ESG issues into ownership policies and practices including measurement of sustainability performance of assets.
Infrastructure	Incorporation of ESG issues into ownership policies and practices including measurement of sustainability performance of assets.
Absolute Return/ Hedge Funds	Depends on the strategy and asset classes invested in, whether investments are physical or via derivatives, and the degree of turnover.
Private Equity	Incorporation of ESG issues into ownership policies and practices.

Strategy approaches

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

17. Stewardship and investment trusts 7 8 9

In May 2022 we launched an engagement focused on our centrally monitored investment trust holdings. This process has continued through 2023 and will continue into 2024. In the first phase we focused on equity investment trusts that we invest in on behalf of our customers to evaluate and set expectations with each board for the future against three factors:

- board composition;
- board effectiveness; and
- responsible investment disclosures.

This is a long-term engagement, and we published a paper outlining the outcomes of this first formal evaluation focused on investment trusts investing in equities. Through the process we have valued our discussions and certainly learned along the way. The investment trust sector is far from homogenous, and this is reflected in the evaluations we have conducted. There is in our view, room for improvement for most trusts, however, we are also mindful that the regulatory landscape and shareholders' expectations are also changing. Ultimately, we want to work in partnership with the trusts where we are shareholders on behalf of our customers, in order to ensure that the sector keeps pace with expectations and regulations.

The report was well-received and picked up by several financial media outlets, including the Financial Times, as well as a sell-side broker. As a consequence, we have spoken at industry and broker events attended by investment trust non-executive directors and managers, as well as meeting trust boards privately.

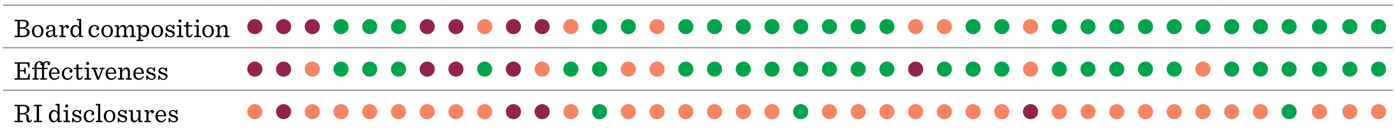
We are now focused on the second phase of the engagement, which is trusts investing in private equity, infrastructure and alternatives, and are already seeing positive progress – detailed in the examples on the following pages. The final phase of this initial engagement cycle will be focused on the property sector and will include both closed and open-ended vehicles.

RAG rating

Within the equity phase of the engagement, we red, amber, green ("RAG") rated each of the 41 trusts on the three factors. We have looked at this in a number of ways, including by trust size and by regional/sector focus to see whether there is any correlation between size or region/sector and the RAG outcomes. We are seeking to set higher standards, therefore to achieve a green rating is the exception not the norm. Within the amber rating there is a range – some trusts need to do a little bit more, whilst others have quite a bit more work to do. We have anonymised the trusts as this is a long-term engagement and we do not see any advantage in publicising the names.

63% of the trusts we met with had a market cap over £1 billion, with nine of the 41 trusts having a market cap over £2 billion. If we rank the trusts by market cap, the smaller market cap trusts did not seem to be negatively impacted by the RAG rating performance. In fact, trusts with a market cap over £2 billion tended to score worse for board composition and effectiveness.

The table shows each of the 41 investment trusts' RAG rating for each of the three factors.



Source: [***OS013399_QC_Investment_Trust_Engagement_Report-05 (quiltercheviot.com)***]

Below we have included examples of our individual investment trust engagements. We invest in investment trusts to gain access to asset classes such as private equity, infrastructure, property and alternatives. Below we have outlined examples for these asset classes, as well as equities.

Example

Herald Investment Trust – technology

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

The board meets five times a year, one of which is for a strategy day. In all these meetings the board discusses responsible investment with the investment adviser's (manager) lead on responsible investment also joining the meeting. The lead portfolio manager also joins every board meeting unless there is a conflict of interest. After each board meeting one of the non-executive directors goes through the voting with the manager to look for inconsistencies and to ensure that the voting process is being followed appropriately. Most of the stewardship disclosures are currently as part of Herald, rather than at the trust level. We mentioned that including some voting and engagement examples at the trust level would be helpful to explain the stewardship process. Two non-executive directors have served on the board for eight years. They will retire at the 2024 and 2025 AGMs to ensure tenure limits are adhered to whilst avoiding loss of corporate knowledge. The board currently has six directors owing to the transition period to the new chair. The board's natural size is five, but it will fluctuate from five to six for the next three years as the board refreshment takes place. The board is aware of the ethnic diversity requirements, and it has considered this in the recruitment process; currently it does not comply with the Parker Review and will need to do so by 2024. The chair updated us on the succession plans for the manager as there are significant key person risks. The board has encouraged her to bring other members of the team to board meetings and out on roadshows to meet shareholders. The chair stated that it is in a much better position than it was when he joined the trust ten years ago. However, he admitted that the succession plan is still a work in progress.

Outcome: The board is currently going through a process of refreshment, but it has a succession plan to minimise the impact on the board. We will continue to monitor the succession plan progress for the board (particularly in regards meeting the Parker Review requirements) and the lead portfolio manager. Finally, we have encouraged the trust to improve its responsible investment disclosures and will monitor and evaluate progress.

Example

VH Global Sustainable Energy Opportunities (GSEO) – renewables

Objective: This was part of the overall investment trust thematic engagement. The focus was on the board's oversight of responsible investment, board composition and the trust's discount strategy. This was the first time speaking to the board.

The investment adviser invests in energy infrastructure investments that align with the United Nations' Sustainable Development Goals (SDGs). The trust classifies investments into four themes: addressing climate change, energy access, energy efficiency and market liberalisation. The trust currently has solar fields, hydropower and battery storage assets across Brazil, the US, the UK and Australia.

The board meets formally six times a year. During these meetings, the investment adviser's head of ESG joins to update the board regarding responsible investment. Louise Kingman, a non-executive director (NED), leads the engagement on ESG-related issues, including diversity, and has frequent engagements with the manager's head of ESG. The board is in regular contact with the manager given the nature of the strategy; as an example the chair has calls with the fund manager twice a week to discuss updates and the audit committee chair holds calls twice a week with the manager's Chief Financial Officer (CFO).

The chair was involved with the trust launch and proposed that the investment adviser use the SDGs framework. The board reviews the investment adviser's new investment pipeline to ensure that it fits within the mandate, but the board does not make investment decisions.

We suggested the addition of a skills board matrix to the trust's disclosures would be helpful for investors to understand the rationale behind future changes in board composition.

According to the Association of Investment Companies' (AIC) Corporate Governance Code, the board is required to nominate a Senior Independent Director (SID). However, currently, the board has not done so. In the chair's view the current board structure does not warrant one, however, he would not rule it out in the future.

Outcome: The board has achieved a good balance of diversity and skills. We recommend the inclusion of a board skill matrix within the trust's disclosures. The board does not have a nominated SID, which we consider a deviation from best practice. We have written to the board outlining our position on the issue. Shortly after our engagement, the firm appointed an existing NED to the role of SID.

Example

BH Macro – hedge fund

Objective: As part of the overall investment trust thematic engagement, we wanted to develop our understanding of the trust's board composition and approach to responsible investment. We also wanted to discuss the current stock performance and the board's plan for managing the discount.

BH Macro invests solely in the master fund of the flagship hedge fund run by Brevan Howard. The fund focuses on fixed income, foreign exchange and volatility strategies.

The trust traded at a premium to Net Asset Value earlier in 2023 and the board took advantage of this to issue some shares. However, over the past few months, the trust is now at a discount of approximately 10%. This is partly due to a large investor selling down a portion of its position. The board is setting up a conversation with the investor in question to ascertain its future intentions before it announces any buybacks.

As the trust is invested in a derivative trading fund where standard responsible investment disclosures requirements do not apply, due to the short holding periods and quantitative trading strategy. The chair said that when it comes to ESG factors, he regards governance as the most important factor, as well as ensuring compliance at board level.

Outcome: We have no significant concerns with the trust. The trust asset class makes it harder to integrate traditional responsible investment approaches. However, the chair is focusing on the board's governance and oversight of the investment adviser.

Example

Foresight Solar Fund Limited – renewables

Objective: To discuss the board's oversight of responsible investment as well as the broader governance of the trust including board composition. This engagement was part of the wider investment trust thematic engagement.

The fund does not have a sustainability mandate. The chair explained that they have, however, followed the market and regulatory requirements for ESG reporting and adhered to the AIC's recommendations on ESG considerations.
The investment adviser reports on an annual reporting cycle, and the board's Risk Committee provides oversight of the ESG reporting, which is approved by the board. The social impact of the investments is discussed frequently in the board and is something that factors into the due diligence process.

Last year we had a meeting with the manager where we discussed FSFL's supply chain. The trust has enhanced due diligence for high-risk markets, such as China, and used third-party resources to assist with risk assessment. On the topic of the lifecycle of renewable energy assets (see our previous engagement with renewable funds), we considered FSFL's approach as one of the more mature amongst its peers.

The board has achieved gender parity; however, it fails to meet the Parker Review's targets of having at least one director from an ethnic minority. The board believes that the discount will remain in place for some time; this is not specific to FSFL but reflective of the wider infrastructure sector.

Outcome: We have no significant concerns with the trust. The trust asset class makes it harder to integrate traditional responsible investment approaches. However, the chair is focusing on the board's governance and oversight of the investment adviser.

Example

International Public Partnerships – infrastructure

Objective: The focus was on the board's oversight of responsible investment and governance, in particular the non-independent director's position on the board. This was part of the overall investment trust thematic engagement.

The board has an ESG committee, which is usually convened before the board meetings. This is to ensure that any issues identified can be raised at the board meeting. The trust publishes a sustainability report every two years, which the board reviews before publishing.

The board is responsible for approving new investments and is involved in the early stages of new acquisitions. The board is presented with a shortlist of potential investments and provides rigorous oversight of the manager's ESG due diligence process. The board has the power to turn down investments. For example, the SID mentioned a case where the board declined to invest in an infrastructure project because it was concerned about the government in the region. The board also mentions safety as a key concern, and it is an item in every board meeting.

The board comprises of seven directors, four of whom are based in the Channel Islands. Although the board meeting meets gender diversity requirements, it lacks a director from an ethnic minority background, as required by the Parker Review. The board is aware of the lack of ethnic diversity, and it is working towards improving this in the future.

The board includes a non-independent director representing Amber Infrastructure, the investment adviser. The non-independent director, Giles Frost, is the chair of Amber Infrastructure and has been a member of INPP's board for the past 16 years, making him the longest-serving member. The board argued that having Giles Frost on the board provides corporate memory and that there are mechanisms in place to manage conflicts of interests. For example, when making investment decisions the board meets separately, additionally the non-independent director only sits on the ESG sub-committee.

Recently, the board underwent an external evaluation conducted by Fletcher Jones. The evaluation was interview-based, and a representative from Fletcher Jones interviewed each director individually and attended one of the board meetings. One of the key takeaways from the evaluation was the need for the board to have more time to meet independently of the manager, and to spend more time with the trust's broker, Numis.

Outcome: We are primarily concerned about the manager representative on the board. We have shared our concerns with the board. Furthermore, the board is not currently meeting the diversity requirements outlined in the Parker Review recommendations, although it is actively working towards improving this in the future.

Example

HarbourVest Global Private Equity – private equity

Objective: To follow up with the board with regards to the board succession strategy. We previously spoke to the chair in 2022 expressing our concerns regarding the two manager representatives on the board.

The chair stated that our feedback had been discussed at a board meeting. This was one of the factors that has resulted in one of the manager representatives not standing for re-election at the annual general meeting. We are pleased with this decision and believe it will result in better corporate governance and improved outcomes for shareholders. However, there is no indication that the remaining non-independent director will be stepping down in the near future. We will maintain our engagement with the board and continue to use our voting powers to advocate for a fully independent board.

Outcome: Whilst we appreciate the reduction of two non-independent directors to one, we strongly believe that having a fully independent board would be the best outcome for shareholders. Having engaged previously on the issue we will vote against the remaining non-independent director. We have communicated our voting intentions to the chair in writing and we look forward to continued collaboration.

Example

LXI REIT– real estate

Objective: This was a meeting with the newly appointed head of ESG at Alvarium which is the adviser to LXI REIT. We used this opportunity to outline our expectations for ESG-related frameworks and disclosure within the real estate sector.

As LXI does not disclose in line with CDP climate (originally known as the Carbon Disclosure Project) or GRESB it is difficult for us to assess it versus its peers. We would expect a company the size of LXI to disclose to CDP as well as seek external validation through the Global Real Estate Sustainability Benchmark commonly referred as GRESB. REITs are not usually covered by data providers in as much detail as equities, so we suggested that engaging with them could also be a useful exercise.

Outcome: We outlined that internally managed REITs tend to have better disclosure, and we encouraged the company to enhance its disclosure. We also expressed our preference for the company to disclose in line with best-in-class frameworks.

Example

Third-party manager – global equities

Objective: As part of the investment trust thematic engagement, we engaged with five trusts managed by one of our UK managers. Therefore, we sought the perspective of the investment adviser (manager) on some of our findings.

We started the conversation by stating the purpose of the investment trust thematic engagement. We also noted that we have a good relationship with the manager as a fund house, and there are a lot of positives, including the website and marketing, which we have used as a positive example to show other boards. From an investment perspective we do not have any particular concerns, however, governance concerns will impact our predisposition to invest in the future. We clarified that we are having this engagement in the spirit of transparency and understand that the boards are independent. Therefore, we would not expect it to dictate the board's position but act as an intermediary. We will keep communications with the boards open and make use of our voting powers. We discussed responsible investment-related disclosures and the process behind deciding which disclosures are included in the annual report. It explained that this process might seem especially rigid, however, given upcoming regulations it wanted to err on the side of caution in order to avoid making disclosures that might hurt the trust in the long term.

Outcome: The conversation clarified the manager's perspective on these issues. Whilst it has no authority over the board, it can be a valuable intermediary to relay investor sentiment to the board. Additionally, as requested, we will share some examples of what we think is the best-in-class disclosure of responsible-investment-related disclosures.

18. Stewardship and funds 7 8 9

The open-ended funds we invest in are primarily focused on fixed income, equities and property.

Our stewardship approach for funds fits into four broad categories. These can take the form of being part of our broader investment due diligence, or as standalone engagements. These engagements may be reactive or proactive. The engagements are split into four areas:

- 1. The firm-wide approach to responsible investment
- 2. Manager and strategy approach to responsible investment
- 3. Engagement on ESG risk and exposure
- 4. The firm-wide approach to net zero

When we invest via a third-party fund, one of our considerations is how the manager incorporates ESG factors as well as stewardship practices into their investment process, alongside traditional financial metrics. For us, taking ESG issues into account is about ensuring all potential risks to an investment are considered. At worst, not considering ESG factors might lead to reputational and financial damage for companies that are not managing these issues effectively. As such, we review our third-party fund managers' approach to ESG integration and stewardship. We believe that challenging our managers on their approach to ESG integration and stewardship, and encouraging them to adopt robust practices is an important part of our stewardship role as investors.

As an additional measure, from 1 June 2021 onwards, we implemented a requirement that any new funds are expected to have UN PRI signatory status through their investment manager/adviser. If this is a fund that is managed by a recently established firm, we would agree a timeline for the firm to sign up to the UN PRI. In exceptional circumstances new funds may be added to our investment universe which are not, and do not have, an intention to become a signatory. However, this would be extremely rare and the rationale for not being a signatory would have to be linked explicitly to the specific strategy that the fund was invested in. Any fund being added to coverage in this instance requires senior approval. We have not added any funds that do not have PRI signatory status to the Quilter Cheviot centrally monitored universe since we implemented this measure.

As well as encouraging managers to explain how they approach ESG integration, in line with best practice we expect managers to regularly publish details of their voting and engagement, and to disclose examples to us on a regular basis for ongoing discussion. In terms of the latter, we look for quality not quantity; voting on thousands of resolutions at AGMs may be laudable but we are more interested in the thought process that goes into making these decisions. Often this quantum of voting may simply be the result of an automated voting system which does not lead to engagement with companies on key topics. The expectations we set for third-party managers continually evolve, for example in 2023 our focus was on climate change and diversity.

1. The firm-wide approach to responsible investment

Example

Third-party manager – index funds

Objective: To understand the approach to stewardship, climate risk and net zero commitments, as well as work in progress on diversity and inclusion (D&I).

We met twice with the firm over a short period of time to discuss the various topics. The asset manager is not a signatory to the Net Zero Asset Managers initiative (NZAM) and gave several weak responses to our responsible investment focused questionnaire. The firm's stewardship is focused solely on governance, with environmental and social issues only seen through the lens of governance within one of the governance pillars. The firm does not have a systematic framework for engaging with the highest greenhouse gas emitters; additionally, it does not have data in place to support climate analytics across its assets under management.

Outcome: We gave feedback that we are disappointed that whilst the firm acknowledges the existential risk that climate change represents, its responsible investment activity is not focused on this. Instead, the firm believes that its obligation is to lower fees for customers and to engage for good governance. We gave feedback to the firm, and this included our wish to see climate data analytics across assets under management; a structured approach to its engagements with high emitters; and for the firm to do more to show leadership on gender and ethnic diversity in the industry.

Example

Third-party manager – multi-asset

Objective: To review the firm's ESG integration processes via a demonstration.

At this meeting, one of the ESG directors provided a demonstration of its ESG analysis process, with context around how it undertakes ESG integration in its investment process, and how it arrived at its current practices. It operates a proprietary ESG ratings platform on an internal system, where its research analysts grade holdings against sector-specific material issues (based on the Sustainability Accounting Standards Board (SASB) materiality map). Research analysts compile ESG scores based on the analysts' view of the company; they emphasised that they see this reliance on analysts' judgement as a better reflection of its "hands-off" approach to its investment managers' decision making. Consideration of ESG factors in investment decision making appears to rest primarily on portfolio manager (PM) discretion – there is no "house view" on any ESG issues, outside of the cases where it has made a corporate external commitment (e.g. deforestation/Finance Sector Deforestation Action pledge).

