RESPONSIBLE INVESTMENT QUARTERLY

QUARTER 2, 2023

QUILTER CHEVIOT
INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited, 4 July 2023

CONTENTS

WELCOME

This quarter is always the busiest with many companies holding their AGMs and hence the voting activity, including engagements with companies, is our main focus of activity. As ever proxy voting season brings different challenges each year, particularly in the US where shareholder proposals often form a considerable proportion of the voting slate. One issue has been how to approach quite different governance standards in different geographies.

As an example, in the US, it is common for the chair and chief executive to be the same person, whilst in the UK this is frowned upon. Furthermore, the definition of an independent director is quite different: in the UK a tenure exceeding nine years for a non-executive director, calls into question their independence. However, in the US a tenure of 20 years plus might still be regarded as independent. After much head-scratching we intend to set our own `independent' director standard in the US and will be evaluating the standards across the companies and third-party funds we invest in to get their take on this.

Margaret Schmitt joined us in May bringing specialist climate expertise to the team. This will be beneficial in a number of ways, not least our own Taskforce for Climate-related Financial Disclosures reporting as well as our ongoing programme of engaging with companies and funds on their net zero ambitions. Obviously, what we invest in is critical to our own climate action planning which we continue to focus on.

We published our Stewardship Priorities document earlier in the quarter; this sets out our engagement priorities for 2023 as well as reviewing 2022's activities.

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VOTING ACTIVITY

Over the second quarter we voted at:

285 COMPANY MEETINGS

Over the quarter we voted on:

5,023 RESOLUTIONS

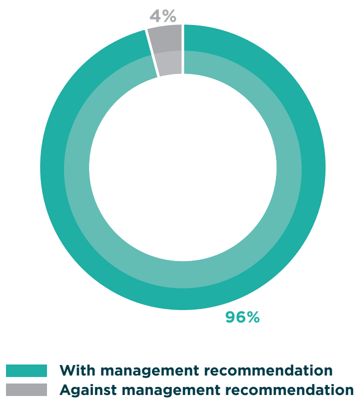
for **214** resolutions we did not support management (this includes shareholder proposals).

We enabled clients to instruct votes at 51 meetings

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

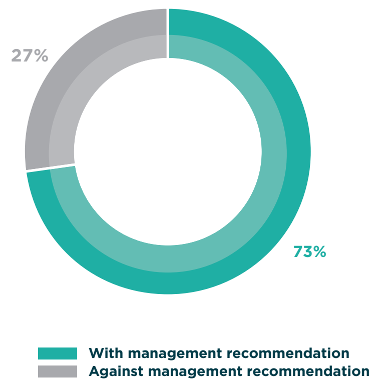
MANAGEMENT RESOLUTIONS VOTED IN Q2 2023

(excluding shareholder proposals)



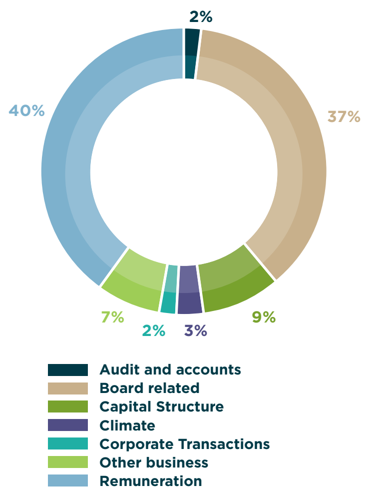
MEETINGS WITH VOTES AGAINST MANAGEMENT IN Q2 2023

(including shareholder proposals)

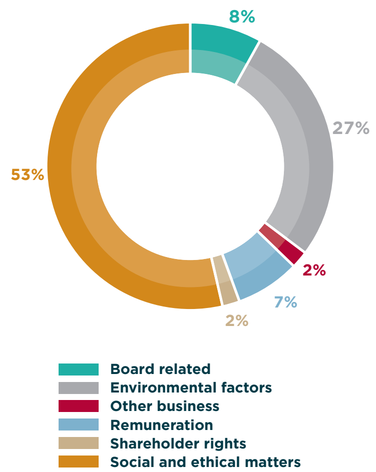


MANAGEMENT RESOLUTIONS VOTED AGAINST BY TOPIC IN Q2 2023

(excluding shareholder proposals)



SHAREHOLDER PROPOSALS SUPPORTED IN Q2 2023



Q2 2023 VOTING

This quarter was our busiest ever as we voted on UK, American, Asian, and European holdings. We have summarised the key voting issues of the period.

