QUILTER CHEVIOT

Responsible Investment 2023 report

Approver: Quilter Cheviot Limited 7 March 2024

SPECIALISTS IN INVESTMENT MANAGEMENT

Contents

Introduction

A year in review

2023 has been our busiest year yet in terms of our voting and engagement activity, additionally we have expanded our involvement in collaborative working groups, and taken a lead role within some of these.

Our team - In May, we welcomed **Margaret Schmitt** to the team. With a background in climate science, **Margaret** has been occupied with Taskforce for Climate-related Financial Disclosures (TCFD) reporting as well as our ongoing programme of engaging with companies and funds on their net zero ambitions. In August, we welcomed our first intern to the team. Across three months, **Adelaide Claydon** gained exposure to different areas, from the voting and engagement process to data collation and management. Our RI Reels vlog series, hosted by **Kirsty Ward**, continued into its second year. We published eleven vlogs on topics including investment trusts, the strategies we offer our clients and how we use data within our responsible investment process.

Voting and ESG factor integration - We have expanded our voting universe, and now vote across all centrally monitored equity holdings globally. Across the 2023 proxy season, climate-related voting activity remained high on the agenda. We placed significant votes against management at a number of oil and gas majors. Where companies demonstrated a lack of commitment to their transition plans, we actively engaged with them and voiced our disapproval through our voting intentions. Ongoing engagement is a key component of our role as stewards of your assets. **Nicholas Omale** continues to enhance our approach to how we integrate ESG (environmental, social and governance) factors within our investment process through our proprietary dashboards.

Thematic engagements - This has been an exciting year in terms of thematic engagements. In September, we published a paper outlining the completion of the first phase of our investment trust thematic engagement, which focused on equity investment trusts. Led by **Gemma Woodward** and **Ramón Secades**, the report was well-received, and picked up by several financial media outlets including the Financial Times as well as a sell-side broker. We are working on the second part of this thematic engagement, which is focused on trusts investing in private equity, infrastructure, and alternative assets. Our findings will be published in early 2024. The final element of this initial engagement cycle will be focused on the property sector. **Margaret** supported by **Ramón**, recently commenced our Net Zero Asset Managers (NZAM) initiative thematic engagement; we are engaging with our 20 largest (by the amount we invest with them) third-party managers who are signed up to the NZAM initiative to better understand how different managers are approaching their net zero targets.

Collaborative engagements - A highlight of 2023 has been Quilter Cheviot's growing contribution to collaborative forums. Driven by **Greg Kearney**, Quilter Cheviot joined Climate Action 100+, IIGCC's (Institutional Investors Group on Climate Change) Net Zero Engagement Initiative (NZEI) and was amongst the initial participants in Nature Action 100 which is focused on nature and biodiversity loss. As well as demonstrating active ownership through these forums, Quilter Cheviot conducted individual thematic engagement work with investee companies on topics including cybersecurity, labour standards in the apparel industry, and product safety at pharmaceutical and healthcare companies. **Greg** and **Kirsty** contribute significantly to the 30% Club 'Fix the Exec' engagement, which is focused on addressing gender imbalance across the executive level of the 100 largest companies in the UK.

2024 will be another busy year, not just for our stewardship activity but also with the arrival of a new regulation, Sustainability Disclosure Requirements (SDR) which alongside the existing TCFD regulations will place a greater focus on how we report on our responsible investment related activity for the investments we manage. Work has been ongoing for some time, and we will be launching our client reporting capability later in 2024.

Meet the team

Your responsible investment team

Gemma Woodward, Head of Responsible Investment

I lead the responsible investment team at Quilter Cheviot working to ensure that we act as stewards of our clients' assets in order to protect and enhance their long-term returns. I have over 25 years of investment experience and have spent the majority of that time focused on the charity sector, and specifically clients with complex responsible investment requirements. My experience of being an investment practitioner is helpful in understanding the real-life issues of incorporating ESG factors within the investment process and for client portfolios and strategies.

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Greg Kearney, Senior Responsible Investment Analyst

My role is to ensure we act as stewards of our clients' assets to protect and enhance long-term returns. This involves oversight of the voting process and developing Quilter Cheviot's active ownership strategy; a particular area of focus for me is structuring and leading our thematic engagements, as well as playing a key role in collaborations for our direct equity holdings. This helps us better understand how they manage environmental, social and governance risks (as well as opportunities).

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Nicholas Omale, Responsible Investment Analyst

My primary focus is the development and ongoing management of data dashboards for our equity analysts for environmental, social and governance (ESG) research integration. I also assist with thematic research and thought leadership as well as engaging with companies and boards to better understand how they manage ESG risks and opportunities.

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Margaret Schmitt, Responsible Investment Analyst

My role focuses on incorporating climate into Quilter Cheviot's investment and engagement practices. My priority in 2024 is delivering our climate related reporting and developing our investment climate action plan. I also lead on engagements to evaluate climate transition plans of companies and funds, and participating in policy engagements.

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Ramón Secades, Responsible Investment Analyst

My particular focus is on investment trusts and funds, and understanding how they manage ESG factors. I also contribute to our active ownership (voting and engagement) agenda.

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Kirsty Ward, Responsible Investment Analyst

I am responsible for the day-to-day management of our voting on behalf of our clients. I also contribute to engagements and am particularly focused on diversity and inclusion related work. I also host monthly vlogs RI Reels, where I'm joined by guests from different business areas to discuss topical issues, as well as providing insights into Quilter Cheviot's approach to responsible investment.