Outcome: The demonstration and discussion were a helpful information-gathering exercise, allowing us some insights on how other asset managers are incorporating ESG integration into their investment process. The manager views its ESG research outputs as a resource for PMs to utilise as appropriate, rather than a top-down requirement. It was noteworthy that it relies on their investment analysts, rather than Sustainable Investment team, to undertake ESG scoring.

2. Manager and strategy approach to responsible investment

Example

Third-party manager – UK equity

Objective: To understand the approach being taken to consider ESG factors in investment analysis, decision making and engagements.

This was a deep-dive meeting ahead of the fund being added to research coverage to understand the approach in more detail. Governance factors have dominated the approach to date, reflecting a central tenet of the investment process that strong governance is key to identifying high-quality companies, which they believe are then more likely to demonstrate strong social and environmental credentials and management. However, over the past year the team has rolled out the parent company's ESG framework, including a research template for all company holdings considering governance, sustainability risks and momentum. We also discussed how the team uses third-party data and information gathered from its own engagements, as well as the firm's approach to the Net Zero Asset Manager ("NZAM") initiative.

Outcome: Good progress is being made to incorporate the parent company's structured ESG framework into the team's approach. At future meetings we will look for further evidence of environmental and social considerations in the process.

Example

Third-party manager – Japan equity

Objective: The engagements focused on how the firm integrates ESG factors across different teams and the data that is used.

The first meeting was to understand how the portfolio manager leverages the central ESG resource in his investment analysis and engagements. We will follow up in 12 months regarding engagements with trading companies which were identified as having significant influence in Japan. The second meeting was a follow-up meeting with the ESG specialist to update on the rollout of ESG data to the investment desks and how investment teams are supported in this area. All bar two investment teams have an embedded ESG specialist – the two that do not have a specialist are viewed as undertaking this work well already. The firm is working towards delivering ESG data to its investment desks. A system pulling in company and portfolio level ESG metrics has been rolled out in beta form to the ESG analysts this week, delivering a set of core ESG-related information.

Outcome: The central approach comes across well with good progress on new areas. We will be following up with meetings with the other fund managers that we are invested with to see how they are making use of the centralised resource.

3. Engagement on ESG risk and exposure

Example

Third-party manager – Asia equity – engagement on Whitehaven

Objective: To understand the manager's engagement strategy with new coal holding (Whitehaven) as part of broader conversation about ESG integration in the manager's products.

Following the annual meeting with the fund manager earlier in the year, there were a number of outstanding questions around the fund taking a new position in Whitehaven, a large thermal coal producer in Australia. The manager arranged for a follow-up meeting with the regional analysts from the Sustainable Investing team in Australia. The manager has engaged with Whitehaven as part of the firm's thematic engagement around thermal coal producers. Whitehaven is currently missing both stated climate targets and internal climate policy, both of which are required as part of the firm's "minimum climate requirements" for companies. After engagement, Whitehaven did not make any timing commitments on climate targets, nor did the company commit to no new greenfield coal developments (a key goal in the manager's coal engagement). The manager is waiting until the next sustainability report is published to evaluate whether Whitehaven has met the firm's requirements and request further engagement. We queried the manager's approach to ESG scores and received confirmation that ESG scores are not required for all companies in the manager's holdings unless they are included in a sustainability fund/product. The sector analysts, who undertake ESG scoring, dictate whether and when a company is rated based on what they view as the best financial opportunities for PMs. We noted our concern that carbon-intensive companies or carbon "laggard" companies are included within the investment universe without ESG ratings. While the firm has taken some steps to provide ESG ratings for its fund managers' consideration, the case of this fund's new holding in Whitehaven has revealed how "loose" these screens are. Fund manager and research analyst discretion dictates whether companies receive ESG ratings, which casts some doubt on how thoroughly the manager is vetting both existing and new holdings for ESG-related risks.

Outcome: This discussion provided a useful case study in how the manager approaches ESG risks in carbon-intensive holdings (e.g. thermal coal) for an Article 6 fund. Given that Whitehaven does not satisfy the manager's stated "minimum climate requirements", still lacks an ESG rating months after joining the fund's portfolio and the company's non-committal response to the manager's engagement, the manager's policies on ESG integration appear to be inconsistently applied. We believe this has left notable gaps in how firm-level policies are implemented at fund-level.

Example

Third-party manager – Asia equity – engagement on Asia Cement

Objective: Asia Cement was flagged in a report for its exceptionally high contribution to portfolio emissions.

Despite making up only 0.02% of the overall portfolio that was being reported on, the company accounted for nearly 10% of the portfolio's emissions exposure. Given the significance of this outlier, this figure was investigated by the Responsible Investment team (RI team) and prompted a follow-up call with the fund owning Asia Cement. The 10% figure (Contribution to Portfolio Emission Exposure) is a measure of the proportion of a company's emissions "owned" by the fund investing in them, based on the value of the fund's investment compared to the company's value. This figure is especially significant for Asia Cement, in part because of the low company valuation of $1 billion (average valuation of peers in comparison table was $182 billion), which determines the degree of "ownership" the portfolio has of a company's emissions. This increased "ownership" of Asia Cement increases the amount of its emissions the investment is linked to, producing higher-than-peer emissions exposure. A meeting was arranged between Quilter Cheviot and the manager to discuss its Asia Cement holding and our concerns about emission intensity. The manager acknowledged that Asia Cement has much higher emissions per tonne product than peers, but stated this is due to state-imposed cement content requirements in compliance with earthquake resilience regulations. As a result, the per tonne emissions footprint is approximately 25% greater than peers (e.g. Cemex, CRH). The fund managers are aware of the comparatively poor carbon performance of Asia Cement, but believe the company is generally trying to do the right thing in a challenging environment and has financial advantages over peers. Asia Cement provided an overview document summarising its environmental/carbon targets and recent relevant progress. Notably, the summary promotes planned reduction of coal use in the near term (2025), but coal usage across different facilities appears to equate to no reduction.

Outcome: Although the manager was forthcoming in addressing some of our concerns, it is unclear whether Asia Cement is making sufficient strides to reduce its poor emissions performance. It is worth observing whether it retains its financial advantages given the somewhat turbulent economic conditions in China. In follow-ups with the fund managers, we will focus on whether they hold any similar positions, and what conditions would need to be met for them to sell those holdings. For example, whether carbon performance has any weight at all in certain heavy emitting sectors like cement.

Example

Third-party manager – global equity – energy

Objective: To understand how the firm's engagement and voting works in practice for the oil majors, with specific US and European examples.

This was a deep-dive meeting to understand more about how the asset manager is engaging and voting for the oil majors, having set out an engagement blueprint for its investment teams in 2022. We met with the fund manager specialising in the energy sector, as well as the head of active ownership to better understand how the firm's policies and approach interrelates with activity at a fund level. Engagement with the oil majors is led by either the head of the Active Ownership team, the energy analysts or the fund manager who specialises in the energy sector, who has expertise on the net zero energy transition. The quality and access to management varies depending on geography, with UK and European companies being far more accessible than those in the US. For US oil majors the firm has made some progress, however, it is clear that pushing too hard will terminate any access and that as the firm is taking an engage rather than a divest approach this is a balancing act. The firm will use its voting powers to seek change where appropriate and provided a cogent rationale for their decision making in the 2023 AGM season.

Outcome: We think the asset manager is among those who are seeking to develop best practice for its engagements, while investing in ESG and climate data analytics which support ESG integration across investment desks, as well as the firm's SBTi commitment. We think it helps amplify engagements when it is fund managers, research analysts as well as stewardship teams, engaging on climate transition plans and other sustainability concerns.

4. The firm-wide approach to net zero

Objective: In September 2023, we began engaging with third-party managers who were signatories of the Net Zero Asset Management ("NZAM") initiative. During this engagement we engaged with 20 of the third-party managers with NZAM targets where we have our largest third-party fund holdings. These engagements aim to better understand how different managers are approaching their net zero targets, including their chosen methodologies and the process behind selecting the size of committed NZAM-aligned assets.

Example

Third-party manager – UK equity

Building support across the firm and thoroughly evaluating available methods for net zero alignment were critical pre-requisites to setting NZAM targets. The firm conducted extensive engagement with its investment teams to assuage any concerns fund managers may have around the firm making a net zero commitment, as it was important to its Stewardship team that fund managers understand and ultimately support its targets. The firm chose to use an adapted "house" version of NZIF (Net Zero Investment Framework) alignment for its NZAM targets because of its engagement-driven and adaptable structure. It is taking reasonable steps to assure the robustness of its adapted-NZIF methodology, which is currently undergoing stress-testing by an external third party.

Engagements are broadly owned and led by the firm's investment teams, including the firm's high emitters engagement. The Stewardship team brings additional support and insight to these engagements, providing training to fund managers and undertaking analysis on more complex elements of a company's climate credentials (e.g. transition plans). The firm is structuring its climate engagement framework around its top emitters: 15 companies make up c.75% of the firm's financed emissions. It is working through this list to focus its resources where best deployed for maximum impact and is having "baseline" engagements to develop bespoke milestones for each company.

Outcome: Although the targets and methodology the firm has taken are not overly innovative, it distinguishes itself from competitors with a clear, articulated strategy and evidenced support for its net zero ambitions from fund managers. This fund-level integration has been notably lacking from many larger, better-resourced peers. It is possible that the firm's smaller size makes embedding climate into its investment processes more straightforward; nonetheless, it has obtained firm-wide buy-in and support for its climate targets where other firms have been unable to evidence beyond corporate-level commitments. The firm's engagement approach seems thorough, suitably ambitious and ownership is well-balanced between fund managers and its central Stewardship team. It is taking the optional additional steps which reflect thorough evaluation of and commitment to its net zero ambitions, including involvement with industry initiatives to increase net zero alignment asset class coverage. It appears to be taking a longer, more considered view of its climate commitments. It delayed joining NZAM explicitly to ensure that any commitments made were appropriate to the firm and has similarly been deliberate in related initiatives (e.g. the firm's upcoming coal policy included careful peer comparison of many industry-leading firms' policies).

Example

Third-party manager – fixed income

Overall, the firm's attitude towards its net zero targets could be described as cautious but engaged. It is evident that considerable thought has gone into understanding and appraising the challenges inherent to a net zero target, and the firm is tracking developments in topics around climate commitments (e.g. net zero alignment of indices, climate metric data refinement). Climate engagement at the firm is currently limited by the organisational structure, in which fund managers' views drive engagement. The firm does appear to be making positive changes, notably by formalising its engagement approach and enhancing its resources.

The pace of customer adoption of climate preferences is the most important factor influencing the achievability of the firm's net zero targets. Returning to the firm's customer-driven business model, if customers do not wish to incorporate climate into their investments, the firm considers it inappropriate and unjustifiable to impose any measures relating to climate to these managed assets. Other risks highlighted by the firm included the inconsistent global climate policy context, and the ongoing politicisation of ESG.

Outcome: The firm's approach to its net zero targets appears to be pragmatic, if slightly hedged by its customer-driven philosophy and conservative view of fiduciary duty. The firm clearly considers climate to be a relevant investment risk, and its ESG team demonstrated a thorough understanding of relevant factors to climate target setting (e.g. inconsistent data quality, limitations in asset class net zero alignment). However, its net zero commitment is heavily caveated by two primary limitations in its view: 1) critical need for government intervention to drive market realignment, and 2) customer demand for climate integration in investment products. Overall, its net zero targets accurately reflect the firm's measured, prudent approach to incorporating climate into its investment processes. Arguably the targets lack ambition, however, the firm provided thorough reasoning to support its strategy – with the notable exception of its engagement practices.

Example

Third-party manager – fixed income

We discussed the firm's approach to considering climate risks as a work in progress, issuers of bonds are evaluated and scored on the basis of their transition plans. Funds which the firm describes as being "ESG" have more readily available climate data analytics, however, this is not provided to all portfolio managers across all funds. The firm has not made a net zero commitment and instead says it offers funds and mandates to customers that can be used as building blocks according to the level of ambition and preferences.

Outcome: We gave feedback that the firm's approach of working alongside customers to meet their respective net zero objectives may be sufficient for those with segregated mandates, but it does not work for those investing in unitised funds. We disagree with the view that making net zero commitments via an industry initiative would be against the firm's fiduciary duty to customers. We noted that the Net Zero Asset Managers ("NZAM") initiative includes various caveats in the wording of commitments and also that asset managers are able to choose how much of the assets to commit initially. We emphasised the importance of engagement with companies over divestment.

Example

Third-party manager – fixed income

The decision to join NZAM was made by the parent company of the firm, which has been actively involved in the Paris Aligned Investment Initiative (PAII). It decided to join NZAM to convey its intention to work towards achieving net zero. However, no comprehensive analysis was conducted before making these commitments. The firm has committed 71% of its Assets Under Management (AuM), including the assets managed by the parent company and direct mandates.

The firm has set a target of reducing its emissions intensity by 50% by the year 2030 (baseline year 2020). The firm decided to use emissions intensity as a measure because the firm considered it customary practice at the time it published targets. They adopted the methodology of Partnership for Carbon Accounting Financials (PCAF), which had just been published at that time. Although the target is based on intensity for tracking purposes, the firm takes into account both intensity and absolute scope 1 and 2 emissions, and for engagements, it considers scope 3 as well.

There is a desire to increase the AuM included in the targets, but challenges include asset-class relevant methodology, fluid risk appetites and complicating factors such as the Just Transition concept. The firm has included all asset classes deemed feasible – including sovereign fixed income, an asset class many peers have excluded. Multi-asset funds are being evaluated for net zero alignment, but it is still challenging to align tricky asset classes like derivatives. The limitation with passive funds is more to do with a reduced risk appetite for potential losses – the firm experienced this in 2022, when the surge in demand for energy and the subsequent impact on the share price of related companies adversely impacted funds which had newly introduced net zero-linked benchmarks (e.g. Paris Aligned Benchmark [PAB]). The firm also emphasised its consideration of social justice implications of its net zero-aligned asset allocation, to ensure that funding is not being kept from countries that require it for transitioning.

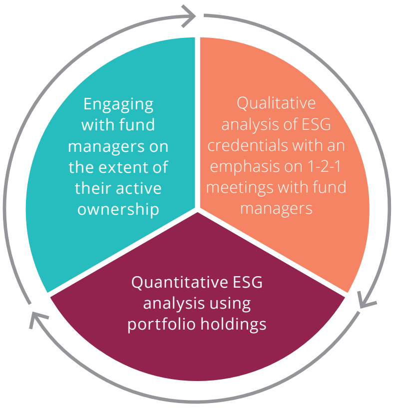
The firm's primary climate engagement plan is the Net Zero Stewardship Programme, which the firm reports on biannually. This engagement specifically targets 50% of the firm's financed emissions. The scope of this engagement is defined primarily by emissions profiles of companies – the firm tracks total emissions annually, adding new companies while retaining those with whom the firm is in ongoing discussions. The objective of this engagement is to evaluate and/or influence issuers representing 70% (currently at 50%) of their financed emissions by pushing them to adopt emissions reduction targets linked to science-based sector-specific alignment methodologies. These methodologies include measures like setting science-based targets (SBTs), using SBTi (Science-Based Targets Initiative) or similar frameworks, and publishing industry-appropriate climate transition plans.

The firm employs various methods to escalate issues, using both "carrot and stick". These techniques can vary, including voting for shareholder resolutions, abstaining or even voting against the chair. The aim is to strategically use the vote to achieve the desired outcome. The ESG team leads engagements, while fund managers and analysts are also involved to some extent, but not to the same degree.

Outcome: The firm has set a top-down emissions reduction target without first understanding the logistics at the strategy level. The firm compared this to a country setting its defined national contributions budgets before having a plan for emissions reduction. As a result, the firm is still evaluating how this target will affect the overall strategy. It seems like there is a long way to go before the target is integrated into the underlying investment strategies – similar to its peers with insurance parent companies. So far, the strategy is mostly driven by the engagement approach, modelled on NZIF, it is remarkable in the simplified data analysis (focus only on emissions) and direct simple "asks" for its holdings. Although nothing in its climate approach is especially novel, it is taking appropriate steps to integrate its NZAM targets into its investment process. It is certainly leading its peers when it comes to analysing the impact of its fixed income assets, as the firm has a dedicated fixed income ESG team actively developing its own climate engagement strategy.

19. Managers: expectations and monitoring across asset classes 7 8 9 12

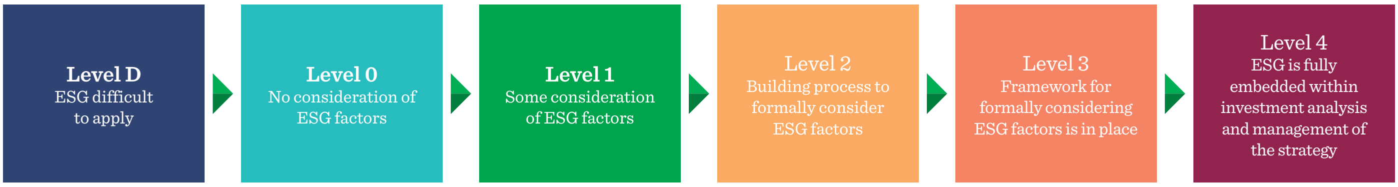
The Fund Research team considers the approach taken by fund managers to ESG integration and engagement as part of its research and analysis process for evaluating funds. The analysts draw on various ESG inputs and the responses fund managers give to the responsible-investment-focused Request for Information (RFI) which has firm-level and fund-level questions on areas including responsible investment resource, integration approach, portfolio risk analysis and voting. A key part of the process, however, is the analysts' 1-2-1 meetings with fund managers and other relevant teams, whether as part of their regular due diligence meetings or as separate dedicated meetings, to discuss the approach taken to responsible investment, including:



- the expertise of the Investment team and that of any separate Responsible Investment team, and how these work together
- how internal and external ESG data is used within the process;
- how ESG factors are incorporated alongside the various traditional financial metrics the fund manager might use to assess companies
- the extent to which material ESG risks are incorporated in a systematic way into analysis and decision making; and
- the extent to which fund managers are engaging with company management with regard to ESG-related issues.