Key voting activity: Environmental

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 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, 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.

Environmental voting activity by numbers:

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

We support requests for additional transparency of company's direct and indirect climate lobbying and how the company plans to mitigate risks that may be identified. Additionally, shareholders are likely to benefit from a review of how the company's and its trade associations' lobbying positions align with its climate goals.

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

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

We support requests for additional disclosure on company's efforts to align financing activities with GHG targets.

Companies voted on: Bank of America, Berkshire Hathaway, Goldman Sachs, JPMorgan Chase & Co, Wells Fargo

4x votes in favour of reporting / adopting GHG emission reduction targets (shareholder proposals)

We supported shareholder resolutions asking for additional information on how companies are looking to reduce their carbon footprint and align operations to the Paris Agreement goals, where we felt the current disclosure level was lacking. This will help us better understand how the companies are managing the transition to a lower carbon economy and climate change related risks.

Companies voted on: Exxon Mobil, Glencore, Raytheon Technologies, TotalEnergies

6x votes supporting management in approving climate-related disclosures and plans (management items)

We supported climate disclosures where a company demonstrated ongoing commitment to net zero progress and associated targets.

Companies voted on: Amundi, Aviva, Legal & General, Schneider Electric, TotalEnergies (x2)

Key voting activity: Social

Expectations are growing for companies to address social issues, from addressing diversity, to reporting on how workplace risks are being managed. Across the quarter, 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.

Social voting activity by numbers:

7x votes in favour of reporting on political lobbying payments and policy (shareholder proposals)
We supported shareholder resolutions calling for additional reporting on companies' direct and indirect lobbying activity and policies, and expenditures. Increased disclosure allows Quilter Cheviot to understand which areas a company is focused on and whether those focus areas align with other public policy statements.
Companies voted on: Alphabet, Boeing, Caterpillar, Eli Lilly, Goldman Sachs, McDonald's, Meta Platforms

5x votes in favour of a human rights risk assessment (shareholder proposals)
We supported resolutions requesting companies to report on customer due diligence and publish human rights impact assessments as these would allow shareholders to better evaluate the company's management of risks in these areas.
Companies voted on: Alphabet (x2), Amazon.com (x2), Meta

4x votes in favour of gender pay gap reporting (shareholder proposals)
We supported proposals where shareholders would benefit from knowing the median pay gap statistics to improve transparency on this issue.
Companies voted on: Amazon.com, Boeing, Goldman Sachs, Marriott

3x votes in favour of auditing/reporting on workplace conditions (shareholder proposals)
We support calls for commissioning independent audits as shareholders would benefit from increased disclosure on workplace conditions, as well as a company's workplace safety policies and practices.
Companies voted on: Amazon.com, Dollar General, Walmart

3x votes in favour of reporting on online safety (shareholder proposals)
We support calls for additional disclosure on how companies measure and track metrics relating to online/ child safety.
Companies voted on: Alphabet (x2), Meta

2x votes in favour of reporting on a third-party racial equity / civil rights audit (shareholder proposals)
We supported these resolutions to achieve increased disclosure, which will provide shareholders with a better understanding of how effective companies are at addressing racial inequality, particularly where targets have been set.
Companies voted on: Altria Group, Walmart

Key voting activity: Governance

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.

Governance voting activity by numbers:

55*x votes against management on compensation related resolutions (management items)

We have voted against remuneration reports and policies where there are not robust long-term incentive performance metrics and vesting periods in place. Additionally, we placed votes against resolutions where fixed performance targets were lacking and special bonuses were awarded during the year, giving rise to concerns about excessive pay- outs.

Companies voted on: Alphabet (x3), Amazon.com, American Express, American International Group, Anheuser-Busch InBev, Bayer, Berkshire Hathaway (x2), Boeing, Cellnex Telecom, Ecolab, Eni SpA, EssilorLuxottica, Hermes (x5), Intel, InterContinental Hotels (x2, IWG, Kering, KION GROUP, L'Oreal, LVMH Moet Hennessy, Louis Vuitton (x6), Netflix, Ocado, Philip Morris, Schneider Electric, St. James's Place, T-Mobile US, Tencent Holdings (x9), Tesla, Unilever (x2), Walmart

46x votes against electing / re-electing director (management items)

We have voted against the election of directors for a number of reasons, including: independence concerns, a multi-class structure with unequal voting rights and time commitment issues.