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What we do

Overview of our responsible investment approach across discretionary holdings at Quilter Cheviot

Stewardship

Our approach can be broken down into two main activities:

Engagement

We are active owners on behalf of our discretionary clients. We initiate dialogue with companies (including investment trusts) and funds. Engagement can be carried out in reaction to concerns or to better understand a company's approach to material sustainability issues. We engage to better understand and manage individual company and fund related risks but also to contribute to the better functioning of markets in which we operate.

Voting

We use our voting rights to express formal approval or disapproval of the way investee companies or investment trusts are managing risks and opportunities. As well as being a core aspect of being an active owner, it is an important escalation tool in our stewardship process. In addition to our discretionary portfolio service voting (and engagement) coverage includes*:

- MPS (Managed Portfolio Service) Building Blocks
- Climate Assets Balanced Fund and Climate Assets Growth Fund
- Quilter Cheviot Global Income and Growth Fund for Charities
- Quilter Investors Ethical Fund
- AIM Portfolio Service

ESG Integration

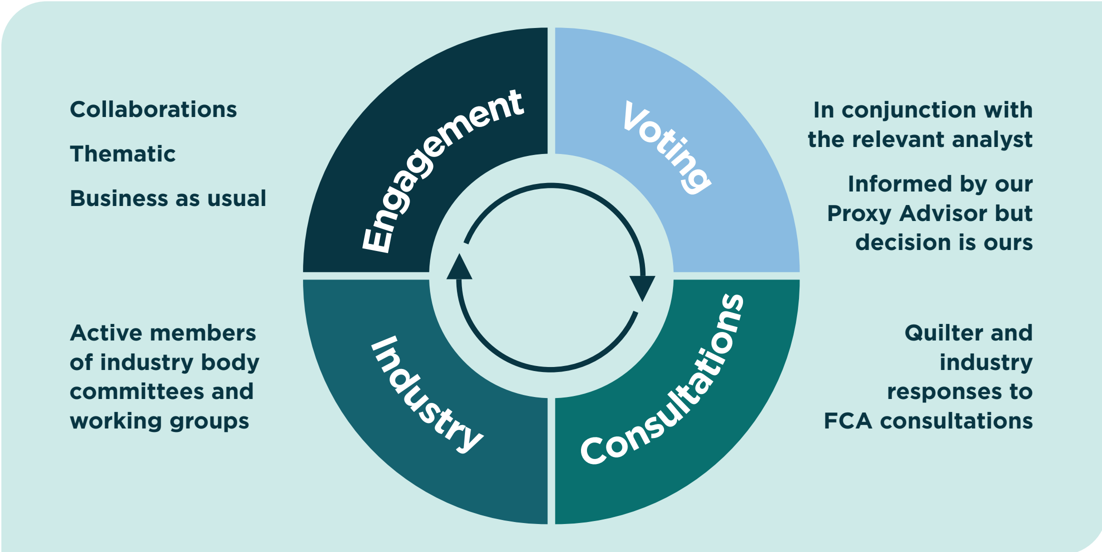
- Analysing ESG data to better inform investment decisions
- ESG integration applies to holdings which are within the monitored research universe, focussing on our core list of equities, funds and fixed income holdings.
- Our proprietary ESG data dashboards leverage multiple data providers including MSCI, ISS, Sustainalytics, Ethical Screening, RepRisk, CDP and other NGO data.
- Working alongside the research teams to continually enhance our ESG integration approach. This is part of our investment process.
- It is not about excluding certain activities, but it is understanding the ESG related challenges and opportunities.

ESG Screening

Ethical and value 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 client to client and will focus on sectors, industries, or individual companies.

*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 cap. Infrequent instances of non-vote placement may include where Crest Depository Interests (CDIs), ADRs or GDRs are held or share blocking occurs.

Being an active owner



Best practice stewardship is not about single company or fund engagements on governance topics, we aim to do more.

We want to amplify our engagement voice and outcomes as well as create a more enabling environment for our approach to responsible investment. We are doing this in a number of ways:

Collaborative engagement

We use a number of collaborative forums including to join with other investors to undertake engagement.

Industry participation

We have representation on industry group's responsible and sustainable investment committees - where we are looking to share best practice and feed into industry thinking in enabling a supportive policy environment.

Engaging the wider 'ecosystem'

We aim to engage with external industry actors that contribute to the operations of investee companies this includes recruitment consultants and remuneration consultants. This is not only an effort to facilitate systemic change but also allows us to have more informed conversations with investee companies when discussing material topics like diversity and remuneration.

2023 in review

Climate change: overview

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

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

Thematic engagements

What does a good climate transition plan look like?

Phase 1 - 2021/22
Phase 2 - 2023/24

Third party managers and net zero ambitions

Phase 1 - 2023/24

Lifecycle of renewable energy infrastructure assets

2022/2023

Collaborations

A proud participant of: Climate Action 100+ Global Investors Driving Business Transition

Part of Climate Action 100+

2023 onwards

IIGCC The Institutional Investors Group on Climate Change

Part of the IIGCC Net Zero Engagement Initiative

2023 onwards

CDP SBTi Campaign

2022 onwards

CDP INVESTOR SIGNATORY

Climate change: case study

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 to ensure companies walk the talk.

Within the second cycle of the engagement, we engaged with c.ten companies representing c.85% of Scope 1 and 2 emissions exposure within the direct equity centrally monitored 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 looks 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°C warming limit pathway. This is the crux of a net zero commitment. Some companies have declared 2°C 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 Agreement 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 many 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.