The analysts use this assessment to assign an ESG rating to the fund, which reflects the degree to which they believe ESG risks and opportunities are embedded in investment analysis and decision making within the manager's investment process. We believe that ensuring due consideration is given to ESG factors as part of the investment process contributes towards markets properly pricing ESG risks and opportunities, and over time should steer portfolios towards more sustainable companies. The ESG fund rating is an internal measure to enable comparison of managers across sectors and asset classes. Given the fast pace of change across the investment fund industry to integrate ESG factors into the investment process, as well as the fast-evolving nature of ESG-related data, metrics, regulations and risks like climate risk, the Fund Research team see its ESG assessment of fund managers as an iterative process that will adapt over time. The analysts look to build an understanding of not just how ESG factors are incorporated into investment processes and engagement today but also the direction of travel, with further meetings over time to update and engage on progress made.

The ratings used by the Fund Research team are given below. Funds that have a bias towards sustainability themes or that target positive outcomes will additionally have a + tag. We seek to apply the ratings consistently across regions and asset classes. The ratings are intended to be dynamic as part of an iterative assessment of fund managers as they continue to make progress on investing responsibly.



The Fund Research team's engagements are currently focused on process, where the analysts seek to identify fund managers that are laggards in terms of their progress to integrate ESG factors and encourage them to take steps to improve. To do this the team uses their discussions with fund managers on investment process and stock examples to assess a fund manager's analysis and understanding of the company's sustainability as well as broader ESG issues. In addition, the team regularly meets sustainability and corporate governance teams to discuss their approach to engagement and their involvement in industry groups as well as UN PRI signatory status where applicable.

For the Positive Change strategies, there is an additional review for funds added to the strategy to make sure the funds meet the higher bar set from a responsible investment point of view for the strategy.

Additionally, in terms of monitoring, the only blanket exclusion we seek to employ for all investments relates to cluster bombs and anti-personnel landmines, as these are subject to international conventions and law:

- where we invest directly, we do not knowingly invest in securities (equity or debt) of listed companies involved in the manufacture, development or trade of anti-personnel mines or cluster munitions; and
- we also undertake regular checks to monitor any exposure through third-party funds to controversial weapons and other potential areas of concern.

20. Fixed income 7

For fixed income holdings, we invest through funds and directly.

The direct holdings are predominantly in UK, EU and US government bonds as well as supra-national issuance. Integrating ESG factors into the selection of sovereign debt issued by developed countries is likely to increasingly incorporate issues such as climate risk over time and best approached by seeking to influence government policy where appropriate.

Within our centrally monitored universe we have very limited exposure to corporate bonds on a direct basis and therefore are unable to influence the funding structure of issuers as larger holders are sometimes able to do. The primary consideration is whether these issuers are senior, and BBB rated, and whether the bonds will maintain that BBB rating over the period to maturity. We believe identifying the ESG challenges and opportunities that impact the debt issuer is an important factor in evaluating the likelihood of the bond retaining the BBB rating over its lifetime.

21. Systemic risk and collaborative engagement 1 4 9 10

As part of our overall approach to stewardship and investment, we work to identify systemic risks that we feel may have a material impact on our portfolios and customers in the future. Examples of some of the systemic risks we have identified are listed below. These inform our collaborative engagements as well as our three thematic priorities.

Greenwashing

One of the issues that investors face increasingly is the concern of greenwashing (where products or services are made out to be more sustainable and, for example, more environmentally friendly than they really are).

- Within Quilter Cheviot, we began integrating customers' responsible investment preferences within the suitability and advice process in April 2022. As part of this we aligned holdings to one of three responsible investment categories and we developed investment solutions to align with these.
- We have contributed to the work that various industry bodies have undertaken in relation to this through our representation on the TISA Responsible and Sustainable Investment Committee as well as through Disclosure and Labelling Advisory Group (DLAG) to the FCA for the launch of the Sustainable Disclosure Requirements (SDR).
- We launched external and internal training on the upcoming anti-greenwashing rule, and this was mandatory for most colleagues within Quilter Cheviot, and the Marketing team undertook additional training.
- The Quilter Board and the Quilter Cheviot Governance, Audit and Risk Committee received updates on greenwashing risks and the steps taken to mitigate these.
- All literature and marketing literature has been reviewed through Consumer Duty and anti-greenwashing lenses, and we have put in place processes and procedures to mitigate potential greenwashing within our marketing materials.

Climate Change

As a result of the systemic risk of climate change, we have:

- Continued the thematic engagement process with our largest emitting direct equities and began an engagement with our third-party funds focused on their net zero transition plans.
- Outlined our approach to managing and monitoring climate-related risks and opportunities to the Quilter Cheviot Governance, Audit and Risk Committee.
- Continued to measure how different strategies compare in regards to climate metrics.
- Hired a climate specialist within the Responsible Investment team.
- Joined a number of collaborative engagement initiatives as outlined below.

Example

A proud participant of: Climate Action 100+

Climate Action 100+

In 2023 we joined the engagement working group for the UK-listed utilities company, National Grid. Climate Action 100+ is an investor-led collaborative initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Launched in December 2017 and made up of over 700 investors, the initiative has since become the largest ever global investor engagement initiative on climate change, with growing influence and impact.

Example

CDP Science-Based Targets Campaign

We have joined a coalition of 307 financial institutions and 60 multinational corporations, with a combined $33 trillion in assets and spending power. The high impact companies targeted in this fourth cycle of the campaign represent c.$28 trillion of market capitalisation and 8.3 gigatons of Scope 1 and 2 CO_2e emissions.

Example

Net Zero Engagement Initiative

We joined this collaborative engagement initiative in 2023. The Net Zero Engagement Initiative aims to enable net portfolio alignment by supporting investor engagement and seeking the disclosures investors need from companies to determine if they are aligned with net zero. This engagement will therefore seek Net Zero Investment Framework (NZIF)-aligned transition plans from companies. We are part of the working groups for two target companies, Tesco and Siemens.

Diversity and inclusion

The social and economic impacts of inequality on company operations and performance, as well as the destabilising impacts on society and the wider economy. We also believe that innovative companies that value diversity of thought are likely to be better positioned to succeed in the long term.

Example

30% Club Investor Group

In 2022, as part of the 30% Club UK Investor Group, we launched a collaboration to engage with leading executive search firms to assess their hiring practices when making women appointments to executive and board positions. We have continued our contribution in 2023 by leading engagement with several companies as part of the forum's working group aiming to improve diversity at the executive and senior manager level at the largest 100 companies in the UK.

Example

Modern slavery in the UK

In 2021, we joined a group of UK investors led by Rathbones through the UN PRI platform. The purpose was to engage companies that would have not met reporting requirements under the 2015 Modern Slavery Act. All the target companies have responded and as of September 2023 there were four companies who are still not fully compliant. Engagement efforts with these organisations is ongoing.

Example

Find it, Fix it, Prevent it

The prohibition of slavery is one of the world's most widely asserted practices. 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 SDGs. This collaborative engagement will focus on UK-listed companies in specific industry groups which have been identified as being higher risk in regards to modern slavery. We are co-engagers for two of the construction companies targeted as part of this collaboration. The work is ongoing.

Nature and biodiversity loss

We support the mission statement of the Taskforce for Nature-related Financial Disclosures and agree that 'society, business and finance depend on nature's assets and the services they provide'. The scale of nature loss is diminishing the ability of the natural world to provide these services. In addition to our individual engagement activities on natural capital we are also contributing to several collaborative engagements with the aim of improving our risk management on this topic and support better systemic outcomes on biodiversity and nature loss.

Example

Nature Action 100

In December 2023 we were formally named as a lead engager for Rio Tinto as part of the Nature Action 100 collaboration. Nature Action 100 is a global investor engagement initiative focused on driving greater corporate ambition and action to reduce nature and biodiversity loss. Investors participating in the initiative engage companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030.

Example

CDP Forest Champions Programme

We have partnered with global NGO – CDP (formerly the Carbon Disclosure Project) and joined the "Forest Champions" programme to assess deforestation risk within our universe of monitored direct equities. This deep-dive analysis assessed the performance of each company across a number of factors including different deforestation commodity exposure as well as the level of supply chain transparency. The assessment was completed in December 2023, and we will use the analysis to launch a thematic engagement with companies most exposed to deforestation risk in Q1 2024.

Example

CDP Non-Disclosure Campaign (CDP NDC)

The Non-Disclosure Campaign (NDC) is a yearly collaboration between CDP and investor signatories to engage with companies that have not responded to a CDP disclosure request. Investors are able to participate in two ways:

1) Signing on to the letters CDP sends to the target companies.
2) Leading engagements with the target companies.

In 2022 we participated for the first time as a signatory and in 2023 we led engagements with nine companies to encourage them to disclose in line with the CDP framework. The companies were in the investment trust and real estate investment trust ("REIT") sectors. We use CDP data in a number of ways; firstly, as part of our investment process, CDP data feeds into our proprietary equity ESG dashboards, which the Research team uses to monitor our investment universe, and which drive the categorisation of our centrally monitored holdings in line with our customers' responsible investment preferences. We also use CDP data for thematic engagements, such as analysing water usage data. In 2023, 278 investors signed up to support the campaign, which is an increase on the 260 financial institutions (representing nearly US$30 trillion) for 2022.

We identified nine companies within our centrally monitored universe that had not responded to CDP's submission request. We chose the companies based on the materiality of our holdings, and additionally in most cases, we already had an open dialogue to build on. Following on from CDP's letter to the companies, we contacted them to discuss this further.

Outcome: In general, the engagement was a positive one. The purpose of the engagement was to raise awareness of the importance of CDP disclosure. We did not expect companies to disclose in this reporting cycle, especially as it would be their first time making a submission.

A number of the companies have indicated their intention to do so in the next reporting cycle. Several of the companies were grateful for the opportunity to have an open discussion around the value of CDP disclosure from an investor's perspective and appreciated the opportunity to ask questions directly of CDP (a representative from CDP joined our engagements). We will continue to engage with our investee companies to monitor those interested in completing CDP disclosures and continue to encourage the adoption of CDP reporting across our holdings.

22. Our voting principles and how we vote 12

As responsible investors we use our voting activities to fulfil our role as a steward of our customers' assets, working to protect and enhance long-term returns. Voting and engagement is part of our investment process, therefore all decisions are made in conjunction with the relevant research analyst.

We have developed a set of voting principles that reflect guidance from the Financial Reporting Council in the UK Corporate Governance Code, the Association of Investment Companies' Corporate Governance Code for Investment Companies and from the Pension and Lifetime Savings Association, as well as good practice within the market.

We use the services of ISS, a third-party proxy voting service provider to facilitate the fulfilment of voting. We consider the recommendations of ISS in our engagement and voting decisions, but we apply our own views to the voting policy and will not always follow the recommendations of ISS if we feel it is in the best interests of our customers to take a different course of action. There are minor differences in how we execute our voting in terms of universe and process.

23. Quilter Cheviot voting activity 9 11 12

Within Quilter Cheviot we vote on our global discretionary equity positions[3] – this includes the monitored equity lists, the monitored investment trust lists, the AIM portfolio service, Managed Portfolio Service ("MPS") and where we own more than 0.2% or £2 million of a holding in the UK. We have a long tail of holdings which is unsurprising given the nature of our customer base; we do not intend at this stage to vote on every single position we have. The reasoning for this is simple: voting should happen alongside engagement and therefore, whilst we could easily vote on every single holding globally, we would not engage on that scale in a meaningful way, and in some cases the position will only be held by one customer. Voting decisions are a reflection of our investment thesis, and we have dedicated equity and fund research teams who meet with the companies we invest in on a regular basis; as well as monitoring them on an ongoing basis.

Customers are also able to instruct voting on their holdings.

In order to provide assurance on our voting, all contentious voting issues, i.e. where we are voting differently to our proxy service provider's recommendations (ISS) or where we are voting against/abstaining management are referred to the Voting Panel for review. The Panel consists of the Chief Investment Officer, Chief Investment Strategist, Head of Responsible Investment and the relevant Head of Research (equities or funds). Where we are considering voting against management proposals or indeed supporting shareholder resolutions which management does not support, we will usually engage with the company in advance and will inform them of decisions to abstain or vote against management.

[3] As far as reasonably possible given the local regulations regarding share voting. Other infrequent instances of non-vote placement may include where Crest Depository Interests (CDIs), ADRs or GDRs are held. Ability to vote on these holdings differs on a case-by-case basis.

Voting principles for direct equities

We have principles in place which guide how we vote; however, we will deviate from these on occasion following engagement. Below are some of the principles we have adopted as well as examples of how these have informed our voting decision making.

Example

Climate-related shareholder resolutions:

We will generally support shareholder resolutions for better company-level disclosure and more detailed interim target reporting on climate metrics, especially if in line with the Paris Climate Agreement.

The 2023 AGM season saw Quilter Cheviot register an unprecedented number of votes against management at high carbon emitting companies, particularly amongst oil and gas majors. Broadly speaking, our analysis of climate transition plans divides energy companies into two categories: the first are those, mostly European, companies that have made significant commitments to investing in low carbon activities and are disclosing comprehensive emissions targets. The second group, principally US-based entities, are laggards in disclosing comprehensive targets and are not making the expected progress in aligning capital expenditure with high level commitments to be net zero emitters by 2050.

This proxy season saw Quilter Cheviot vote against both categories of company. Shell and BP are examples of the first group and have made significant progress towards becoming lower carbon integrated energy companies, but at BP we voted to abstain against the re-election of the chair of the board. In February BP announced plans to produce more oil and gas for longer, consequently paring back climate targets. This is a significant adjustment to the company's carbon reduction strategy approved by shareholders at the 2021 AGM. We voiced our disapproval on this matter not being put forward to shareholders through our engagement and voting process. Similarly, Shell has recently announced plans to scale up fossil fuel production. In 2022 energy companies also made record distributions to shareholders. As investors we welcome healthy financial performance leading to robust dividends, but at Shell we believe that the balance between distributions and the opportunity to accelerate low carbon capital expenditure was not being met. We therefore voted against approving the company's advisory vote on climate strategy progress.

For energy companies we consider climate laggards, all US based, we took a stronger voting position. We voted against re-electing the chair of the board or the lead independent director at Chevron and Exxon. In all cases they have failed to set net zero 2050 targets that cover all of scope 1 and 2 emissions, and the most relevant scope 3 emissions. Capital allocations are also not aligned with a meaningful decarbonisation trajectory. In the case of Chevron, it did not adequately respond to a 2022 shareholder proposal on decarbonisation targets which received 40% shareholder support. Absence of an ability to meaningfully engage with companies was also a consideration in vote decision making.

Additionally, we used our voting rights with the aim to improve the transparency and quality of climate disclosures at major financers of fossil fuel activities. For example, at the 2023 AGMs of Goldman Sachs and Bank of America we supported a shareholder resolution requesting more detailed reporting on how the companies intend to align financing activities with 2030 sectoral greenhouse gas emissions reduction targets, including the specific measures and policies needed to achieve such targets. Both companies have signalled that the climate transition is a key driver of risk and have set sector decarbonisation targets, with the aim of being net zero lenders by 2050. However, we believe more information around specific strategies, indicators, milestones, metrics and timelines for their commitments would benefit shareholders. We will not support shareholder resolutions where we believe the requirements are too specific, unrealistic or poorly structured – even if we are generally supportive of improvements in the company's climate-related disclosure.

Example

8x votes in favour of reporting on climate change/GHG emission reduction targets

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

Companies voted on: Amazon.com, Berkshire Hathaway (x2), Exxon Mobil, Glencore, Raytheon Technologies, TotalEnergies (x2)

6x votes in favour of reporting on climate lobbying

We supported calls for additional information on how companies are managing their direct and indirect lobbying activities. Additionally, we believe shareholders would benefit from information on how companies plan to mitigate any risks from involvement in trade associations that do not support the company strategy.

Companies voted on: Alphabet, Amazon.com, Boeing, Caterpillar, Meta, Wells Fargo

7x votes in favour of reporting on fossil fuel financing activities

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

Companies voted on: Bank of America (x2), Berkshire Hathaway, Goldman Sachs, JPMorgan Chase, Wells Fargo (x2)

Example

Bank of America

Objective: We engaged with the company to discuss concerns related to executive compensation and fossil fuel lending disclosures.

Our proxy adviser recommended voting against management on the advisory "say on pay" resolution at the 2023 AGM. They had identified a pay-for-performance misalignment relative to the proxy adviser set peer group. The company dispute the analysis for two reasons. Firstly, they do not agree with the peer group selected, as they tend to compare themselves to five global banks, while the proxy adviser includes smaller lenders and insurers. Secondly, a material number of the peer group have no 2022 pay data, therefore Bank of America is being compared to 2021 compensation metrics. From their perspective this is not an "apples-to-apples" comparison, and we tend to agree. It is also noted that total CEO compensation was reduced by 6% in 2022. We also discussed a shareholder resolution to require reporting on how the company will align its 2030 decarbonisation targets with its financing activities. The company opposes the resolution and believes more client engagement is needed before this level of detail can be published. We would welcome greater transparency on the topic.

Outcome: We voted to support management on executive compensation given the inconsistencies in the proxy adviser analysis and supported the shareholder resolution requiring further detail on putting climate transition targets into practice.

Social-related shareholder resolutions: Expectations are growing for companies to address social issues, from addressing diversity, to reporting on how workplace risks are being managed. Across the second quarter (the AGM season), we saw an increase in shareholder proposals specifically calling for more transparency and reporting on a company's political lobbying activity. Best practice was seen in instances where companies provide a full list of their trade associations partners and provide information on indirect lobbying practices.

Against the backdrop of regulatory change in the UK, expectations on companies to maintain a diverse board are increasing. Long-term and ongoing succession planning is required to ensure companies work towards and meet new recommendations set by regulatory bodies. Diversity has also been at the forefront of social-related shareholder proposals across the US, with increasing calls for companies to provide enhanced gender and racial pay gap reporting.