Companies voted on: Alphabet (x2), Amazon.com (x3), Amundi, Anheuser-Busch InBev (x6), Berkshire Hathaway (x4), BP, Chevron, Exxon Mobil, Hermes (x3), LVMH Moet Hennessy Louis Vuitton (x3), Meta (x5), Ocado (x2), Princess Private Equity Holding Limited (x2), Stellantis, T-Mobile US (x9), VINCI (x2)

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

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

Companies voted on: American International Group, Bank of America, Berkshire Hathaway, Ecolab, Raytheon Technologies

5x votes in favour of a share retention policy (shareholder proposals)

We support more rigorous share retention guidelines for senior executives, as it we believe it is better align the interests of executives with long-term shareholder value.

Companies voted on: Alphabet, Baxter, Colgate-Palmolive, ConocoPhillips, Intel

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

ENGAGEMENT ACTIVITY

Here, we outline examples of our engagement in the three months to the end of June 2023. In line with the Shareholder Rights Directive II (SRD II) disclosure regulations, we have included the name of the company or fund in the majority of cases. In some cases, we will not, as this would be unhelpful in the long-term to the ongoing engagement process.

We use ISS as our proxy voting service provider and based on our responsible investment principles, ISS provides recommendations on each resolution companies put forward to shareholders. We do not follow the ISS recommendations, as we believe it is important that responsible investment is integrated into our investment process, and that Quilter Cheviot makes up its own mind.

AIG - Governance

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 structure as discretionary payments have been made to the CEO over the past few years. The company considers the updated payment structure to 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 $50M. 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.

American Express - Governance

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 advisor 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, 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.

American Water Works - Social

Objective: We engaged with the company on a shareholder resolution proposing 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. The company has also looked to enhance its current level of reporting on gender and racial equity. This includes launching a diversity specific website showcasing the company's activity and the metrics reported on EEO1 data (this is a mandatory annual data collection for private sector companies in the US), 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, it has conducted a review of potential suppliers however in its view none were quoting a 'reasonable expense'. Given there are no federal requirements or standards on a third-party audit, the company was 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.

Ares Management Corporation - Governance

Objective: To discuss concerns related to the approval of the new omnibus stock plan.

We engaged the company to discuss concerns raised by our proxy adviser on approving the new omnibus stock plan. New York Stock Exchange listing rules require employee stock plans to be approved by shareholders once every 10 years. This plan is essentially a rolling over of the previous one but includes a couple of enhanced features including additional clawback parameters. Concerns remain that the plan could be excessively dilutive. Additionally, the plan contains an evergreen feature that provides for automatic share reserve replenishments without requiring shareholder approval for each. On further analysis we are broadly comfortable with the potential dilution rate and even see some inconsistencies in how this has been calculated by the proxy advisor. Over the past three years the company's dilution rate has stood at around 1% and it is expected to be similar moving forward. This is largely a continuation of the previous plan that has been operation for nearly a decade, without any material dilution events occurring. We are also comfortable with the continuation of the evergreen feature which reflects many equivalent plans in the sector.

Outcome: On the basis of our conversation and further analysis we voted to support management on this item.

AT&T - Governance

Objective: To discuss the shareholder resolution to ensure the company has an independent board chair. There are concerns regarding the board's lack of commitment to having an independent chair in the long-term. Since 2021, the board has had an independent chair and the shareholder resolution highlights that in the absence of an independent board chair, the company requires an independent lead director to be appointed. In response to the request, the board does not believe that having flexibility in its governance structure is in the best interests of the company and its shareholders.

Outcome: Given the board maintains an independent chair and, should that change, it will appoint a lead independent director, we consider this to be sufficient so supported management at the AGM.

Baillie Gifford - Governance

Objective: As part of the investment trust thematic engagement, we engaged with five trusts managed by Baillie Gifford (BG). 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 BG 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. However, 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 BG 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. BG explained that this process might seem especially rigid however given upcoming regulations BG 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 was helpful in understanding 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.

Bank of America – Governance Environment

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

Our proxy advisor recommended voting against management on the advisory 'say on pay' resolution at the 2023 AGM. It had identified a pay-for-performance misalignment relative to the proxy advisor set peer group. The company dispute the analysis for two reasons. Firstly, it does not agree with the peer group selected, as the company tends to compare itself to five global banks, while the proxy advisor includes smaller lenders and insurers. Secondly, a material number of the peer group have not released 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 that proposes the company reports on how it will align its 2030 decarbonisation targets with its financing activities. The company opposes the resolution and believes more client engagement 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 advisor analysis and supported the shareholder resolution requiring further detail on putting climate transition targets into practice.