Climate change: case study

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 engaged 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 ambitions 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 & 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 creditability of the governable structure and company culture in light of his exit.

Outcome: 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-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.

Climate change: case study

The firmwide approach to Net Zero

We will continue to engage with third-party managers within our centrally monitored universe with Net Zero Asset Management Initiative (NZAM) targets where we have our largest holdings. During the first quarter of 2024, we will publish a report that outlines the conclusions drawn from this first phase of our engagement program.

These engagements aim to better understand how managers are approaching their Net Zero targets, including their chosen methodologies and the process behind selecting the size of committed NZAM aligned assets.

We will begin to engage with the third-party managers which do not have NZAM targets in place based on the size of our holding. We are focused on materiality in order to ensure that we use our time and resources effectively.

Additionally, we will engage with those firms where we invest in index-trackers in order to understand how they manage climate and other ESG related risks within these types of products.

Climate change: case study

Third party manager – multi-asset

Objective: As part of our NZAM thematic engagement, we engaged with this third party manager on their firm- and fund-level NZAM strategy.

The firm is focusing on setting a narrow scope for its first targets, while cultivating support and embedding responsibility for targets with fund managers. The scope of its first targets was driven by control of assets, so consist exclusively of its parent company's assets. It has chosen to use carbon intensity to measure net zero alignment despite its awareness of the 'shortcut' limitations of this method, to encourage more managers to take an active role in the firm's net zero targets. The firm's immediate priority is to increase firm-wide support and upskill its fund managers in understanding climate metrics and gauging companies' climate performance.

Fund manager involvement is critical its climate strategy because the firm is measuring net zero alignment at fund-level, rather than asset class-level, expressly to convey ownership of net zero targets to fund managers. The firm is working to increase the ambition and scope of its net zero committed assets by shifting its focus to forward-looking metrics, expanding included asset classes, and educating clients on climate risk. It has already set more ambitious internal targets, equating to 20% total Assets under Management (AuM) being aligned to net zero by 2030, and is actively moving some of its funds to a novel climate KPI-based alignment approach. Engagement does not appear to be the leading consideration regarding its NZAM targets. It currently lacks a dedicated climate engagement framework; however, it maintains a 'focus list' of c.150 companies identified as potential 'high impact' engagement targets, which would include climate among other topics for engagement (e.g., ESG factors, sector-relative underperformance). The firm is looking to improve its capacity for engagements by training its fund managers and setting engagement targets.

Outcome: Although the methodology chosen by the firm for its NZAM targets is not the most stringent, its measured approach entrusting fund managers with the responsibility for targets is markedly different from many of its peers. It remains to be seen whether the firm's fund managers will be sufficiently driven to progress the firm's climate targets; expanding the firm's net zerocommitted AuM in the future may be challenging where fund managers remain disinterested.

Similarly, given the engagement-centred approach promoted by NZAM, we would expect it to have a more explicit connection between its NZAM targets and its assets. The firm's exploration of increasingly ambitious and forward-looking climate targets is, however, encouraging. The fact it has already set higher-ambition internal net zero alignment targets since setting its first NZAM targets demonstrates greater progress in forward planning than has been evidenced by other firms. However, the issues the firm has with the format of NZAM commitments appears to be a superficial quibble; if the firm were to use this to delay a public, verified expansion of future targets, it would come across as mere pretext to deferring its climate strategy.

Human rights: overview

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

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

Thematic engagements

Defending data: Cyber security and critical infrastructure

2023

Pulling the thread: Labour standards in the apparel industry

2023

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

2023

Investing in diversity disclosure

2024

Collaborative engagements

30% Club
GROWTH THROUGH DIVERSITY

Fix the Exec

2023 onwards

Modern Slavery collaborations:

- Find it, Fix it, Prevent it

  2022 onwards

- Modern Slavery in the UK

  2021 onwards

Human rights: case study

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 & 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

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.

Human rights: case study

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 which 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 (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.

Human rights: case study

A 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 health care equipment & 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 the companies' 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 we approached 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