Example

7x votes in favour of reporting on lobbying payments and policy

We supported shareholder resolutions calling for additional reporting on companies' lobbying activity and policies as well as expenditure on social issues. Increased disclosure allows us to understand which areas a company is focused on and whether this aligns to other public policy statements.

Companies voted on: Alphabet, Boeing, Caterpillar, Eli Lilly, Goldman Sachs, McDonald's, Meta

6x votes in favour of gender pay gap reporting

We supported proposals where shareholders would benefit from better transparency on median pay gap disclosure.

Companies voted on: Amazon.com, Apple, Boeing, Goldman Sachs, Marriott, NIKE

5x votes in favour of conducting human rights risk assessment

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

Companies voted on: Alphabet (x2), Amazon.com (x2), Meta

Diversity-related shareholder resolutions: We will generally support shareholder resolutions for better company-level disclosure on diversity matters. Especially where the ask is not overly prescriptive and will bring the company reporting levels in line with peers.

Racial diversity: The Parker Review, which is focused on ethnic minority representation on boards, set a target of "one by 2021" for the 100 largest companies in the UK and "one by 2024" for the largest 250 companies in the UK. The Parker Review has also set an updated target for the largest 350 listed companies in the UK to report publicly on its ethnic diversity across senior management by 2027. We monitor and engage with companies in this area and are firmly of the view that "one and done" is not an acceptable approach to this. We will typically support shareholder resolutions that enhance company performance on racial diversity transparency and auditing.

Example

American Water Works

Objective: We engaged with the company on a shareholder resolution placed at the 2023 AGM on requirements to provide a racial equity audit.

This is the second consecutive year the item has been placed on the ballot and in response to significant support last year the company has held multiple rounds of dialogue with the proponent. They have also looked to enhance their current level of reporting on gender and racial equity. This includes launching a diversity-specific website showcasing the company's work and the metrics reported on EEO1 data, pay gap reporting and racial diversity at all layers of the company. The company has not agreed to a full audit by a third party. They have sought quotes from a supplier but could not find a provider at what they considered a "reasonable expense". Given there are no federal requirements or standards on a third-party audit, they were also unclear of the specifications and parameters of such an audit.

Outcome: On the basis of our engagement, we are comfortable with the efforts the company has made to improve disclosure and do not believe it is materially behind market practice. We voted to support management on this item.

Gender diversity

If the company is one of the largest 350 companies in the UK, we expect progress in achieving 40% women on board (in line with the FTSE Women Leaders review). If the board does not have at least 30% women on the board this is a red flag, and we will typically vote against the Chair of the Nomination Committee. We would look to apply these standards in other geographies where appropriate. All male boards: we will typically vote against all directors with zero female board representation (in line with the recommendations of the Hampton-Alexander review), this is a red flag, and we will typically vote against the Chair of the Nomination Committee. We would look to apply these standards in other geographies where appropriate.

Example

Ocado – Follow-up from 2021 and 2022

Objective: To raise concerns about diversity at the board and executive level, and the remuneration policy. In 2023 the company 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. We have engaged with them prior to the 2021 and 2022 AGMs as well as through our gender diversity thematic engagement. In 2022 we informed the company of our intention to vote against the re-election of the chair if we did not see tangible change to the board's diversity. In 2022 we voted against the expansion of the company's "Value Creation Plan" (part of the proposed remuneration policy). We had concerns that the potential pay-out from this newly proposed long-term component could be excessive; additionally, although there is a cap in place, it does not kick in until later in the plan. However, just over 70% of shareholders approved the new remuneration policy and therefore it came into effect. Our concerns have not abated and therefore in 2023 we voted against the remuneration report (alongside just over 30% of shareholders) as well as the chair of the Remuneration Committee.

Outcome: We have been patient with the company, and we are disappointed that further progress has not been forthcoming to improve the board's diversity, hence the voting decision outlined above.

Governance

The board is collectively responsible for the long-term success of the company. The board has to have sufficient independence as Non-executive Directors should constructively challenge management and no one individual should have unfettered powers of decision making. In order to ensure that the composition of the board is appropriate there are a number of factors that we assess. These include (but are not limited to) independence, effectiveness and diversity.

We saw similar themes reflected in voting activity in the 2023 proxy season, with expectations that remuneration packages fairly represent the company's performance and current economic climate. This proxy season saw an increasing number of shareholder requests for either an independent board chair or a lead independent director. Notably across the US where it is still customary to combine the CEO/chair roles, in these cases, shareholders consider the appointment of an effective lead independent director crucial in providing independent oversight of the board.

71x votes against management on compensated related resolutions (management item)
We voted against remuneration reports, policies and financial statements where the short and long-term incentive performance metrics were not sufficiently robust. Additionally, in cases where the CEO's salary saw a significant increase without a compelling rationale provided by the company. We also voted against resolutions where fixed performance targets were lacking and special bonuses were awarded during the year. Excessive pay-out concerns were raised with the companies.

Companies voted on: Alphabet (x3), Amazon.com, American Express Company, American International Group, Anheuser-Busch InBev, Bayer, Berkshire Hathaway (x2), Boeing, boohoo group (x2), Capricorn Energy (x3), Cellnex Telecom, Dolby Laboratories, Ecolab, Eni SpA, Essilor Luxottica, Frontier IP, GB Group, Ground Rents Income Fund, Haydale Graphene Industries, Hermes (x5), Intel Corporation, InterContinental Hotels Group (x2), IWG, Jet2, Kering, KION GROUP, L'Oréal, London Metric Property, LVMH (x6), Netflix, Ocado, Palo Alto (2), Philip Morris, Prosus, Ryanair, Schneider Electric, Seeing Machines, St. James's Place, T-Mobile, Tencent (x9), Tesla, UniCredit (x2), Unilever (x2), Walmart

75*x votes against electing /re-electing director (management item)
Companies voted on: Alphabet (x2), Amazon.com (x3), Amundi, Anheuser-Busch InBev (x6), Berkshire Hathaway (x4), BP (x2), Chevron, Darktrace, Dechra, Dolby Laboratories (x5), Exxon Mobil, HarbourVest Global Private Equity, Hermes (x3), Hipgnosis Songs (x6), Jet2, LondonMetric Property, LVMH (x3), Meta Platforms (x5), MIGO Opportunities Trust, NIKE, Ocado (x2), Princess Private Equity (x2), Renishaw (x2), Ryanair Holdings (x2), Siemens Healthineers (x6), Stellantis, T-Mobile (x9), VINCI (x2)

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

7x votes in favour of an independent board chair (shareholder proposal)
Unlike the UK, in the US it is common for the CEO and chair roles to be combined – our concern here is focused on companies' performance and compensation practices being behind peers, and the view that the separation of these roles would be beneficial to shareholders particularly in establishing independent oversight. We tend to support the request for an independent board chair where the board has not appointed a lead independent director, or where significant concerns have been raised and the lead independent director is not supporting effective board oversight.

Companies voted on: American International Group, Bank of America, Berkshire Hathaway, Colgate-Palmolive, Ecolab, Raytheon Technologies, Walgreens Boots Alliance

Example

Cellnex Telecom
Objective: To engage the company on concerns related to the proposed remuneration policy.

The newly proposed remuneration policy includes a contentious maximum opportunity for the Long-Term Incentive Plan ("LTIP") of 1115% of salary. The new policy is different from the 2022 policy that received significant shareholder dissent. The 2023 policy addresses some of the concerns voiced on complexity but does little to address the high potential compensation opportunities. The newly proposed maximum LTIP is substantially larger than direct peer maximum opportunities or that of broader peer comparisons used in formulating the plan (such as financials and diversified miners). It is noted that to achieve this level of pay-out, the targets are extremely stretching (including a c.120% Total Shareholder Return ("TSR") over a three-year period and a relative TSR ranking underpin). We voted against the company's remuneration policy last year based on similar questions around complexity and quantum. We have engaged with the company and still have concerns around the level of maximum LTIP opportunity.

Outcome: We do not find the rationale for the new policy structure sufficiently compelling. We voted against this item.

Example

Craneware
Objective: To discuss concerns regarding the re-election of a non-executive director (NED).

Our proxy adviser recommended voting against the re-election of a NED owing to independence concerns. We requested additional context on the tenure of the director, who has been a member of the board for ten years. This exceeds the nine-year term which is considered best practice. The board has noted these concerns but believes the director in question brings invaluable experience to the board as well as contributing to the board's overall diversity. Requiring the NED to step down from her role would result in the board not meeting the FCA's gender diversity targets (which it currently adheres to). While this is not a long-term solution, we appreciate the board's efforts in meeting the diversity guidelines.

The NED in question also sits on the Audit and Remuneration Committees, resulting in both committees not adhering to best practice guidelines related to independence criteria. Given the board is due to review the membership of both committees during the upcoming year, we believe cautionary support for election is a reasonable outcome, with the expectation for changes to be made ahead of next year's meeting.

Outcome: The board has provided a reasonable rationale for the support of the re-election of the NED in this instance. We expect changes to be implemented over the next 18 months, so all board committees adhere to best practice tenure guidelines. We will monitor the the board's progress and re-engage with the company and take voting actions as required if the changes are not made.

Example

American International Group

Objective: To discuss concerns related to executive compensation and the shareholder request for an independent board chair.

There has been a 238% increase in total CEO compensation since the previous year. There are concerns regarding the Short-Term Incentive ("STI") structure as discretionary payments have been made to the CEO over the past few years. The company considers the updated payment structure to be better aligned with shareholders. While there has been a reduction in the base salary, there has been an increase in the long-term incentive opportunity and a special award of $50 million. This payment is designed to retain the CEO and is subject to non-compete provisions.

There are concerns that the combined CEO/Chair role is contractually obliged. In this instance, we'd expect the company to mandate the board to elect a lead independent director. While we appreciate the board has appointed a lead independent director this is at the board's discretion.

Outcome: We supported the shareholder request for an independent board chair. While the company has a lead independent director in place, given the combined role of the chair/CEO is contractually guaranteed, shareholders could benefit from additional oversight. In the absence of a compelling rationale to significantly increase remuneration, we have voted against the item seeking approval for executive compensation.

There are also different considerations to be taken for investment trusts and smaller companies, and we incorporate these within our voting principles and activity.

A significant proportion of the assets we invest in on behalf of our customers are funds managed by third-party asset managers. Where these funds invest in UK equities, in general and where relevant, we expect asset managers to adhere to the Code and we expect them to apply their own voting and engagement policies. In certain situations, for example specific strategies or investment structures, the above requirements may not be relevant or appropriate. Where this is the case, we expect the manager to articulate a meaningful rationale as to why it may not be relevant or appropriate.

In 2023

Quilter Cheviot *voted at*

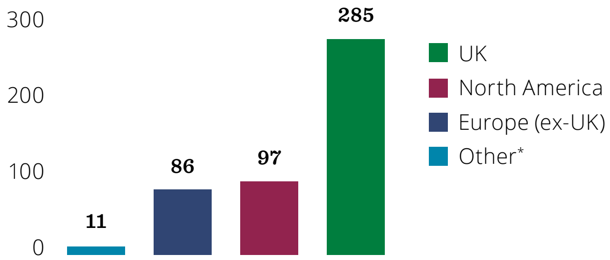
479 company meetings

7,741 resolutions

91 customers also instructed voting on specific holdings

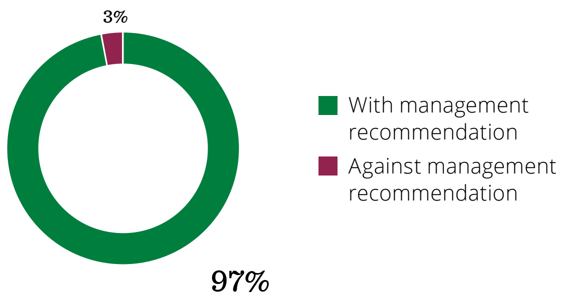
We will vote differently to our proxy voting service provider on occasion where we feel that is appropriate to do so – this is usually as a result of engagement with the underlying company. All voting data are at 31 December 2023.

Meetings voted in each geography in 2023

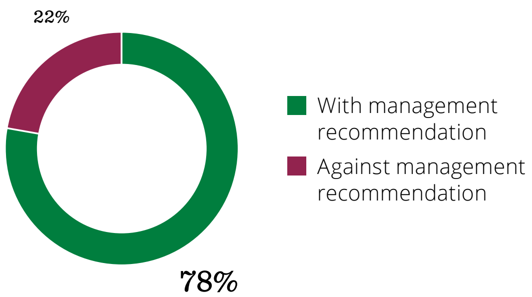


UK includes the Crown Dependencies of Jersey and Guernsey
*Australia & New Zealand, Asia ex-Japan, Latin America, Japan

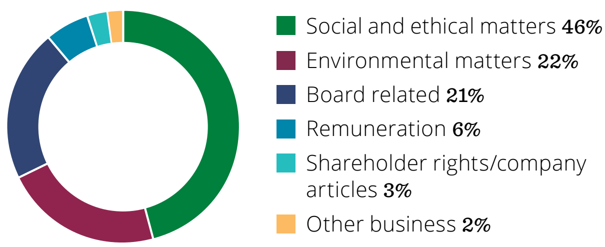
Management resolutions voted in 2023
(excluding shareholder proposals)

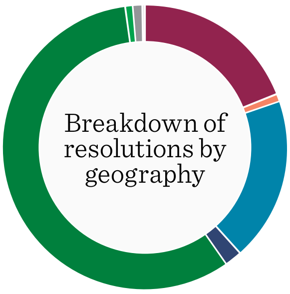


Meetings with votes against management in 2023
(including shareholder proposals)



Shareholder proposals supported in 2023





- UK with management - **57.7%**
- UK against management - **0.8%**
- Europe ex-UK with management - **19.0%**
- Europe ex-UK against management - **1.0%**
- North America with management - **18.6%**
- North America against management - **1.8%**
- *Other with management - **1.0%**
- *Other against management - **0.2%**

UK includes the Crown Dependencies of Jersey and Guernsey
*Australia & New Zealand, Asia ex-Japan, Latin America, Japan

- Within our regular voting and engagement report we provide detail on how we have voted in relation to engagements we have undertaken.
- From June 2020 in line with the Shareholder Rights' Directive II (SRD II) we disclose all the votes within our voting universe cast on behalf of customers. We have classified all votes that are enacted within our voting universe to be significant. We do not disclose customer-instructed voting publicly. We publicly disclose our voting activities on our website on a quarterly basis, in addition to producing an annual voting report. Where we consider a vote to be significant, additional disclosure related to the voting rationale will be provided.
- We disclose engagements with all companies and funds on a regular basis. In some cases, we may choose not to name the company or the fund in question if we believe publicity is likely to prove counterproductive to our engagement process. Undertaking potentially sensitive engagement in public may lead to a defensive reaction and entrench views of company management or destabilise relationship with a manager.
- Voting reports are available on ***our website*** and also on request.

We do not enter into any activity related to stock lending or borrowing.

25. Escalation 11

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

- engaging with members of the company's board;
- discussing or working with other shareholders on matters of mutual interest;
- voting contrary to the management proposals at general meetings;
- selling the holding where we evaluate it is in the interests of our customers to do so; and
- in extreme circumstances, we could request a general meeting.

Regarding engagement with the board, we often meet with the Chair or Chair of the Remuneration Committee in the normal course of our stewardship activity. On occasion we have also spoken to the Senior Independent Director where there has been a particularly sensitive and difficult topic. We have found that multiple engagements are often required, and that patience and perseverance are helpful attributes.

For direct equity investments, we have outlined within a publicly available voting policy, our approach to specific voting escalation across common ESG topics. For example:

Climate capability: we expect boards to demonstrate capability in communications with investors and executive oversight. Where we feel the skillset is lacking, we may vote against the Chair of the Nominations Committee. We support the Financial Stability Board's TCFD Recommendations and Recommended Disclosures, and see climate risk as an important consideration in our long-term valuation of a company.

Climate change disclosures: We may not support the report and accounts of companies or election of directors with sustainability responsibilities (Chair of board or Chair of Sustainability Committee or equivalent) which operate in high carbon-emitting sectors that have not made sufficient progress in providing investors with relevant climate disclosures (including publishing net zero commitments and interim reduction targets).

Human rights standards: We support the upholding of human rights global standards, including the UN Global Compact on Human Rights, Labour Standards, Environment and Business Malpractice. We may vote against the report and accounts or individual director elections where concerns have been identified. We will also typically support shareholder resolution that enhances transparency on company performance in relation to human rights standards at both an entity and supply chain level.

Natural capital: We will typically support any resolutions that improve efforts to disclose adverse impacts on natural capital, specifically in relation to:

- biodiversity: We will generally support any resolutions for better company-level disclosure on biodiversity impact management and mitigation;
- water risk: We will typically support resolutions that enhance transparency around water usage and encourage companies to submit disclosures to the CDP Water framework; and
- deforestation: Similarly, we will generally support resolutions that enhance transparency on operations in high-risk areas and exposure to supply chains where deforestation is a material risk. Again, we encourage companies to submit disclosures to the CDP Forests framework.

With respect to our funds, we consider our engagement a success when we see positive change, but we acknowledge that these issues are often complex, can involve longer time horizons and therefore, patience is nearly always required. Ultimately, however, if we felt our managers were not responding appropriately or insufficient progress is made and our engagement has led us to conclude that the longer-term suitability of the investment (and/or investment process) had been irreparably impaired, we could redeem our holding or utilise our proxy voting powers to vote against the board or management on the matter of concern. This is particularly relevant for us on climate-related issues as we recognise the importance of a transition to a lower-carbon economy and the role the investment industry needs to play here. We also recognise the risks that climate-related issues can cause to a long-term investment case, should these issues not be appropriately recognised and managed. Engagement is thus a particularly important tool here.

26. Embedding stewardship within our objectives 2 7

Our Executive Committee are assessed against various responsible business measures, including diversity, inclusion, responsible investment and culture measures, as part of their annual incentive scorecard. The responsible investment is benchmarked against the UN-backed PRI outcomes for Quilter.

Within Quilter Cheviot, the Responsible Investment team has specific metrics linked to performance and pay outcomes. The delivery of responsible investment integration across our holdings lies with our research teams as well as the Responsible Investment team. Therefore, within the annual appraisal process key performance objectives are set for the research analysts on an individual basis with specific metrics and goals being set annually. This then leads through into remuneration outcomes.