Bayer - Governance

Objective: To discuss concerns related executive remuneration.

Our proxy advisor recommends voting against the remuneration report at the upcoming meeting as there are concerns over the CEO's short-term incentive (STI) being insulated from cash outflow related to litigation in connection with Monsanto, which was acquired in 2018, and has subsequently been a detractor in terms of performance and the concern is that Bayer miscalculated the risks associated with the acquisition. Given the CEO was on the board at the time, it is contentious that the CEO's package is insulated from the impacts, as it reduces board accountability and demonstrates poor corporate governance.

There are ongoing concerns regarding the CEO's pension entitlements as they are not aligned with the conditions of the wider workforce. The company states the CEO's pension contributions are contractual and were part of a legacy programme which is not available to executive board members moving forwards. However, the board has committed to providing an updated remuneration policy at next year's meeting.

Outcome: We decided to vote against management on this item due to the CEO's STI being insulated from cash outflow related to litigation, and the pension entitlement is not aligned with the wider workforce which is not considered best practice.

Blackrock World Mining Trust - Governance

Objective: This was part of the overall investment trust thematic engagement. This was the first-time meeting BlackRock World Mining Trust's (BRWM) board.

In our view the current responsible investment disclosures are generic and reflective of BlackRock's approach. As a shareholder of BRWM, we are interested in knowing how ESG factors and stewardship are being integrated at the trust level in the companies it invests in. We suggested disclosing examples of voting and engagement as a way of doing this.

On average the tenure of the board is high, meaning that it will have to change in the upcoming years. The first change will be a director who will retire at the 2023 AGM having reached a nine-year tenure. The chair has been on the board for ten years, and we explained that we subscribe to the view that nine years is the best practice. The chair has committed to stepping down at the 2024 AGM, to smooth out the succession.

The chair believes that five is a good number for the board as this allows: a director that has worked in the management of a mining company, one investment trust specialist, one that has been a banker or lawyer for the mining sector, as well as mining experience as this ensures balance in the board.

The chair mentioned that several years ago the board underwent a beauty parade with several other managers to understand what was on offer, but it ultimately decided to stay with BlackRock. We noted that some boards are so entwined with the managers that they would not even consider changing managers as a viable option, so this was a refreshing approach.

Outcome: Some of the current responsible investment disclosures are generic and refer mostly to BlackRock's approach and therefore we would like to see more focus on the trust. Although the chair's tenure is over the best practice for nine years, this is mitigated because he is intending to step down at the next AGM. There are additional director changes planned for the following years. We will continue to monitor the board composition and responsible investment disclosures.

Boohoo - Governance

Objective: To raise concerns related to upward discretion applied by the Remuneration Committee to the executive annual bonus.

In 2022 the Remuneration Committee applied upward to discretionary to the annual bonus outcome, leading to a reward amounting to 50% of maximum opportunity (up from 15%). Despite no financial performance targets being met, the board felt that management performed well in difficult conditions. The board cited good inventory management and cash generation relative to peers as some of the main drivers for upward adjustment. As per our voting guidelines we do not generally support upward discretionary adjustment for executive compensation. We support a sensible broadening of the performance metrics measured, to ensure holistic performance is being captured. We suggested inclusion of cash generation metrics into future iterations of the bonus, to which there was agreement.

Outcome: We did not think the rationale for adjustment was sufficiently compelling and voted against the remuneration report.

BP - Environment

Objective: We engaged the company to discuss concerns related to recent adjustments to the climate transition strategy, including paring back of some decarbonisation targets. We also discussed a shareholder resolution to implement specific 2030 scope 3 targets.

In February BP announced a weakening of the climate transition plan agreed by shareholders at the 2022 AGM. The key adjustment is the reduction of a commitment to reduce oil and gas production by 40% by 2030 (new target is 25%). Consequently 2030 scope 3 emissions targets have also been materially reduced. We have engaged with the company on this point and while we acknowledge the company has ambitious targets relative to peers, this represents a significant divergence from the strategy agreed in 2022 and, we believe, should have been put forward for an advisory vote to shareholders. Therefore, we have decided to vote to abstain on the re-election of the chair of the board at the upcoming meeting. We are generally reluctant to use abstentions, but in this case, we feel it is appropriate as BP is still outperforming peers with the adjusted climate transition targets – but a formal expression of disapproval should be placed. Our proxy advisor also recommends voting against the proposal put forward by shareholders related to climate change targets. While not without merit, the proposal is too specific in its aims and timeline, which implies a potential constraint on the Board to implement its strategy.