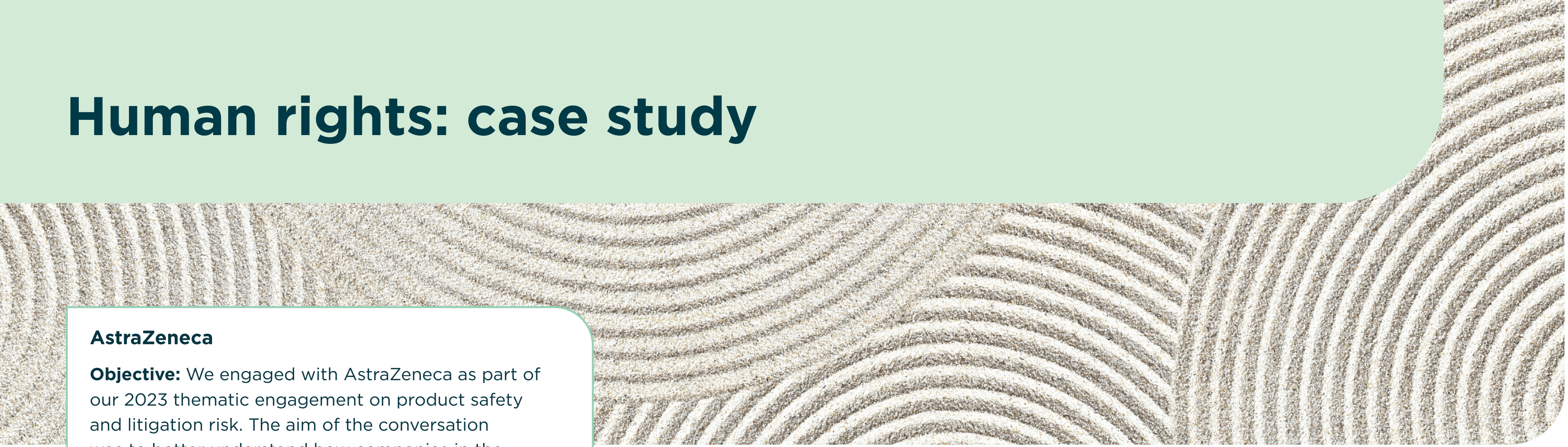
Litigation risk management

Operational product safety and quality processes

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.

Human rights: case study



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 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 led 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 proactive 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 ligation 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: overview

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

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

*Task-Force on Nature-related Financial Disclosures

Thematic engagements

Managing the rising risk around water scarcity

2022

Collaborative engagements

Nature Action 100

2023 onwards

Investment trusts: overview

The objective of this engagement is to improve the corporate governance practices and responsible investment disclosure in the investment trust sectors, primarily focusing on three factors. We started the engagement in mid-2022 and this is a long-term engagement for change. In Q3 of last year, we published a paper outlining the completion of the first phase of our investment trust thematic engagement and our expectations for investment trust boards. This first **investment trusts report** focused on equity investment trusts and this **RI Reel** provides a flavour of the content.

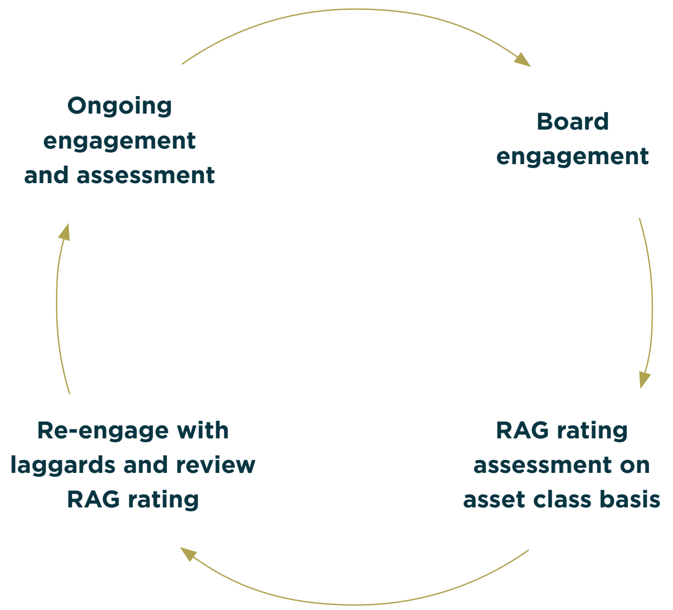
This is an ongoing engagement programme and we have established specific escalation plans including (depending on the issue):

- Voting against the chair
- Voting against adviser representatives

Board composition

Board effectiveness

Responsible investment disclosures



Investment trusts: case study

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 and is a more significant part of the agenda for some of these 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 so by 2024. The chair updated us on the succession plans for the manager as there is a significant key person risk. 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.

Collectives

Fund engagement priorities

ESG risk and exposure

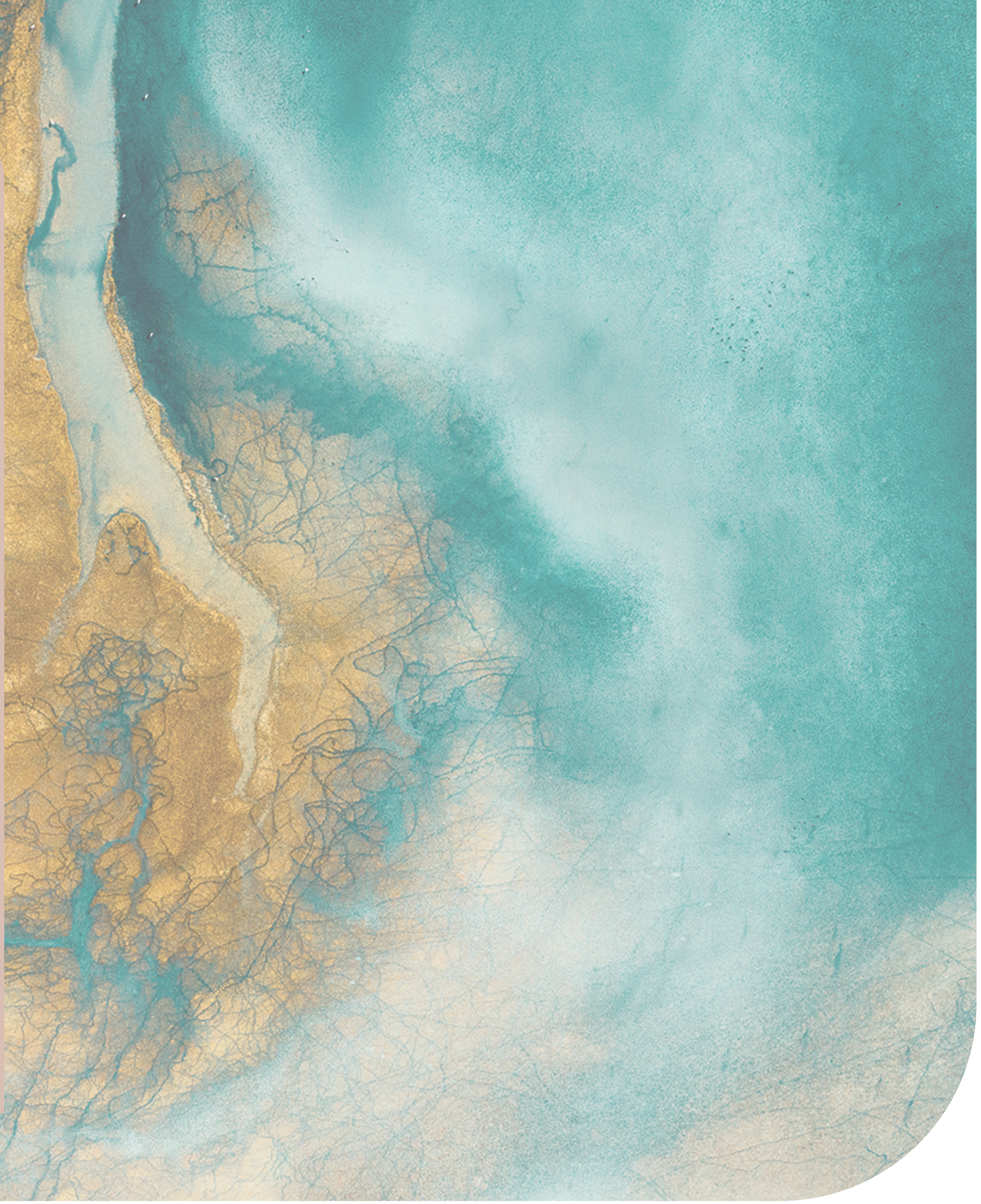
- We continue to work to enhance our ability to interrogate and analyse underlying holdings data within third-party funds. This enables us to identify holdings more easily that have higher ESG risk factors and then engage to understand how the risks are being managed and considered by the fund.