Investment: Quilter Investors

27. Introduction

Since our last Stewardship Report, Quilter Investors (QI)[4] has implemented several significant changes that have created exceptional opportunities for review and improvement of our Responsible Investment (RI) approach and operations highlighted below.

We believe the existing methods developed for incorporating RI considerations throughout the investment process for the WealthSelect Responsible and Sustainable portfolios are robust and effective to meet customer needs and have set ambitious but achievable standards from a product perspective. This year, we have worked on applying these principles more broadly to all of our investment solutions, whilst also taking advantage of organisational changes to improve processes and create consistency across our entire business. This report focuses on the positioning of stewardship within our broader investment activities, and how we aim to deliver effective active ownership that is pertinent to our RI Principles.

Highlights in 2023

- Research Hub launched.

  Over the course of 2023, QI have built a Research Hub to support QI's portfolio managers and investment processes. The Hub consists of 13 individuals specialising in Manager Research (MR), Operational Due Diligence (ODD) and Responsible Investment (RI). This has facilitated:

  - a fully integrated approach to RI which is now embedded within all investment research and processes; and
  - an overhaul of our firm and fund level information management systems leading to better quality structured and systematic data collection and analysis.

- Responsible Investment development.

  In 2023, we reviewed the RI Policy and Principles and instated resources whilst retaining consistency with existing process. In summary:

  - QI's RI Principles were developed to create a framework for RI considerations throughout Quilter Investors' business. These principles have been used to develop our processes, procedures and controls; and
  - QI's RI team has been expanded to five individuals, facilitating the extension of RI Principles and collaboration with other business areas.

28. Stewardship principles 1 4 7

Our RI Policy has five principles that serve as the foundation to implement responsible investment practices across our Affluent segment. Good stewardship maximises long-term value for customers' investments and is one of these overarching RI principles.

Fig. 1: RI principles
Source: QI RI team

The role of our stewardship activities is to deliver two key objectives described below.

- to ensure we meet the standards required for our customers; and
- to promote a well-functioning investment market over the long term.

To meet these objectives, engagements can be systematically identified and prioritised. Our engagements are research based so that specific outcomes can be targeted through a structured pathway that can be measured and tracked. We therefore consider the following three characteristics as essential components of our internal definition of an engagement.

[4] This section covers the Affluent AuM of £27.6 billion managed by Quilter Investors which includes multi-asset funds, WealthSelect managed portfolio services and sub-advised funds.

Specific	Structured	Systematic
Appropriate detail of goals based on thorough research	**Clear desired outcome and expected steps and timelines**	**Identified, prioritised, monitored and recorded using central systems**

29. Stewardship objectives 4 7 9

Objective I – To ensure we meet the standards required for our customers.

This objective requires good stewardship to be fully integrated into investment processes. Detailed due diligence and research of RI practices at firm, fund and issuer level, in line with our RI Tier categorisation framework, is performed. A summary version of this framework can be found in section 36.

These processes help us to identify engagements, and we work actively in collaboration with our Research Hub colleagues and the Investment team to communicate with managers relating to these systematic research and monitoring outcomes. Where this leads to a resolution outcome, one of the following types of engagement, that is specific and structured, will be enacted.

Engagement type	Identification	Engagement description	Targets
Reactive			
Manager policy, process or people	- Manager research selection and monitoring processes.	Agreement with a manager for an outcome relating to their policies, processes or resources available for implementing appropriate ESG integration or stewardship.	Manager (fund or firm level)
Manager ODD risk	- ODD review process - Voting research (for closed ended).	Agreement with a manager for an outcome relating to improving their governance or operational oversight of fund investment processes.	Manager (fund or firm level)
Manager portfolio	- Manager research monitoring and selection processes - Investment Risk monitoring of minimum requirements for underlying exposures.	When a holding triggers a red or amber flag through our risk monitoring processes, or is highlighted in the fund review process, leading to agreement of a desired outcome with the manager relating to the holding.	Issuer through one or more managers (fund level)
Controversies*	- Controversy reporting on underlying exposures in mandates with higher RI oversight requirements.	Reporting generated from our data partner's online controversy reporting tool, which is reviewed with managers and results in shared learning and aligned engagement with the company by one or more managers.	Issuer through one or more managers (fund level)
External research challenge	- Manager challenges to issuer level research or findings of an external ESG data provider.	Co-ordinated feedback relating to an assessment of a company's behaviour, risks or involvement in products or services that trigger flags through monitoring processes.	External data providers

Table 1: Reactive engagement
Source: RI team

*Only sub-advised mandates and funds included in higher Tier portfolios (Tier 2 and 3) are currently monitored for controversies. All other identification processes are run across all assets but with different criteria in line with the RI Tier framework.

Objective II – To promote well-functioning markets long term.

This objective requires stewardship activities that focus on risks and opportunities with regards to the broader context of our customers' investments. We monitor the regulatory landscape and research the most material themes emerging, informing and developing Quilter's thematic priorities, as described below. Quilter Investors values its strong relationships with investment partners who are critical contributors to the research and implementation of these proactive engagements.

There are several ways that proactive engagements may be identified as described in the table below.

Engagement type	Identification	Engagement description	Targets
Proactive			
Thematic integration	- RI-led technical and manager research of risks, opportunities and industry best practice to build expectation framework.	Ongoing discussion with managers to agree clear pathways (including timebound milestones) towards best practice for positively influencing real-life impacts of investment activities.	Multiple managers (firm and fund level)
Regulatory integration	- Internal collaboration, manager meetings and review of external regulatory landscape.	Ensure clarity and transparency relating to regulatory disclosures and commitments by gathering the same information from our manager partners relating to our investments and strategic partners.	Multiple managers (firm and fund level)
Collaborative engagements**	- Collaboration platforms, industry initiatives and partner-led engagements relevant to our own thematic priorities.	Acting as advocate amongst strategic partners for engagements and initiatives that we consider to be closely aligned to our thematic priorities or highly catalytic in a specific area.	Strategic partners
Collaborative endorsements	- Industry partners seeking support for endorsement of campaigns relevant to our own thematic priorities.	Support for market-wide efforts and commitments that align with Quilter's priorities and beliefs.	Market

Table 2: Proactive engagement

Source: RI team

** This type records only formal collaborative engagements, whilst we acknowledge most of our engagement types are collaborative in nature

Our thematic priorities are aligned across Quilter plc group of companies and include Climate Change, Human Rights and Natural Capital. These are key megatrends that we believe are material to longer-term sustainable investment returns for our customers and have the potential to have a significant impact on other stakeholders and the planet as a whole. As such, these are increasingly considered as part of the ESG integration and stewardship work undertaken by Quilter Investors.

Climate change – The United Nations describes climate change as 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.

We are committed to engaging managers to understand their approach to integrating decarbonisation plans with the aim to encourage alignment with net zero pathways and disclosure against globally recognised standards (such as the Science Based Targets Initiative).

Human rights – We recognise the United Nations application of human rights as 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.

Our stewardship programme currently focuses on working with managers to gain a better understanding of how issues such as inclusion and diversity, human rights in the supply chain, and health and safety are integrated into investment processes, and with particular focus on high-risk sectors and jurisdictions.

Natural capital - The Task-Force for Nature-related Financial Disclosures (TNFD) defines natural capital 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.

We are committed to engaging with managers on this topic in future to better understand how they are managing and mitigating risks related to deforestation, water usage and biodiversity, and we are monitoring the many developments relating to nature as part of our research phase on this theme.

Due to the interconnected nature of the themes, we undertake extensive research before conducting thematic engagements.

There are several ways for us to engage on these topics, and the below illustrates a few of the initiatives and metrics that may be considered to guide research and engagements with firms relating to the fund strategies and investment exposures.

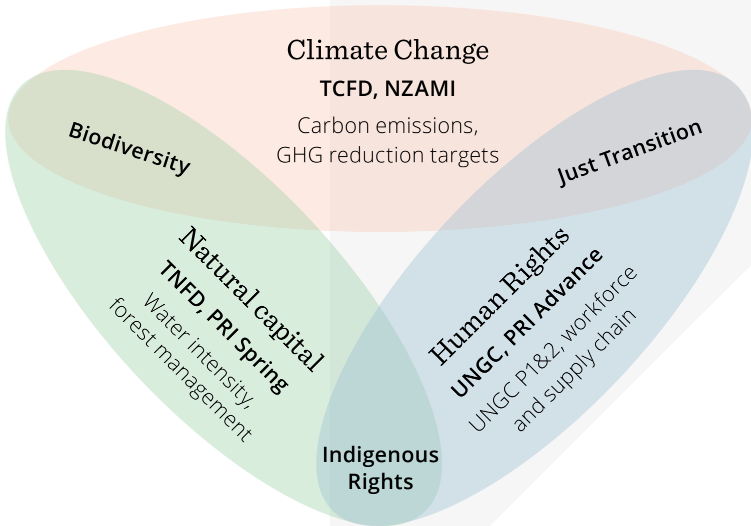


Figure 2: Objective II – Thematic priorities
Source: RI team – Quilter Investors

30. Prioritisation 7 8 9

As a provider of diversified, risk-adjusted fund portfolios, with exposure to many firms, funds and issuers in several markets and geographies, numerous opportunities for engagement may be identified. We therefore prioritise our engagements according to the following risk considerations:

- management level – related to firm level change, manager (fund) investment process, a specific (indirect) company (issuer) exposure;
- commitment related – relevant to policy, regulatory considerations or portfolio with ESG-related objectives or mandate; and
- materiality and severity – referring to the specific topic being addressed, the extent of the related impact and the size and asset class of investment.

For example, where a controversy is identified, the severity of the issue, our exposures to the company, and the asset class and RI Tier of the fund and portfolio where the exposure is held will be considered for materiality and prioritisation.

31. Stewardship approach across our assets 8 9 12

For context, our multi-asset strategies utilise a small selection of investment vehicles, as follows. Some restrictions and exceptions may exist between portfolios, most of our investments are of the following vehicle types (in order of ownership and control).

Closed-ended funds, including investment trusts

As we own shares in these investment vehicles directly, we focus voting-related activities on these holdings (see voting section below) and our priority is to ensure appropriate governance and RI-related considerations.

Open-ended funds, including sub-advised mandates and third-party funds

Sub-advised mandates

There are 38 fund mandates where investment management responsibilities are delegated to strategic partners. As regulatory responsibility for these funds is retained at QI, we aim to ensure an enhanced level of oversight for these funds in line with their mandate obligations and investment objectives. This includes oversight of voting and more detailed due diligence through Research Hub processes.

Third-party funds

A majority of AuM are invested in funds managed by other firms and available either via the Quilter Investment Platform or in the market. These funds undertake various strategies and are selected and monitored in line with the RI Tier framework accordingly.

Although derivatives may be used in some portfolios for hedging purposes, we do not currently consider these in scope for stewardship activities.

Asset classes

All portfolios managed at Quilter Investors use strategic asset allocation, alongside manager selection to construct portfolios to meet our customers' objectives. This necessitates the use of a broad investment fund universe across different asset classes and markets, and this is considered with respect to ESG integration, when using the RI Tier framework in our Research Hub processes, and Stewardship. We adapt our analysis and expectations (see table below) of a manager's stewardship approaches in consideration of their opportunity to directly engage.

Asset class		Market	Detail	Active	Passive
Equity		Developed	Large/mid cap		
			Mid/small cap		
		Emerging	Large/mid cap		
			Mid/small cap		
Fixed income	Corporate	Developed and Emerging			
	Government				
Alternatives	Hedge funds	Developed and Emerging			
	Real assets*				
	Private equity				

Table 3: Stewardship across asset classes
Source: RI team – Quilter Investors. For internal guidance.

- High opportunity for the manager to engage with underlying holdings and incorporate into investment decisions.
- Medium opportunity for the manager to engage with underlying holdings and incorporate into investment decisions.
- Low opportunity for manager to engage, and less resources dedicated to engagement activities.
- Low opportunity for engagement activities but can be incorporated into investment decisions.

Our assessment of RI approach for manager strategies may vary, for example:

Equities

With most ESG data providers focused on corporate entities, research and monitoring of issuer level considerations (such as ESG risk factors, carbon footprint and involvement in products, services or events) is facilitated both for us and for equity managers to integrate into the investment process. The manager's ownership of company shares will usually also offer better access to the company's management and board, and entitles the holder to voting rights. This provides better opportunities to influence these stakeholders through active ownership activities and we would expect that to be evidenced, particularly for funds with a higher RI Tier classification or at firms that are committed to investment stewardship.

Fixed income

Currently our monitoring of corporate fixed income funds for underlying exposure to ESG risk, controversies and involvement (i.e. at issuer level) relates to the corporate issuer of a bond and not immediately to the governance or behaviour of the issuance. Due to this nuance, at fund level, the Research Hub has increased due diligence of a fixed income manager's ESG integration and related stewardship activities, particularly regarding Tier 2 and Tier 3 funds. For example, where there is lower transparency for use of proceeds, a higher degree of engagement and oversight may be required to ensure the fund's investment objectives are met. In the case of government bonds, the research available is also limited but we seek to understand the relevant manager's approach to integration, and where appropriate, we may consider country or regional level ESG risk.

Passive products

Where investment is made through a passive product tracking an index, exposures to ESG risks, controversies and involvement may be less predictable and less integrated into the product construction processes. Because of this the Research Hub undertakes more detailed due diligence of active ownership activities at firm level, than would apply to the product's assets. Where undesirable exposures arise, alternative products will be explored and discussion with the provider will be undertaken to ascertain a view on the exposure and any actions, such as engagement with the index provider. Note: for Tier 2 or 3 funds, we do expect managers to integrate ESG factors into their portfolio construction process.

We take these strategy aspects into consideration when setting our stewardship expectations of managers and agreeing reasonable steps for engagement.

32. Escalation 11

Where we feel our engagements with managers are not progressing positively – for example, if an outcome cannot be agreed or agreed milestones are not reached without explanation – we undertake a process of escalation. In some cases, where there is willingness and proactive actions, milestones will be amended. Internally, we may lose conviction in a manager's process and reconsider the assessment of the Tier assigned to the fund through a full review by the Research Hub. This may ultimately result in reduced allocation to the fund, or even divestment, especially by higher RI Tier portfolios. These decisions are agreed and communicated through the relevant Research and Investment Forums.

For closed ended governance or management concerns we may consider using voting rights as a means of escalation and will discuss our concerns and voting decisions with the management and board of the investment company. In some cases, where we may own only a small proportion of voting rights, or have poor corporate access for such discussions, we may seek to collaborate with other stakeholders. We have developed internal standards to guide these company escalations and voting decisions.

Engagement examples

Except for engagements related to regulation, Reactive Engagements – relating to the investment process have been our priority for 2023.

Reactive Engagement examples:

	Reactive
Type	Manager portfolio (Tier 3)
Target and objective	One manager (UBAM Positive Impact Emerging Markets Fund): To remove tobacco exposure flagged in a Tier 3 portfolio.
Identification	Ongoing monitoring of minimum issuer level requirements for Tier 3 portfolio.
Prioritisation	Our independent monitoring process raised an alert to a potential breach of the exclusionary framework for the WealthSelect Sustainable (Tier 3) portfolios.
Activity	A company held by UBAM Positive Impact Emerging Markets Fund was flagged by our ESG data provider for tobacco production, in the form of e-cigarette production, via a joint venture. Within our exclusionary framework, tobacco production is a hard exclusion, i.e. 0% exposure at any involvement including the production of e-cigarettes. Our investigation involved contacting the manager and the ESG data provider to get a better understanding of their assessment. The dialogue with the manager was extensive as we sought to gain clarity on the manager's assessment of the company's activities and whether the company continued to meet the fund's exclusionary and impact framework. The outcome was disappointing as while the manager's own ESG data provider did not flag the company for these activities, the investigation identified that the company had previously been involved in e-cigarette production through a joint venture, which was not identified by the manager. While the manager attested that the company had assured them this activity had ceased, there continues to be publicly available information that negatively associates the company with these activities and the company continues to manufacture components, namely batteries, for e-cigarettes.
Outcome	As a result, we did not feel we had enough evidence to override our stated policy for the Sustainable portfolios. Therefore, downgraded the Fund from Tier 3 to Tier 2 and removed the fund from Tier 3 portfolios.

	Reactive
Type	Manager portfolio (Tier 3)
Target and objective	One manager (WHEB Sustainability Fund): To remove controversial weapons exposure flagged in a Tier 3 portfolio.
Identification	Ongoing monitoring of minimum issuer level requirements for Tier 3 portfolio.
Prioritisation	Our internal issuer level monitoring highlighted an exposure to involvement in manufacture and sale of white phosphorous classified by QI as a controversial weapon and a stated exclusion for Tier 3 investment.
Activity	An internal alert highlighted the production of 81mm JM42A1 WP smoke bombs filled with white phosporous by Daikin and traded under a contract with the Japanese government – an involvement newly confirmed by previously undiscovered documentation. As white phosphorous is classified by QI as a controversial weapon and an exclusion from Tier 3 portfolios, the details of this alert were shared with the manager at WHEB holding Daikin, and a meeting convened to discuss the inclusion of this company in the fund. The discussion clarified that military contracting by companies is tolerated within a 5% revenue threshold and that white phosphorous, as it is not specifically banned by any international conventions, was not listed in the firm-wide Ethical Outcomes document for avoiding significant harm. After further investigation by WHEB confirming this involvement with the company and considering views, including that of QI's, of white phosphorous as a controversial weapon by many stakeholders, the manager agreed to take this to their Investment Advisory Committee to consider a policy update.
Outcome	WHEB's Investment Advisory Committee agreed to add white phosphorous to the Avoid Significant Harm exclusions in the Ethical Outcomes document. As a result, the Daikin position was sold within 3 months and the WHEB Sustainability Fund holding has been retained in the WealthSelect Sustainable (Tier 3) range.