Outcome: We voted to abstain on the re-election of the chair and voted against a shareholder resolution requiring specific 2030 target setting.

Cellnex Telecom - Governance

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 LTIP of 1,115% 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% TSR over a 3-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.

Danaher - Governance

Objective: We engaged the company prior to the 2023 AGM to discuss concerns around share-pledging activities and a shareholder resolution requiring an independent board chair.

Our proxy advisor raised concerns regarding the share-pledging activities of the two company founders, and also recommended a vote against re-election of all members of the audit committee. Share-pledging is a practice where stock is pledged as collateral for personal loans, more frequently taking place among company founders in efforts to raise personal funds without the need to sell shares in the company. The company recently introduced a policy restricting all share-pledging activity apart from the pre-existing pledges of the two founders. After further discussion with the company, these positions are closely reviewed by the audit committee on an annual basis. According to the company the debt outstanding has continued to represent a small share of the collateral pledged. We will continue to monitor the situation, but do not have immediate material concerns. We also discussed the shareholder proposal to require an independent board chair. The company has a strong independent lead director in place. We typically view this as a sufficient alternative in the US given the commonplace CEO/chair combination.

Outcome: We supported management on director re-elections and the shareholder resolution.

Goldman Sachs Group – Governance Environment

Objective: To discuss several proposals put forward by shareholders, notably on lobbying payments, pay gap reporting and the company's climate transition plan.

We initially discussed a shareholder request for the company to provide additional reporting on its lobbying payments and policies. The proponent seeks a full list of trade association memberships and political engagements. Disclosure is lacking in two areas: direct/indirect lobbying payments and trade association affiliations. While the company provides examples of its political engagements on its websites, this information is not published in full. The company does not consider this item to be beneficial to shareholders given the potential additional administrative costs.

On gender, from 2023 onwards, the company is committed to reporting on the company's gender and racial pay gap statistics, however it is noted these statistics will be adjusted for aspects such as tenure and grades. We would welcome pre-adjusted metrics.

Regarding reporting on the company's climate transition plan, the company has adopted intensity related targets and will produce absolute emission measures from 2024 onwards.

Outcome: This discussion was useful to gain further clarity on the company's approach to lobbying reporting and pay gap reporting. On the gender/racial pay gap reporting, whilst we appreciate the commitment to reporting on this area, we would welcome pre-adjusted figures to be published as this will allow for deeper analysis of the headline data. In terms of lobbying policies, the company highlights its approach and additional information shared with shareholders would be beneficial. Overall, we support calls for additional transparency and therefore, we decided to vote in line with ISS on all items.

Henkel - Social

Objective: To discuss concerns regarding board diversity.

Our proxy advisor recommended voting against a director election to the supervisory board as the overall board is insufficiently gender diverse. Henkel is domiciled in Germany, with a two-tiered board system that separates the board into the management and supervisory board. While the company adheres to local gender quotas (the supervisory board must comprise at least 30% women and 30% men), the overall board gender diversity of shareholder elected directors is 28%, below the 30% expected. This is an ongoing issue at the company which raises concerns from a governance perspective.

Outcome: Similar concerns were raised at the 2022 AGM. Given the ongoing concerns, we voted against the election of the chair of the Nominations Committee.

Herald Investment Trust - Governance

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 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.

HarbourVest Global Private Equity - Governance

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 this year's 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 forwards to continued collaboration.

Hermés International SCA - Governance

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

Hermés is a family-controlled business with the majority of voting rights held by the Hermés 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 relate 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 advisor raised concerns over the fact that 10% guidelines for issuance of without pre-emptive rights are not respected and the possibility of use during a takeover period is not excluded. The company confirmed that it has no specific aims or targets for these proposals but want to give itself 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 its business model does not necessarily lend itself to best practice governance norms 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 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.

Home Depot - Governance

Objective: To discuss two shareholder proposals: a request to reduce the threshold for shareholders to act by written consent and requests for additional transparency on political expenditures.

The proponent believed a lower threshold to act by written consent would allow shareholders to raise important topics outside of the typical meeting cycle. However, the board explained the current threshold to act by written consent is 25% which ensures a single large shareholder is not able to initiate the written consent process. The current level of 25% strikes an appropriate balance and serves the best long-term interests of shareholders. The board also highlighted that shareholders can already call a special meeting on the request of 15% of outstanding shares.