ESG RFI

We send our ESG (environmental, social and governance factors) Request for Information (ESG RFI) to our third-party managers annually. This ESG RFI asks for detail on the fund and firm level approaches to responsible investment. It is critical that we engage with our third-party managers. To effectively do so, we consider:

- Responsible investment credentials and process
- Diversity within the firm
- Approach to climate action

The ESG RFI enables us to analyse the approach taken at a firm and manager level, as well as identify areas of focus for engagement including holdings with significant climate, human rights and natural capital related risks.



2024 priorities

Climate change

Climate transition plans (Phase 2)

We continue to engage with high emitting companies on the quality of their transition plans and related disclosures. We continue to monitor the top ten largest emitters and have included ten companies as part of this engagement campaign. Around 85% of Quilter Cheviot's attributed financed emissions from centrally monitored discretionary direct equities is associated with ten companies. Our engagement will cover varied industry groups including industrial gases, cement manufacture and utilities, but unsurprisingly most conversations will be held with oil & gas majors and diversified miners. We aim to undertake a targeted campaign in this format on a c/24-month basis.

Objectives

- Assess the quality of climate transition plans among high emitters.
- Encourage alignment and disclosure towards the goal of net zero emissions by 2050.

Targets

- High emitters amongst investee holdings, with materiality of holding a key consideration.

The firmwide approach to Net Zero - third-party managers

Around 60% of the assets we manage on behalf of our clients are invested in third-party funds therefore evaluating and understanding how these managers are implementing climate-related plans is critical to our own climate approach. We will continue to engage with the third-party managers within our centrally monitored universe with Net Zero Asset Management Initiative (NZAM) targets where we have our largest holdings. During the first quarter of 2024, we will publish a report that outlines the conclusions drawn from this first phase of our engagement program.