	Reactive
Type	Manager portfolio (Tier 1 passive)
Target and objective	With one manager (BlackRock iShares): To remove controversial weapons exposure flagged through a passive product. Notwithstanding that this does not amount to a policy or mandate breach, we do seek to remove such an exposure.
Identification	Increased transparency in issuer level monitoring of Tier 1 exposures to our firm-wide exclusions (cluster munitions and anti-personnel mines).
Prioritisation	Improved internal monitoring processes for Tier 1 portfolios flagged existing exposure to cluster munitions in Blackrock passive iShares products. Of all exposures, one fund – iShares (MSCI) Emerging Markets IMI ETF – holds two South Korean companies listed for cluster munitions manufacture on the Morningstar Sustainalytics Controversial Weapons Radar. Whilst challenges exist, particularly when investing in passive trackers, we are committed to reducing such involvement to zero.
Activity	We opened a discussion with Blackrock relating to holdings in three of our iShares investments to better understand the index construction and screening overlays, research sources and overarching engagement activity that may relate to these exposures. One of these, the iShares MSCI Emerging Markets IMI Index ETF took priority, holding two South Korean companies listed for cluster munitions manufacturing. BlackRock confirmed to us the priority for non-ESG screened funds is to track the index as precisely as possible and that their approach is to provide choice to investors so that alternatives are available for ESG-related preferences. BlackRock also confirmed no open engagements toward these companies. Our other exposures, held through two of the ESG screened ranges, were through the Turkish company (Aselsan Elektronik) owning 15% of a private company (Roketsan) considered by Morningstar Sustainalytics to be involved in cluster munitions manufacturing. Although cluster munitions are excluded in these ESG screened funds, 15% is not considered significant enough ownership by BlackRock to exclude Aselsan Elektronik. Later in the year, we engaged with an active manager regarding the company (see JPMorgan case study for details) which provided comfort regarding the exposure. At a firm level, although BlackRock Investment Stewardship actively pursue positive engagement through the "company impacts on people", we have not seen evidence of engagement on the topic of controversial weapons manufacturing at this time and no engagements with the companies in question.
Outcome	We continue to hold these iShares products, however, only one product continues to flag exposure to cluster munitions manufacturing. We have assessed alternative investments, and the related transaction costs incurred for full removal of this small underlying legacy exposure, and consider it is not in the interests of the clients of this Tier 1 portfolio. We will continue to monitor the exposure and explore alternative options.

	Reactive
Type	**Manager portfolio (Tier 2) and Data Provider**
Target and objective	One manager (Tier 2 mandate with JPMorgan): To remove controversial weapons exposure flagged in a Tier 2 portfolio through a sub-advised mandate.
Identification	Ongoing monitoring of minimum issuer level requirements for Tier 2 portfolio.
Prioritisation	Internal issuer level monitoring flagged a new exposure through an investment by JPMorgan in the QI Emerging Markets Equity Growth Fund. This is a Tier 2 exposure in an actively managed equity fund, and it was prioritised as would represent a portfolio mandate breach.
Activity	An initial discussion was opened with the manager at JPMorgan on the research and investment rationale for Aselsan Elektronik. From previous exposures flagged through passive iShares products, we were familiar with the exposure through Aselsan's 15% ownership of Roketsan, a manufacturer of several rocket-propelled munitions. These discussions with the manager acknowledged the existing research from Morningstar Sustainalytics (M*Sustainalyics) but challenged the specific conclusion and highlighted a published statement (addressed to M*Sustainalytics) that there was no involvement or intention to be involved with any activity relating to cluster munitions, as defined by the Convention on Cluster Munitions. In light of this further information, we shared documentation with M*Sustainalytics and requested further clarification for their assessment. In response, the data and research provider removed the flag for cluster munitions involvement stating that the direct confirmation satisfied their evidence criteria. We believe JPMorgan's detailed research and response has retained our conviction in the RI Integration processes and that other RI-related considerations of the Aselsan Elektronik business are addressed through ongoing engagement by JPMorgan with the company.
Outcome	We continue to hold QI Emerging Markets Equity Growth mandate in Tier 2 and Tier 1 portfolios, and intend to monitor engagement outcomes shared with us. The broader outcome is that other exposure to Aselsan Elektronik, for example in BlackRock passive products, no longer flags for controversial weapons.

	Reactive
Type	**Investment Trust Research**
Target and objective	As part of the overarching stewardship programme, in Q3 we initiated a piece of research to understand the ESG issues that are material to the investment trust sector both in terms of economic impact and importance to stakeholders. This involved conducting a materiality analysis in collaboration with the Investment team, Manager Research and Operational Due Diligence teams to understand these material risks and develop an internal standard that will be used as a guideline for engagement. **Objectives** – Conduct a materiality analysis of ESG risks, in the investment trust sector – Identify engagement priorities – Develop engagement standards
Outcome	– Draft standards have been developed that identify material risks and opportunities for engagement – Topics include board composition and responsible investment disclosure – Engagement guidelines include parameters for trigger points and engagement milestones
Next steps	– Engagement target list to be developed – Engagement execution to commence in Q1, 2024

	Reactive
Type	Firm (Tier 1, Tier 2, Tier 3)
Target and objective	One firm (JO Hambro): To ensure principles required for FRC Stewardship Code status are satisfied.
Identification	Published updates from FRC and in the press regarding financial institutions that were removed from the FRC list.
Prioritisation	It is one of the minimum firm level expectations for all manager firms to be signatories to the FRC Stewardship Code, or an equivalent in other jurisdictions. JO Hambro also own Regnan, provider of funds with sustainable outcomes held in Tier 3 portfolios.
Activity	On discussion with JO Hambro regarding the feedback provided by FRC relating to the report submission, and aligned with our internal research outcomes, we were satisfied that the rationale for delisting was likely to relate to report production more than the approach or processes implemented. We have continued to follow up with JO Hambro according to timelines advised.
Outcome	This will remain open until confirmation and/or feedback is received.

Proactive Engagement examples:

	Proactive
Type	Thematic – Climate
Target and objective	With multiple firms and funds: To commit to driving science-based carbon emissions reduction of investment portfolios through integration and stewardship activities.
Identification	Tier 3 portfolio objectives and UK TCFD regulatory focus.
Prioritisation	Initially prioritised for the WealthSelect Sustainable range due to focus on environmental outcomes and carbon footprint within the stated objective, this has become a focus more broadly with the development of regulatory disclosures and climate action.
Activity	We continue our Climate Engagement with managers of (Tier 3) funds held in the WealthSelect Sustainable range, which has now informed an initial baseline set of expectations of managers at firm and fund levels for integration and active ownership activities relating to climate change across asset classes and in line with our commitment to TCFD objectives. As well as understanding manager's own approaches to climate action, our baseline expectations include manager awareness of SBTi and portfolio alignment, climate assessments applied to portfolios, and understanding of gaps and related engagement activities toward assets. At firm level, we would expect support for CDP and SBTi, and for an asset inclusive approach to firm-wide climate commitments. Stretch targets may include technical support and engagement relating to setting SBTs in more challenging sectors or providing evidence of climate KPIs in integration and active ownership activities. The coincidence of this research in the year with the implementation of TCFD reporting for many has positively influenced some aspects such as consistent operational measures; this has also motivated a review period for some managers. We have incorporated questions pertaining to this alongside baseline expectations systematically as part of our ongoing due diligence processes to improve scalability of this engagement.
Outcome	This extensive research phase of the Climate Engagement has highlighted challenges that firms and fund managers may face relating to specific investments and strategies. We consider these when discussing targets with managers relating to climate change and aim to set specific and structured objectives.

	Proactive
Type	Thematic – Human Rights
Target and objective	With multiple firms (mostly strategic partners): To encourage commitment to assuring improved protection of human rights in high risk parts of their mineral supply chain.
Identification	Initiated by Stewart Investors through the PRI Collaboration platform.
Prioritisation	This positive engagement initiative is closely aligned with our human rights priority and specifically targets several systems and semiconductor companies that are held in sub-advised funds managed by strategic partners.
Activity	In the previous year, we had encouraged our strategic partners to join this collaboration and found that several were actively pursuing similar engagements relating to the supply chain management of downstream companies in relation to the mining of minerals (specifically tin, tantalum, tungsten and gold) from conflict-affected or high-risk areas. These discussions also provided some useful initial insights to the overall engagement and over the year, significant progress has been made, led by Stewart Investors including, the development of a structured engagement framework and guidance for investors engaging with downstream companies in the electronics sector and a strong relationship with important bodies such as Responsible Minerals Initiative (RMI, part of the Responsible Business Alliance) such that RMI now accept investor members, leveraging this work. We continue to monitor the relevant holdings with related engagements in the sub-advised mandates, and to encourage manager partners to support this initiative as we believe this demonstrates characteristics of an effective engagement approach and leverages other initiatives related to this complex issue.
Outcome	We will continue to promote collaboration this year, and to monitor related engagements. This will also inform and contribute to our overall human rights and supply chain engagement plan longer term.

	Proactive
Type	Collaborative endorsement
Target and objective	Multiple firms/strategic partners: to endorse the principles and objectives of co-ordinated collaborative engagement intiatives such as PRI Advance and PRI SPRING.
Identification	Collaboration platforms and manager relationships.
Prioritisation	Collaborative engagements and initiatives are selected according to the relevance to our thematic priorities. PRI Advance (for Human Rights) and PRI SPRING (for Biodiversity) connect closely on these aspects.
Activity	Both of these initiatives, led by PRI, target improved alignment for engagement relating to mega trends toward a particular thematic focus. As many investment firms develop approaches well ahead of regulation or other guidance, we endorse proper co-ordination and leadership in developing effective alignment amongst the investment community for positive outcomes. PRI Advance (for Human Rights) and PRI SPRING (for Biodiversity), though at different stages, both directly relate to themes that we are commited to working with managers on. In the case of PRI Advance, which has been in place through the year, the decision was to focus on material sectors with respect to human rights factors – predominantly metals and mining, and electrical utilities. As endorsers of this initiative, we have signed an investor statement with expectations for targeted companies to implement UNGPs (United Nations Guiding Principles), align to political engagement with human rights responsibilities and deepen progress on related issues in operations and value chains. We are participating in meetings and monitor developments as the opportunity arises.
Outcome	The above expectations of companies, developments of this initiative and discussion with participating partners will contribute to our overall approach to human rights engagements.

33. Our voting 9 12

Within Quilter Investors we vote at all AGMs (and on all resolutions), which includes other general meetings globally. We largely invest in companies through funds rather than directly, and therefore, our voting action relates to the managers.

In conjunction with the Responsible Investment team, the Investment team reviews all resolutions ahead of shareholder meetings and we only decide how to vote after due consideration and discussion. As a rule, we aim to discuss and resolve any concerns with management before deciding to abstain or vote against a resolution. We review all resolutions that are tabled and take an active involvement where necessary. For example, we may disagree with the recommendations of directors and/or third-party proxy advisers/administrators, and when appropriate we will amend our voting instructions accordingly and provide a rationale for why we have done so in our voting reports. We wholeheartedly recognise the importance of voting, especially given that we are a significant investor in the closed-end fund sector.

We aim to use voting as a means of engagement and escalation in relation to climate-related topics and will exercise our proxy voting powers on climate-related resolutions to support the key areas of climate change transparency, reporting and disclosures, climate strategy and climate-related governance.

Within Quilter Investors during 2023 we voted at 118 general meetings across 931 resolutions.

We consider the recommendations of our proxy service provider in our voting decisions, but we apply our own views to the voting policy and will not always follow recommendations if we feel it is in the best interests of our customers to take a different course of action.

One of the challenges we may encounter when voting, is "share blocking". Share blocking is practised in some settlement jurisdictions and we are restricted from exercising our vote.

Direct communications between custodians and ISS are set up where possible to ensure we are acting on all voting rights.

34. Voting transparency and reporting 12

As a signatory to the UN-backed PRI, we have made a commitment to transparency and recognise its importance in creating higher standards not only for responsible investment practices but also for the wider financial market. Key elements of our voting reporting suite include the following:

- disclosure of quarterly and annual voting reports that clearly illustrate significant votes, resolutions we have voted against, along with the respective rationale in line with the Shareholder Rights' Directive II (SRD II)
- disclosure of engagements with all companies and funds on a regular basis. In certain cases, we may choose not to name the company or the fund in question if we believe publicity is likely to prove counterproductive to our engagement process; and
- for our voting process, we use the ISS Proxy Exchange as well as subscribe to their proxy voting research. We also review the voting universe which we have defined within ISS on a regular basis which allows us to monitor our holdings and the relevant voting rights on an ongoing basis across the different custodians that we use.

We do not enter into any activity related to stock lending or borrowing. In line with the SRD II, we are fully transparent on our voting activity and publicly disclose our voting activities on our website on a quarterly basis, in addition to producing an annual voting report. Where we consider a vote to be significant, additional disclosure related to the voting rationale will be provided.

Voting reports are available on our ***website*** and on request.

35. Key improvements made to the voting process over the past 12 months 5 12

Over the past year we have made positive strides and improvements to the overall voting process. Key changes made to date were as follows:

- improved governance with operational oversight through embedding voting responsibilities in operational, data and Responsible Investment teams
- improved data governance and the reporting and monitoring of voting. This was facilitated by separating the Quilter Investors and Quilter Cheviot voting platforms; and
- increased cross collaboration with the Research Hub and the Investment team on voting decisions. This collaboration allowed voting action to take into consideration the views of the Research Hub (which includes our Manager Research team as well as Operational Due Diligence) and the Investment team (i.e. portfolio managers).

Our voting analytics for 2023

118
company meetings voted in 2023 by Quilter Investors

2
Total abstentions

32
Total "against" votes cast (absolute)

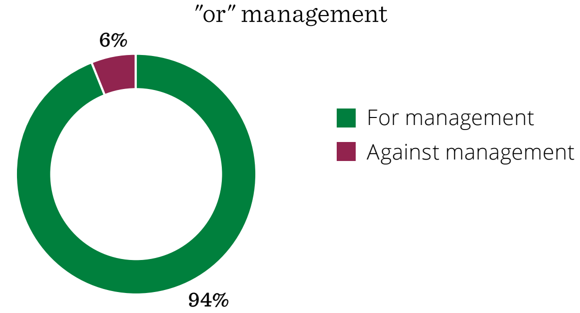
275
Votes that were shareblocked

578
Total "for" votes cast (absolute)

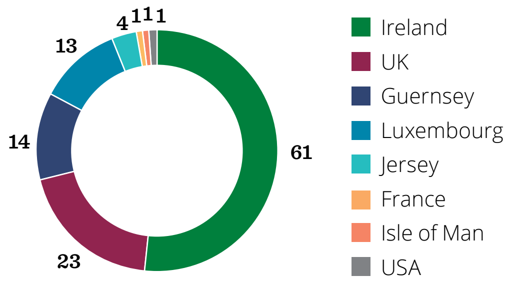
15
Total withheld votes

29
Other resolutions (including non-voting items)

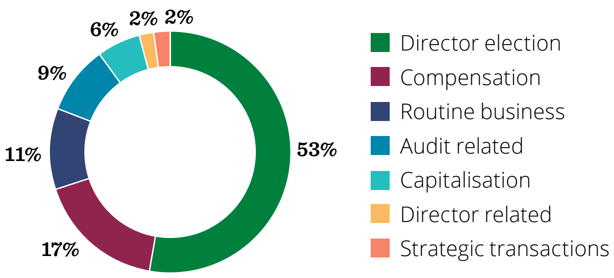
% Breakdown of votes "against" and "or" management



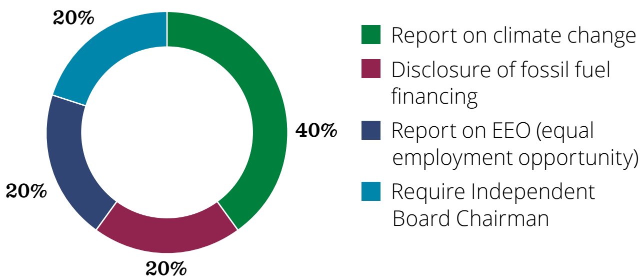
Meetings voted in each geography in 2023



% Breakdown of management resolutions we voted against



% Breakdown of shareholder proposals we have supported



Source: Institutional Shareholder Services (ISS) data, 2023
Note: Charts were generated using ISS labelling framework and definitions.

36. Sub-advised voting 8 12

Where Quilter Investors delegates the investment management of a fund to another manager (via a sub-advised arrangement), it is important for the manager to align engagement and voting with the investment strategy, and therefore voting is fully delegated. We ensure that managers exercise the voting on our behalf.

Due diligence is undertaken on these asset management firms by our fund research teams to assess their approach to stewardship and responsible investment. This is a collaborative effort and conducted by both the Manager Research and Operational Due Diligence team.

We expect our managers to vote at shareholder meetings on our behalf. As with investment decisions, our managers have complete discretion on how to vote. As a minimum standard, we expect our managers to execute proxy votes where practicable.

Voting Case Studies

	Voting case study 1
Fund	Hipgnosis Songs Fund Limited
Date	26 October 2023
Context	Specific events prior to the company's 2023 AGM and EGM caused concern that it was not being run in the best interest of shareholders, in relation to conflicts of interest and seemingly poor oversight from the Board. This was accompanied by the share price moving to a significant discount to net asset value ("NAV"). We lost confidence in the Board as a whole and felt that there was need for a strong chairperson to sufficiently challenge the manager.
Voting decision	We voted against the re-election of the directors, the continuation of the company, as well as the sale by the company for first disposal of assets.

	Voting case study 2
Fund	Berkshire Hathaway Inc
Date	6 May 2023
Context	Berkshire Hathaway, as one of only a few direct equity holdings, continues to be flagged through our internal data dashboards on carbon metrics and historically they have demonstrated a failure to address demand for climate disclosures and non-independence of the board with obstructive or ineffective progress on climate-related disclosures.
Voting decision	In light of the ongoing issues related to climate disclosure and lack of board independence, we decided to "withhold" our vote relating to several director elections for whom we deemed were accountable for obstructive or ineffective progress on climate-related disclosures. In addition, we voted against the advisory vote to ratify named executive officers' compensation. We continue to hold Berkshire Hathaway and monitor for progress.