Objectives

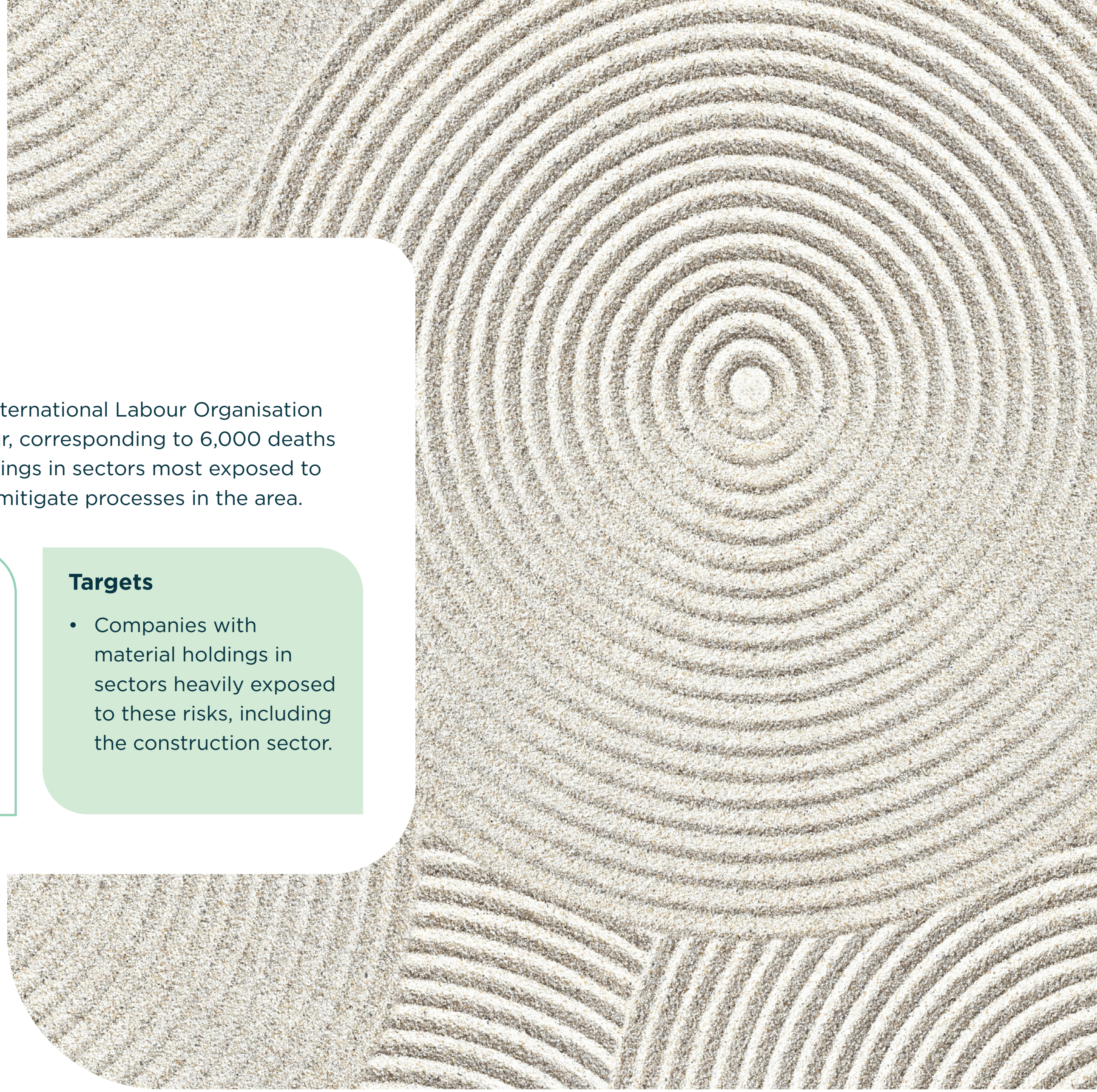
- Assess how different managers are approaching Net Zero targets.
- Evaluating the chosen methodologies and the process behind selecting the size of committed NZAM aligned assets.

Targets

- Third-party managers that do not have a NZAM targets in place, with materiality of the holding being a key consideration.
- Third-party managers where we invest in index-trackers to understand how they manage climate and other ESG related risks within these types of products.

1. Of Carbon dioxide or equivalents (CO_2e)
2. Assessed by measuring a company's Scope 1 and 2 emissions weighted by level of ownership. Known as 'emissions exposure'.

Human rights



Health and safety

A critical aspect of safeguarding rights is safe working conditions. The International Labour Organisation (ILO) estimates that there are 2.3 million work-related fatalities every year, corresponding to 6,000 deaths every single day. We will be launching an engagement with material holdings in sectors most exposed to risks around hazardous working conditions to discuss management and mitigate processes in the area.

Objectives

- Explore measures companies have in place to address risks of hazardous working environments.
- Ensure companies has appropriate policies and practices in this area.
- Ensure companies have a robust standard of reporting incidents.

Targets

- Companies with material holdings in sectors heavily exposed to these risks, including the construction sector.

Natural capital

Deforestation linked commodities

Agricultural commodity production continues to drive global deforestation practices, replacing an average of 5.7 million hectares of forests every year. Policy makers are increasingly scrutinising these practices and the rapidly changing regulatory environment is best represented by a suite of policies being brought forward by the European Union to eliminate deforestation and forest degradation. We have been working as part of the 'Forest Champions' program run by the CDP (an NGO) to help identify companies within our monitored equities list that are most exposed to deforestation using CDP's repository of company reported data on deforestation linked commodity involvement. Using this work in combination with a recent report published by Ceres, which lists the top 53 companies most exposed to the upcoming EU regulation on deforestation, we cross referenced both pieces of work to select a short-list of companies for initial engagement. These are the companies where we have material holdings, are most exposed to deforestation linked commodities and have significant activities in Europe.

Objectives

- Understand how companies most exposed to deforestation linked commodity use are preparing for a changing regulatory environment.
- Understand companies processes and policies to minimise the risks associated with sourcing agricultural inputs related to deforestation.
- Identify gaps and encourage best practice.

Targets

- Companies where we have material holdings, which are most exposed to deforestation linked commodities and have significant activities in Europe.

Collaborative activity

Climate Action 100+

In December 2023 Quilter Cheviot joined Climate Action 100+ as an investor participant. Climate Action 100+ is an investor led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Being an active participant in collaborative engagement initiatives is an important element of our overall stewardship agenda and we are pleased to be a member of the National Grid engagement working group.

Net Zero Engagement Initiative

The Net Zero Engagement Initiative aims to enable net zero 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.

Nature Action 100

In 2023 Quilter Cheviot joined Nature Action 100. This is a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. The initiative engages companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030. Quilter Cheviot is part of the engagement working group for a global diversified mining company.

30% Club UK Investor Group: 'Fix the Exec'

Quilter Cheviot is a member of the UK investor branch of the 30% Club, a campaign to boost the number of women in board seats and executive leadership at listed companies in the UK. More specifically we are also member of the 'Fix the Exec' working group which will engage some of the worst performing listed companies in the UK in terms of women representation at executive and senior management level.