	Voting case study 3
Fund	APQ Global
Date	4 August 2023
Context	The APQ Global Board was seeking shareholder approval to authorise and agree on the remuneration of Directors, however, the annual report did not include a clear breakdown of individual remuneration components paid to the Directors during the year under review (particularly to the Executive Directors). In addition to the limited executive remuneration disclosure, we had concerns about their incumbent non-executive director pool (board composition). Our concerns revolved around the board committee membership which included the executive directors, who were members of both the audit and remuneration committees, which is not in line with UK best practice recommendations. Furthermore, we had concerns around potential independence issues with the Chair, and noted there was merit in strengthening the independence representation on the board.
Voting decision	Consequently, we voted against the approval of the Directors' remuneration and against the re-election of directors where we had concern around independence as well as their membership of key committees, the Audit and Remuneration Committee.

37. Appendices

QI RI Tier Categorisation Framework

The table below provides a high-level descriptive summary of the core elements of our selection and monitoring criteria for ESG Integration. In practice, these are considered using qualitative and quantitative structured data analysis processes. More detail can be found in QI RI Processes/on the QI website.

RI Tier	Firm	Fund	Issuer
Tier 1 – Basic RI integration	Basic level industry commitments.	Awareness of material ESG risks.	No involvement in cluster munitions or anti-personnel mines through any actively managed products.
Tier 2 – Advanced RI Integration	Basic level industry commitments and appropriate organisational resources and support.	Awareness of material ESG risks, opportunities and related activities that are intentionally managed and actively discussed as part of investment decisions.	No involvement in cluster munitions or anti-personnel mines through any actively managed products and active monitoring and management of ESG risk, carbon emissions, controversies and compliance to UNGC with related active ownership.
Tier 3 – Sustainability objectives	Basic level industry commitments and appropriate organisational resources and support with relevant sustainability knowledge and expertise.	Awareness of material ESG risks, opportunities and related activities that are intentionally managed and actively discussed as part of investment decisions with particular attention to doing no significant harm and creating positive sustainability outcomes.	No involvement in any controversial weapons or tobacco manufacture and active monitoring and management of ESG risk, carbon emissions, controversies and compliance to UNGC with related active ownership.

Source: RI team – Quilter Investors

Resources

In order to deliver effective stewardship for our customers we need to have in place the right resources and skillsets for our people and the appropriate systems and data. Data increasingly plays an important part in our stewardship activity with the development of proprietary dashboards focused on ESG metrics.

38. Our people 2

Gemma Woodward, Head of Responsible Investment, High Net Worth

Gemma joined Quilter Cheviot in 2015 to develop its approach to responsible investment and lead the strategic direction across the business. She is a member of the Investment Oversight Committee within Quilter Cheviot and is a member of TISA's Responsible & Sustainable Investment Committee, as well as the Disclosures and Labelling Advisory Group ("DLAG") for the FCA.

She has over 25 years of investment experience and has spent the majority of that time focused on the charity sector, and specifically customers with complex responsible investment requirements.

She is a trustee for two charities and sits as an independent investment adviser on a further charity investment committee. She is a Chartered Wealth Manager and has a degree in History from Durham University.

Gemma's experience of being an investment practitioner is helpful in understanding the real-life issues of incorporating ESG factors within the investment process and for customer portfolios and strategies.

Marisol Hernandez, Head of Responsible Investment, Affluent

Marisol is a responsible investment specialist with over 15 years' of experience, working for institutional investors, consultancy firms and the UN PRI as a responsible investment adviser and alternative investments consultant.

At the UN PRI Marisol led the work for asset owners, developing programmes for the selection, appointment and monitoring of investment managers, and passive investments. Marisol also led the work for hedge funds, developing the first industry standard responsible investment due diligence questionnaire and the first industry guide for hedge funds focused on responsible investment, leading the implementation of responsible investment across the hedge fund industry.

Marisol joined Quilter Investors in October 2022, leading the Responsible Investment team to develop and implement responsible investment processes and practices across different business areas.

Marisol has an MSc in Financial Engineering, a BSc in Industrial Engineering, she also completed an AI programme at the University of Oxford. She recently participated in the Global Financial Innovation Network greenwashing TechSprint in collaboration with Sony Research Computer Lab.

Key responsible and sustainable investment professionals:

Greg Kearney, Senior Responsible Investment Analyst – Quilter Cheviot

Greg joined Quilter Cheviot in 2019 and his role is focused on voting and engagement as well as leading thematic and collaborative engagements. Greg represents Quilter Cheviot on a number of collaborative engagement working groups including those for Climate Action 100+ and Nature Action 100. He also represents Quilter at the 30% Club.

Previously Greg worked at the UN PRI and he holds an MA in International Political Economy from the University of York. He has also completed the Chartered Alternative Investment Analyst ("CAIA") qualification.

Greg's experience working at the UN PRI has informed Quilter Cheviot's approach to responsible investment and understanding what best practice looks like.

Nikki Williamson, Senior Responsible Investment Analyst – Quilter Investors

Nikki has extensive experience in financial services and joined Quilter Investors in April 2019 to support the integration of RI throughout the business. Previously she led operations for retail platform customer research at Boring Money. Nikki also spent several years working with UNICEF in Afghanistan, South Sudan and globally, and the British Red Cross on psychosocial support research.

Nikki holds the CFA Certificates in ESG Investing and in Climate Investing, an MSc in Development and Urbanisation from London South Bank University and a degree in Maths and Philosophy from the University of Manchester.

Nikki's wide range of experience, including working with NGOs, provides a different perspective within our Responsible Investment team.

Nicholas Omale, Responsible Investment Analyst – Quilter Cheviot

Nicholas joined Quilter Cheviot in 2021. The primary focus of his role has been to develop data dashboards for the equity analysts as well as contributing to our ongoing engagement programme.

Nicholas completed the Investment Trainee programme at BNP Paribas Asset Management and has an MSc in International Financial Management from Queen Mary University of London, a Business and Economics degree from the University of Roehampton and has completed the CFA ESG qualification and the Climate Finance certificate.

Nicholas' quantitative approach to responsible investment brings a new skillset to the team and has enabled the building of new data tools for the Equity Research team as well as for our model portfolios and funds.

Margaret Schmitt, Responsible Investment Analyst – Quilter Cheviot

Margaret joined in May 2023 as a specialist within the team focusing on climate and how to incorporate this into investment and engagement practices. She leads on engagements to evaluate climate transition plans of companies and funds, as well as participating in policy engagements.

Margaret graduated with a degree in Environmental Science and Policy from Grinnell College (Iowa, USA).

Prior to joining Quilter Cheviot, Margaret worked for NGOs before joining a sustainability consultancy.

Ramón Secades, Responsible Investment Analyst – Quilter Cheviot

Ramón joined Quilter Cheviot in 2022 and his focus is on engaging with companies and boards to better understand how they manage ESG-related risks and opportunities, as well as contributing to our active ownership (voting and engagement) agenda.

Ramón graduated from Royal Holloway University with a degree in Business and has completed the CFA ESG and CFA Climate Change Investing qualifications.

Prior to joining Quilter Cheviot, Ramón worked for corporate governance and ESG consultancy firms which provides a different viewpoint.

Kirsty Ward, Responsible Investment Analyst – Quilter Cheviot

Kirsty joined in 2022 and her focus is on managing our voting activity, as well as contributing to our ongoing engagement programme. Kirsty graduated from the University of Nottingham with a degree in Politics.

Kirsty's prior experience as a resourcing co-ordinator is beneficial in ensuring the voting process is streamlined and efficient. Her active interest in diversity and inclusion is an additional asset and she contributes to collaborative working groups in these areas. Kirsty has completed the CFA ESG qualification, CISI Level 3 International Certificate in Wealth & Investment Management and is currently working towards the CISI Level 4 Diploma in International Advanced Wealth Management.

Jonathan de Pasquallie, Responsible Investment Analyst – Quilter Investors

Jonathan joined Quilter Investors in June 2023 as a responsible investment analyst to support the overall Responsible Investment programme.

Jonathan holds an MBA from IE Business School (Spain), a Master of Commerce degree from the University of Cape Town (South Africa), and an Honours degree in Finance and Economics.

Prior to joining Quilter Investors, Jonathan has led ESG programmes for institutional asset managers in South Africa and provided advisory services to financial institutions in the Channel Islands on ESG matters.

Chris Wu, ESG Quant Analyst – Quilter Investors

Chris Wu joined the Responsible Investment team at Quilter Investors as a quantitative analyst. His main duties are ESG data acquisition, processing and modelling for facilitating ESG reporting, policy engagement and stewardship.

Chris graduated with a PhD in urban data science from University of Glasgow.

Prior to joining Quilter Investors, Chris worked in academia as a data science researcher in London School of Economics (LSE) and University of Leeds

Will Miller, ESG Quant Analyst – Quilter Investors

Will joined Quilter Investors in July 2021, previously working as a business analyst in the wider Old Mutual Wealth group since 2016. Prior to that, Will has worked in delivering change projects across a variety of pensions and wealth management organisations (including Cornhill Life, AXA Wealth, Winterthur Life, Friends Life and HSBC Security Services).

Will holds the CFA ESG certificate. He also holds a BSc (Hons) in Aquatic Biology from the University of Wales, Aberystwyth.

Will's data analytical skills help in understanding and aggregating ESG data within the investment process.

Stuart Clark, CFA, Portfolio Manager – Quilter Investors

Stuart has been the portfolio manager of the Quilter WealthSelect MPS since its launch in February 2014. In March of 2020, Stuart also became the lead portfolio manager of the QI PML Caerus Select Portfolios.

Stuart has been instrumental in the expansion of our WealthSelect range to include the WealthSelect Responsible and Sustainable portfolios. Stuart and his team have researched over 90 funds to identify those that meet the criteria for the funds.

Stuart joined Quilter Investors in 2013 and has more than 20 years' experience in fund research and portfolio management at organisations including UBS Wealth Management and Julius Baer.

Stuart is a Chartered Financial Analyst ("CFA") and has a degree in Accounting and Finance from the University of Kent.

Claudia Quiroz, Head of Sustainable Investment and Lead Fund Manager for the Climate Assets Funds and QI Ethical Equity Fund – Quilter Cheviot

Claudia joined in 2009 to develop our approach to sustainable investment and to launch the award-winning Climate Assets Fund, Quilter Cheviot's flagship fund for sustainable investment. A second Climate Assets Fund was launched in 2022. Claudia is a member of the International Stock Selection Committee within Quilter Cheviot and is a Chartered member of the CISI.

Claudia holds an MBA from Cass Business School in London and a Chemical Engineering degree from the University of La Plata in Argentina. Claudia has been short-listed for several industry awards over the years and most recently was the winner of the Wealth Manager of the Year at the City of London Wealth Management Awards 2021.

Caroline Langley, Investment Director and Deputy Fund Manager for the Climate Assets Funds – Quilter Cheviot

Caroline joined Quilter Cheviot 17 years ago and is the Deputy Fund Manager for both Climate Assets Funds. Caroline also manages private client portfolios, working with customers directly or alongside advisers.

Caroline is a Fellow of the ICAEW as well as the CISI and holds an MA (Hons) in Human Sciences from St. Hilda's College, Oxford University, as well as an MSc (distinction) in Environmental Technology from Imperial College, specialising in Global Environmental Change and Policy.

Toby Rowe, Sustainable Investment Specialist – Quilter Cheviot

Toby joined Quilter in 2018 and the Quilter Cheviot Sustainable Investment team in 2022. Toby is responsible for reporting in line with regulatory developments for the dedicated sustainable investment offering.

Toby has ten years of experience in reporting and auditing, with a focus on investment management, product governance and responsible investment. Toby is a Chartered Accountant and a member of the ICAEW. Toby has completed the CFA UK Investment Management Certificate ("IMC") and the Certificate in Climate and Investing ("CCI") and holds a BSc in Economics from the University of Nottingham.

Harry Gibbon, Investment Manager & Fund Manager – Quilter Cheviot

Harry joined Quilter Cheviot in 2018 and works closely with Claudia Quiroz and Caroline Langley. Harry assists with the management of both Climate Assets Funds as well as private client portfolios and the Quilter Investors Ethical Equity Fund. He is also a named fund manager for the Libero Balanced Fund.

Harry has completed the CISI Chartered Wealth Management Qualification as well as the CFA Certificate in ESG Investing. Harry is a Chartered Member of the Chartered Institute of Securities and Investments.

Helen Bradshaw, Portfolio Manager – Quilter Investors

Helen is a portfolio manager for the WealthSelect and Monthly Income portfolios. She joined Quilter Investors in January 2019 having spent 15 years at Janus Henderson Investors. Whilst at Janus Henderson she ran a number of multi-asset strategies, with a particular focus on multi-asset income.

Helen holds an LLB law degree from Exeter University; the Legal Practice Course from the University of Law, Guildford and the Investment Management Certificate.

Bethan Dixon, CFA, ESG Analyst/Portfolio Manager – Quilter Investors

Bethan works with the Multi-Asset Investment team across the portfolio ranges. Bethan joined Quilter Investors in June 2019 from Pyrford International, where she worked as an equity analyst on the Asia Pacific desk where she was involved in integrating ESG factors within the investment process.

Bethan is a CFA Charterholder and holds a degree in Natural Science, with a major in Physics, from the University of Bath. She also holds the CFA Certificate in ESG Investing.

Bethan's experience is instrumental in supporting the Investment team with the integration of ESG into the investment process.

Marcus Cave, ESG Fund Research Analyst – Quilter Investors

Marcus is an investment analyst and supports the portfolio managers across all asset classes, with a specific focus on ESG and sustainable investment strategies. Marcus joined Quilter Investors in March 2021 from PwC where he helped private and institutional asset owners with fund selection, asset allocation and ESG integration.

Marcus is a CFA Charterholder and has a degree in Economics from the University of Exeter.

Marcus' skills are invaluable in providing ESG-focused fund research and due diligence to the Investment team.

Melissa Scaramellini CFA, ESG Fund Research Lead – Quilter Cheviot

Melissa has over 20 years of investment experience and has been a fund research analyst since 2006. She works alongside the Investment team to evaluate how ESG issues are integrated into the investment processes of our third-party managers and is responsible for fund selection in the Positive Change strategies. Melissa holds a degree in Economics and Politics from the University of Bristol and is a Chartered Financial Analyst (CFA) Charterholder and has completed the CFA ESG qualification.

Melissa is passionate about climate change, which helps drive her assessment of whether our third-party managers are doing enough to consider environmental issues within their investment process and engagements with companies.

39. Training our people 2

Quilter Cheviot has developed the Responsible Investment Champions forum, and this is a regular session to deliver (amongst other outcomes) enhanced and more detailed training. Over 2023 we delivered nine sessions; the subjects included a review of the regulatory landscape; comparison of climate-related metrics for balanced, medium-risk mandates; our engagement and voting activity.

The regular firm-wide updates are available to the whole firm and these focused on: ESG integration frameworks, voting and engagement activity, climate change and specific investment strategies such as Climate Assets and Positive Change. The sessions are recorded so that people are able to watch later if they are unable to attend the live event. These events usually see attendance of over 150 colleagues. Mandatory anti-greenwashing training was provided within Quilter Cheviot and Quilter Cheviot Financial Planning as well as specific training for the Marketing team.

Investment professionals within the business also attend the external educational and training events we hold for advisers and customers.

Within the Quilter Cheviot Responsible Investment team, Nicholas Omale completed the International Corporate Governance Network ("ICGN") Governance Fundamentals and the CFA Climate Finance courses. Ramón Secades completed the Association of Investment Companies' accreditation and achieved the CFA Certificate in Climate and Investing. Finally, Kirsty Ward passed the CISI Level 3 Certificate in Wealth and Investment Management.

The Quilter Investors team has also been focused on developing their own skills. In 2023, we conducted the below activities:

Internal training and education

- Specialised workshops with Manager Research and Operational Due Diligence teams. Training topics included our internal responsible investment tier system and other thematic topics such as climate change.
- Python training to improve our data quality, analysis capability and the automation of tasks across business areas.

Within the Quilter Investors Responsible Investment team, Nikki Williamson and Will Miller have both started the CFA UK level 4 Certificate in Climate and Investing, that provides skills and knowledge alongside key tools and techniques to integrate climate considerations across a range of asset classes. In addition, Chris Wu has commenced a Certificate in Quantitative Finance (CQF) that focuses on providing both practical quant finance and advanced machine learning techniques in the industry.

40. Data providers 2 7

We use multiple data providers in order to reduce the risk of bias or skew in our data analysis.

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* – focused 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.** *Climate data and SDG alignment* – these two data sets are focused on climate-related data and alignment to the UN's SDGs. These are data inputs into our ESG dashboards (for equities, funds) and for our third-party fund research.
Sustainalytics	**To provide data for ESG integration.** *Equities* – we use the ESG data points as an input into the ESG dashboards, as well as the high-level information provided in the company reports, and the carbon risk rating module. The data 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* – the data feeds into other systems and tools such as Style Analytics and FactSet to provide our teams with more granular detail regarding ESG factors and underlying holdings across our funds.
Morningstar	**To provide data for ESG integration.** Used for underlying fund data provided for fund research and analysis, and also provides Sustainalytics' carbon emissions and risk ratings at fund and portfolio level.
Ethical screening	**To screen on a negative and positive basis in line with the customer policy as well an additional ESG data source within Quilter Cheviot.** 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.
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.
MSCI	**To provide data for ESG integration.** *Climate data* – focused on climate-related data for our third-party fund and equity research as well as delivering our TCFD reporting.
RepRisk	**To provide data for ESG integration and for engagement within Quilter Cheviot.** We use this to identify and assess material ESG risks within our holdings.
Other publicly available data	**To provide data for ESG integration.** The equity ESG dashboards use data from multiple sources including publicly available data from non-governmental organisations and other entities.

Assurance and outcomes: our internal frameworks

We are focused on ensuring that we deliver the right stewardship outcomes for our customers within a framework that is subject to scrutiny and challenge where appropriate.