Voting highlights

2023 voting

In 2023, we expanded our voting universe and now vote on all global centrally monitored equity holdings* and investment trusts. 2023 was our busiest year yet in terms of voting. While we voted at 13 fewer meetings than in 2022, we placed more votes in total, 7,539 individual resolutions in 2023, compared with 7,256 in 2022. **We have summarised the key voting issues of the period.**

Environment

The 2023 AGM season saw Quilter Cheviot register an unprecedented number of votes against management at high carbon emitting companies, particularly amongst oil & 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 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 both 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. The absence of an ability to meaningfully engage with companies was also a consideration in vote decision making.

*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.

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, metric and timelines for their commitments would benefit shareholders.

We will not support shareholder resolutions where we believe the requirements are too specific, un-realistic or poorly structured – even if we are generally supportive of improvements in the company's climate-related disclosure.

VOTE 8 X

8x votes in favour of reporting on climate change/GHG emission reduction targets
(shareholder proposal)

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

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

VOTE 6 X

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

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 Platforms, Wells Fargo

VOTE 7 X

7x votes in favour of reporting on fossil fuel financing activities (shareholder proposal)

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

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

Social

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) of 2023, 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.

7x votes in favour of reporting on lobbying payments and policy (shareholder proposal)

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 Platforms

6x votes in favour of gender pay gap reporting (shareholder proposal)

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 (shareholder proposal)

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

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

Governance

Across 2023, over 95% of votes placed were governance related. Governance voting items tend to fall into two main categories: remuneration and director elections.

We saw similar themes reflected in voting activity in 2023 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.

69x votes against management on compensated related resolutions (management item)

We voted against remuneration reports, polices 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 placed against votes 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, American International Group, Anheuser-Busch InBev, Bayer, Berkshire Hathaway (x2), Boeing, boohoo (x2), Capricorn Energy (x3), Cellnex, Dolby Laboratories, Ecolab, Eni SpA, Essilor Luxottica, Frontier IP Group, GB Group, Ground Rents Income Fund, Haydale Graphene Industries, Hermes (x5), Intel Corporation, InterContinental Hotels Group (x2), IWG, Jet2, Kering, KION GROUP, L'Oreal, London Metric Property, LVMH (x6), Netflix, Ocado, Philip Morris, Prosus, Ryanair, Schneider Electric, Seeing Machines, St. James's Place, T-Mobile, Tencent (x9), Tesla, UniCredit (x2), Unilever (x2), Walmart

68x votes against electing / re-electing director** (management item)

We have voted against the re-election of directors owing to board independence concerns, the presence of multi class voting structures and board diversity concerns. Notably, we placed an abstention vote on the re-election of the chair at BP's annual meeting as we had concerns over the weakening of its climate transition targets.

Companies voted on: Alphabet (x2), Amazon.com (x3), Amundi, Anheuser-Busch InBev (x6), Berkshire Hathaway (x4), BP (x2), Chevron, Dechra, Dolby Laboratories (x5), Exxon Mobil, HarbourVest Global Private Equity, Hermes (x3), Jet2, LondonMetric Property, LVMH (x3), Meta Platforms (x5), MIGO Opportunities Trust, Nike, Ocado (x2), Princess Private Equity (x2), Renishaw (x2), Ryanair (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

Voting statistics

In 2023 we voted at:

464 COMPANY MEETINGS

Over the year we voted on:

7,539 RESOLUTIONS

for X

281

resolutions we voted against management

We enabled clients to instruct votes at

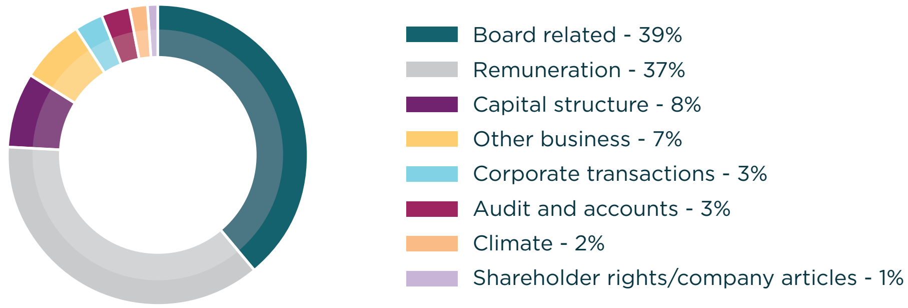
91

meetings

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

Management resolutions voted in 2023
(excluding shareholder proposals)

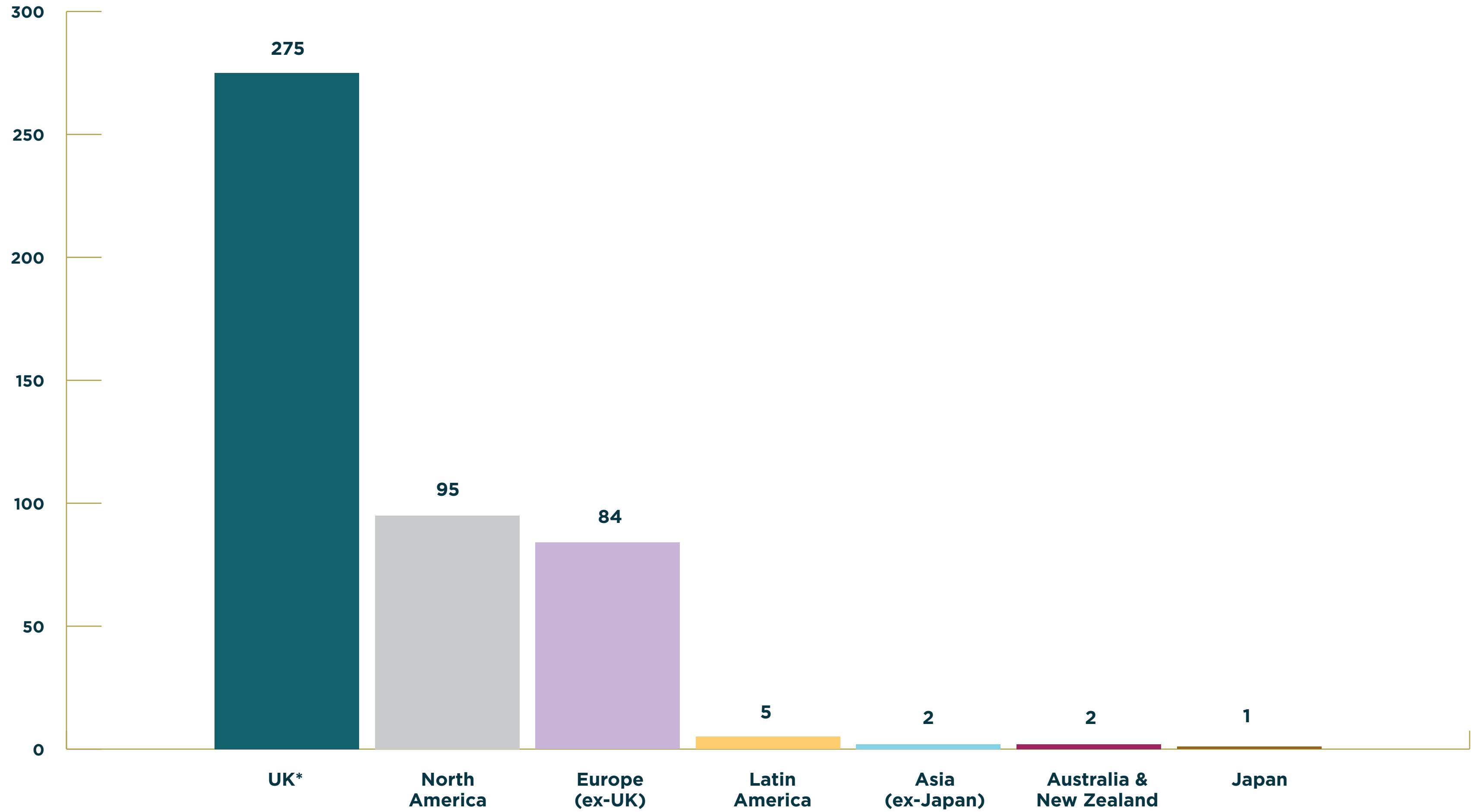
Votes against management in 2023
(excluding shareholder proposals)



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

Shareholder proposals supported in 2023

Meetings voted in each geography in 2023



* Includes the Crown Dependencies of Jersey and Guernsey

Responsible investment at Quilter Cheviot

Active ownership and ESG integration - for discretionary clients

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

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

A Direct Equity Approach* - DPS Focused

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

A funds based approach – Positive Change

A pragmatic approach that combines funds that invest with a sustainability focus or for impact, with funds managed by leading responsible investment practitioners. Meaningful engagement by fund houses with company management is prioritised over formal exclusions on the basis that engagement can encourage change where it is needed most.

Sustainable Investment – The Climate Assets Funds** and Strategy

Investing in the growth markets of sustainability and environmental technologies, with a strong underpinning of ethical values. The strategy is fossil fuel free and invests in global equities, fixed interest and alternative investments. Five positive investment themes are at the heart of the stock selection: low carbon energy, food, health, resource management and water.

Ethical And Values Oriented Investment – Client Specific

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

* For UK, North American and European equity holdings.

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

In the spotlight

In the spotlight - RI Reels

Host Kirsty Ward provides insights into Quilter Cheviot's approach to responsible investment, as well as topical issues.

Kirsty Ward
Responsible Investment Analyst

Product safety and litigation

Welcome to our 2024 series of RI Reels. In our first reel, Kirsty Ward is joined by Ramon Secades to discuss how companies manage product safety.

Watch vlog

Watch time: 3 minutes

The future for Investment Trusts

Kirsty Ward is joined by Ramón Secades, for a follow up discussion on Investment Trusts.

Watch vlog

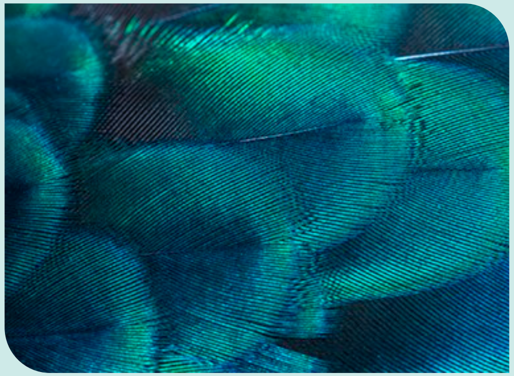
Watch time: 3 minutes

Pulling the thread

In our February reel, Kirsty Ward is joined by Greg Kearney to discuss labour standards in the apparel industry.

Watch vlog

Watch time: 5 minutes



Climate - responsible investment

Margaret Schmitt, who's recently joined the responsible investment team as a climate specialist talks about her role and her main focus.

Watch vlog

Watch time: 3 minutes

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