41. Steps forward in 2023 2

The following changes were made in relation to our responsible investment approach in 2023:

- **Resource:** we have added to the teams through the appointment of two additional analysts to the Quilter Investors' Responsible Investment team, and a climate specialist joined the Quilter Cheviot Responsible Investment team.
- **Suitability and advice:** the process of incorporating our customers' responsible investment preferences within our ongoing advice process continues. Every customer has their own requirements around risk appetite, ability to bear loss, income requirements as well as the investment time horizon. These are the key areas that will determine what is the right investment approach for the customer alongside their responsible investment preferences.
- **Expanding our products and solutions to meet customers' responsible investment preferences:** we paused any changes to our proposition as we awaited the publication of the SDR.
- **Systems and data improvements:** within both Quilter Cheviot and Quilter Investors we developed and implemented systems to track our engagement activities; within Quilter Cheviot we developed a new tool to track and report on our voting activity. We engaged with data providers to test their methodology and review their services. Within Quilter Investors we implemented a manager research system for the manager selection and ODD process, and a stewardship system to track our stewardship practices.

42. Internal assurance 2 5

In 2023 Group Internal Audit ("GIA") concluded the audit of Responsible Investment to provide assurance over the control measures to mitigate the risk of greenwashing across Quilter's products and services (including in investment management decisions, customer service functions and marketing literature). Additionally, in 2023 GIA undertook an audit of Quilter's Inclusion & Diversity strategy (including providing assurance on important inclusion and diversity reporting and disclosures) and are currently auditing the approach for assessing the suitability of discretionary client portfolios including the consideration of client ESG preferences. Management actions identified, were welcomed by the business and will be tracked to completion.

We have sought guidance from Internal Audit in regards the methods we should follow to ensure that we are able to verify statements and data that we provide for external disclosures or data collection exercises. We will maintain an audit trail for each disclosure which includes the data source for each element within reporting as well as review/sign-off status where appropriate.

We place reliance on our first- and second-line control functions to provide input and oversight of the clarity and accessibility of our stewardship reporting. Within both Quilter Cheviot and Quilter Investors, external reporting is reviewed by other functions. This Stewardship Code report was reviewed and approved by the Quilter plc Board.

43. Risk policy suite 2 5

The risk policy suite forms an integral part of our governance and Risk Management Framework, ensuring an appropriate system of internal control. Together with the Group Governance Manual, it forms the basis of clear delegated authorities and accountabilities, ensuring there is appropriate Board oversight and control of important decisions, and efficient and effective management of day-to-day business. The Group Governance Manual and policies are reviewed at least annually to ensure they remain fit for purpose, with material changes approved by the Board. The policies are subject to an annual policy compliance attestation, with results provided to the Board.

44. Ongoing review of documents and changes to policies 5

Assurance is undertaken through a combination of independent external assurance, compliance monitoring and Group Internal Audit assurance following a risk-based approach.

We review our responsible investment policies on an annual basis. During the review of our policies, we aim to reflect best practice and the evolution of our responsible investment approach.

45. Conflicts of interest 3

Quilter has a Conflicts of Interest Policy that sets out how we manage potential and actual conflicts of interest in our day-to-day business. The Policy is applicable across the Group and sets out the necessary principles to manage and mitigate key risks, and safeguard the independence of our business. Our culture is what we stand for and our values of pioneering, dependable and stronger together, are critical considerations in the development of all our Group policies. The Conflicts of Interest Policy is designed to meet these aims to manage our risks and by adhering to this policy reflect and support our culture and values.

The segment CEOs are responsible for setting the overall strategy and framework in relation to the Policy applicable to their business.

All colleagues undertake regular training. Conflicts management forms a core part of our annual computer-based training. Identifying and managing conflicts of interest and mitigating the risk of potential damage to our customers' interests have always been, and remain, an important part of our culture. Colleagues (including senior management) of the firm, play an essential role in the firm's approach to identifying and managing any conflicts of interest. Therefore, it is important that colleagues understand the firm's approach to conflicts and take responsibility for identifying and managing conflicts seriously.

All potential and actual conflicts identified are recorded on a Conflicts of Interest register (the Register). The Register contains the overview of all conflicts of interest. Additional associated registers are maintained to capture specific personal conflicts of interest including gifts and entertainment, and personal account dealing. The location and purpose of all associated registers is recorded on the annex to the Register.

The Register contains:

- the nature of the conflict, including details of its impact and any damage that may arise to the interests of customers, the Business or the Group;
- risk assessment of the identified conflict;
- the owner, parties involved and the date it was added to the register;
- how the conflict was identified;
- whether the conflict is potential or actual;
- whether the objective is to prevent or accept and manage the conflict;
- business area controls to prevent or manage the conflict including actions taken to avoid the conflict;
- effectiveness assessment of the documented controls and when their effectiveness was last tested; and
- any disclosure of the conflict to be made to customers.

Supporting our Group-wide Conflict of Interest Policy, we have investment-specific policies. For example, our Quilter Cheviot Conflict of Interest Policy can be found here: ***Quilter Cheviot Conflicts of Interest Policy***

Example

Examples of possible conflicts in relation to our stewardship activity include:

- There may be a situation where we are a shareholder in a company and also in a commercial relationship with that same company as a result of investing in one of their funds. As we have a separation between our equity and our fund research teams, which are also both independent functions, we believe that we are able to manage this conflict effectively given this separation.
- With respect to stewardship, it is possible that actual or perceived conflicts of interest may arise through the normal course of business in relation to the execution of our stewardship activity. For example, should a potential conflict of interest be identified when exercising proxy votes, which may influence us to not act fairly, independently or objectively in the interests of our customers, we will follow the voting recommendations of ISS, our third-party proxy voting service provider.
- There may be occasions where we have a shareholding in Quilter plc with voting rights. In this case, unless specifically directed by a customer, we will follow the guidance given by our external proxy voting service provider with respect to voting.
- Conflicts could occur between customers and where this is the case we will continue to act in the best interests of each customer. Thus, for example, the equity share interests of different customers may be voted differently at the same meeting where it is in the interests of each to do so.
- Where an employee, any member of senior management or non-executive director of a business unit is also a non-executive director of a company within our voting universe we will apply the guidance of our external proxy voting service provider.

Example

Within Quilter Cheviot we discuss potentially contentious voting decisions within the Responsible Investment team. In this instance the company in question is not within the centrally monitored direct equity list but is within the voting universe as it is a UK listed company where Quilter Cheviot holds more than £2 million or 0.2% of the market capital. The holding is not widely owned within the business, and a member of the Responsible Investment team is one of a handful of holders. Therefore, they excused themselves from the voting decision in order to ensure that any potential conflict of interest was mitigated.

Trade surveillance and restriction

The compliance teams maintain an "Insiders' List" which records those members of staff who are aware of inside information relating to investments. Compliance monitors the dealing activity for any security on the Insiders' List. We also have an effective and established Personal Account Dealing Policy.

46. Monitoring service providers 8

The Market Data team operates Quilter-wide to ensure that we have a consistent and effective approach across the businesses. In October 2021 market data principles were established across Quilter for ESG-related data to ensure consistency and to have a governance framework around the appointment or decision to leave service providers and the ongoing management of their data. The overall aim is to provide consistency and accuracy for our customers.

Our Market Data team provides ongoing management of the service providers and the team is responsible for:

- monitoring issues and troubleshooting with the business;
- reviewing contracts including pricing; and
- reviewing usage with the business and due diligence of the suppliers on an ongoing basis to ensure we are correctly contracted.

Through the course of 2023 we continued to assess and evolve the market data we have access to. As part of this, our Market Data team led the process for identifying and onboarding new service providers and data modules. The team is responsible for:

- business sign-off for accurate data and coverage based on users' confirmation
- reviewing all legal points in conjunction with our legal team; and
- confirming budget and where it is located.

There have been particular challenges which have required significant interaction with the service providers as the business usage has been fluid and changing. The Market Data team, in conjunction with the underlying users of the data, have had regular discussions with the service providers regarding a number of issues including the accuracy of the data, the data coverage, the challenges of ESG data for non-equity holdings as well as the accessibility of the data through different systems. The Market Data team is well placed to resolve issues around which underlying Quilter entity requires the data and the access rights. The Market Data team have begun to introduce the third-party risk management framework across all ESG suppliers with regular quarterly and yearly reviews. As part of these meetings the Market Data team have started to introduce and discuss with suppliers the Code of Conduct covered by the regulators – these discussions will form a formal part of the regular meetings held with suppliers in 2024.

Our role in promoting financial markets

Quilter has an important role to play within the financial services industry and society as a whole.

47. Corporate and committee membership of external bodies 4 10

Quilter and its underlying business areas are members of various trade associations. The table below details which organisations we are a member of.

Trade body	Quilter plc	Quilter Cheviot	Quilter Investors	Quilter Financial Planning	Quilter Platform
Principle for Responsible Investment (PRI)	✓	✓	✓	✓	✓
The Investing and Saving Alliance ("TISA")	✓	✓	✓	✓	✓
UK Sustainable Investment and Finance Association ("UKSIF")	✓	✓	✓	✓	✓
The Investor Forum ("IF") [5]	✓	✓	✓	✓	✓
Investment Association ("IA")			✓		
Association of British Insurers ("ABI")					✓
Personal Investment Management & Financial Advice Association ("PIMFA")		✓			

As part of being a member of these associations Quilter participates in various committees which enable us to inform the advocacy activities, share our expertise and learn from others across the industry. A key example of this is our participation in TISA's Responsible & Sustainable Investment Committee and related working groups.

We work with other organisations in the industry to promote and advance responsible investment. The Group is a signatory to the UN PRI; we also use external collaborations to broaden the impact and engagement we can have through our stewardship activities. These include: the 30% Club, CDP and the PRI collaboration platform. We do this to promote best practice and seek to address issues that require collective effort and action.

48. Contributing to industry-wide consultations 4

Quilter has contributed to industry-wide consultations either through its own response or through its membership of industry trade bodies. When we submit a consultation response we do so on a private basis. Additionally, through membership of the TISA Responsible and Sustainable Investment Committee, a colleague was part of the Disclosures and Labelling Advisory Group (DLAG) to the FCA for the Sustainability Disclosure Requirements, for the latter part of the consultation.

49. Market risks 4

How we manage risk

Our Risk Management Framework is embedded across Quilter and encompasses a number of elements to help Quilter assess and manage its risk exposures. A strong and embedded risk culture is vital in ensuring that risk implications are considered when making strategic and operational decisions, and that Quilter understands its risk profile and manages the business on a continuous basis within the approved risk appetite.

The **Quilter Group Executive Risk Management Committee** is the primary management committee overseeing the risk profile of the Group. This forum is chaired by the Quilter Chief Risk Officer, with representation from across Quilter. Ongoing oversight of the risk profile and of risk management arrangements is undertaken by the Board Risk Committee, with relevant matters also being considered by the Board.

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

[5] Quilter is the signatory to The Investor Forum; Quilter Cheviot and Quilter Investors are specified as separate investor signatories and are able to act independently.

Conduct risk

The FCA is the primary conduct regulator for Quilter's UK regulated entities. Quilter takes its regulatory obligations in relation to customers and our conduct seriously, and is committed to operating in a responsible and compliant manner. Quilter seeks to deliver on these obligations through culture and values, backed by a rigorous governance system and an approach to compliance that drives fair outcomes for customers. The standards of behaviour Quilter expects from its staff are set out in the Quilter Code of Conduct.

Prudential risk

Quilter is supervised by the Prudential Regulation Authority ("PRA") under Solvency II and by the FCA under the Investment Firms Prudential Regime ("IFPR") and other applicable prudential requirements. To meet these regulations, we operate a consistent approach to risk management across Quilter. As such, we have integrated the Own Risk and Solvency Assessment ("ORSA") and Internal Capital Adequacy and Risk Assessment ("ICARA") into our Risk Management Framework. We analyse the capital required to protect the sustainability of Quilter and how those capital requirements might develop over our planning period. The assessments include a range of stress and scenario testing including economic stresses and operational risk events. We maintain a recovery plan which sets out the management actions and recovery options which could be taken to manage and mitigate the impacts of severe stresses.

Operational risk

Quilter operates a series of processes to facilitate the identification and management of operational risk and the reporting of risk events. A discipline of Risk and Control Self Assessments ('RCSAs") and risk event management is facilitated by our risk system, along with remedial action tracking. Root cause analysis is conducted on material events.

Climate-related risks

One of our, and our customers', most significant exposures to climate-related risk comes from the potential for transition market risk in our investment solutions. We also face investment-related reputational risk if we unintentionally convey misleading information about the environmental soundness of our investments, including our sustainable investment solutions. Our strategy for managing climate-related risks within our investment activity centres around the integration of environmental considerations in our investment processes, alongside other ESG-related considerations, and our consistent approach to stewardship.

Further information

Responsible investment | Quilter
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Glossary

Term	Definition
AGM	Annual General Meeting.
Article 6 Fund	Under the EU's Sustainable Finance Disclosure Regulation ("SFDR") rules, an Article 6 Fund is a fund that does not take into account sustainability within its investment approach.
Article 8 Fund	Under the EU's SFDR rules, an Article 8 Fund is a fund which promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.
AuM	Assets under Management.
CEO	Chief Executive Officer.
CFO	Chief Financial Officer.
CO_2e	Stands for carbon dioxide equivalent. The emission of different GHGs warm the earth at different intensities. For example, releasing 1 tonne of methane into the atmosphere has a greater warming potential than releasing 1 tonne of CO2. This metric is used to express the impact of each different GHG in terms of the amount of CO2 that would create the same amount of warming so that the impacts of the different GHGs can be compared.
DPS	Discretionary Portfolio Service.
ESG	Environmental, Social and Governance.
ESG integration	ESG integration at Quilter is the explicit and systematic inclusion of material ESG factors into investment analysis and investment decisions. Definition sourced from the UN PRI.
FCA	Financial Conduct Authority.
GHG	Greenhouse gases. The earth's atmosphere is predominantly composed of nitrogen, oxygen and argon. In contrast, naturally occurring GHGs such as carbon dioxide, methane, nitrous oxide and ozone account for a tiny fraction of the atmosphere, but they are a critical part of the overall atmosphere composition as they play a significant role in trapping the earth's heat and warming our planet. If GHGs were not a part of the earth's atmosphere, the average global temperature would be around -6°C compared to the c.15°C long-term global average. Since industrialisation, GHG concentrations have rocketed, warming the planet at unprecedented rates. The major cause of the increase in carbon emissions, in particular, has been the use of fossil fuels in producing energy.
Greenwashing	Misleading or unsubstantiated claims made about environmental performance by businesses or investment funds about their products or businesses.
The Group	The holding company Quilter plc and its underlying companies.
GDPO	Group Data Protection Officer.
IIGCC	Institutional Investors Group on Climate Change.
Just transition	A framework to ensure that the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically – be they countries, regions, industries, communities, workers or consumers. Definition sourced from the European Bank for Reconstruction and Development (EBRD).
LTIP	Long-Term Incentive Plan.
MPS	Managed Portfolio Service.
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 Intergovernmental Panel on Climate Change (IPCC).
NZAM	The Net Zero Asset Manager's initiative. The NZAM is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C; and to supporting investing aligned with net zero emissions by 2050 or sooner.

Term	Definition
Paris Agreement (on climate change)	A global agreement to strengthen the global response to climate change. It was agreed in 2015 that the global temperature rise this century should be kept to well below 2°C above pre-industrial levels and ideally below 1.5°C.
Responsible investment	A strategy and practice to incorporate environmental, social and governance factors into investment decisions and active ownership. Definition sourced from the UN PRI.
SBT	Science Based Targets.
SBTi	The Science Based Targets initiative. The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature. The SBTi drives ambitious climate action in the private sector by enabling companies to set science-based emissions reductions targets.
Scope 1 Emissions	The direct greenhouse gas (GHG) emissions from sources that are owned or controlled by the company. Scope 1 emissions result from a company's internal operations, including on-site energy production, vehicle fleets, manufacturing operations and waste. The values represent metric tonnes of CO_2 equivalent.
Scope 2 Emissions	The indirect greenhouse gas (GHG) emissions attributable to operations that are owned or controlled by the company. Scope 2 emissions result from the emissions generated in the production of energy (electricity, steam, heat and cooling) that is purchased by a company generated upstream from the organisation. For purchased electricity, organisations are required to report Scope 2 emissions according to a "location-based" and a "market-based" method.
Scope 3 Emissions	These are all indirect emissions (not included in Scope 2) that occur in a company's value chain, including both upstream and downstream emissions (e.g. business travel, waste).
SDR	Sustainability Disclosure Requirements. These are regulations created by the UK regulator, the FCA, aimed at combating greenwashing and ensuring investors are provided with the correct information on how their investments impact social and environmental sustainability.
SFDR	Sustainable Finance Disclosures Regulation. A European regulation introduced to improve transparency in the market for sustainable investment products, to prevent greenwashing and to increase transparency around sustainability claims made by financial market participants.
Sustainability focused investment	Investment approaches that select and include investments on the basis they fulfil certain sustainability criteria and/or deliver on specific and measurable sustainability outcomes. Investments are chosen on the basis of their economic activity (what they produce/what services they deliver) and on their business conduct (how they deliver their products and services). Definition sourced from the Investment Association.
Stewardship	Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. Definition sourced from the Financial Reporting Council.
TCFD	The Task Force on Climate-Related Financial Disclosures. The Financial Stability Board created the TCFD to improve and increase reporting of climate-related information.
tCO_2e	Tonnes of CO_2e.
TISA	The Investing and Saving Alliance.
Transition plan	A transition plan is integral to an entity's overall strategy, setting out its plan to contribute to and prepare for a rapid global transition towards a low GHG-emissions economy. Definition sourced from the UK Transition Plan Taskforce.
UKSIF	The UK Sustainable Investment and Finance Association.
UN PRI	The Principles for Responsible Investment. The PRI is a UN-supported network of investors, working to promote sustainable investments.
UN SDGs	The UN Sustainable Development Goals. 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 United Nations.

Past performance is not a guide to future performance and may not be repeated. Investment involves risk. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. Exchange rates may cause the value of overseas investments to rise or fall.

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