The proponent requested additional reporting on political expenditures as there are concerns the company's commitments on areas such as gender diversity, are misaligned with its political affiliations. The company believes participating in the political process is important in facilitating its business priorities and creating shareholder value. The company provides information on its political activities on its website.

Outcome: Given the reduction in the threshold to act by written consent could be utilised by a single shareholder, we voted against this item. We supported the second shareholder resolution as reporting on congruence of political expenditures with stated values would enable shareholders to have a more comprehensive understanding of how the company oversees and manages risks related to its political partnerships.

IIGCC Net Zero Engagement Initiative - Environment

Objective: The Net Zero Engagement Initiative aims to enable net portfolio alignment by supporting investor engagement seeking the disclosures investors need from companies to determine if they are aligned with net zero.

These expanded collaborative engagements seek Net Zero Investment Framework (NZIF) aligned transition plans from companies. As part of our work in formulating our own net zero plan we have joined this collaborative engagement as a signatory, initially. Investors supporting the initiative sign a letter seeking transition plan disclosures. The plans are focused on the four key pillars of NZIF: 1) comprehensive net zero commitment, 2) robust GHG targets, 3) emissions performance tracked and 4) credible decarbonisation strategy. The letter will be distributed to companies centrally by IIGCC. Quilter is participating as a signatory supporting the initiative. For Quilter Cheviot, of the 108 companies being targeted initially, 19 of these are within the centrally monitored universe and we will have exposure to others through our third party fund holdings.

Outcome: This is part of working towards our own net zero ambitions and progress will be monitored and reported by IIGCC (Institutional Investors Group on Climate Change).

IWG - Governance

Objective: To discuss concerns related to executive compensation and re-election of the board chair.

Our proxy advisory recommends voting against the remuneration report and the board chair. There are concerns regarding the maximum pay-out of the non-financial proportion of the 2022 bonus despite the company not meeting its financial objectives. The board points to unforeseen events such as the pandemic as hampering financial performance. However, the current bonus system is not considered best practice as the company should prioritise meetings its financial objectives before paying out bonuses relating to non-financial metrics.

There are concerns regarding the re-election of the remuneration committee chair owing to the aforementioned issues relating to executive remuneration. However, the director has received high levels of shareholder support throughout their time on the board and the board has also refreshed its remuneration policy, which we support.

Outcome: In the absence of a compelling rationale for the board to adjust its annual bonus pay-out on a discretionary basis, we will be voting against the remuneration report. On the election of the chair of the remuneration committee, given concerns regarding previous bonus payments have been addressed, we will be supporting management and voting in favour of this item.

Johnson & Johnson - Social

Objective: We engaged the company to discuss a shareholder resolution proposed at the 2023 AGM requesting further disclosure on pricing and equitable access to Johnson & Johnson's (JNJ) COVID-19 products.

Our proxy advisor recommended supporting a shareholder resolution (against management) on preparing a report on pricing and equitable access to JNJ's Covid -19 products once the US emergency use period comes to an end. Based on recent disclosure and our engagement with the company it is clear that the Covid-19 vaccine will not be a material area of manufacturing moving forward and could even potentially be wound down entirely. Management recommends voting against the item as it does not see the shareholder benefit of additional reporting in this area. We agree and will be voting against the resolution (supporting management). We will monitor this item moving forward.

Outcome: Based on our conversation and recent disclosures, we voted against the shareholder resolution as we do not think this the best use of resources given the reduced importance of COVID-19 product manufacturing at the company moving forwards.

JPMorgan – Governance Environment

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. The company has also committed to separating the CEO and chair positions at the next CEO appointment.

We discussed items related to shareholders 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 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).

JPMorgan European Discovery - Governance

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

The board meets with the UK diversity guidelines. The annual report provides information on voting activities and engagements but lacks details on how the manager integrates ESG-related factors. One non-executive director is over the recommended tenure, but the board has already announced that he will be stepping down at the next AGM. All directors, except for newly appointed ones, own shares. We emphasised that adding engaging elements such as video content would help make the website more appealing to retail users rather than just presenting the information.

Outcome: The responsible investment disclosures are moving in the right direction. The report provides adequate information about the voting and engagement activities, with specific examples. However, additional details on how the manager incorporates ESG considerations into its investment process would be appreciated.

Kering - Governance

Objective: To raise concerns regarding remuneration.

We discussed concerns regarding the lack of transparency in relation to the CEO's remuneration package. The company does not provide clear performance conditions for the long-term incentive plan payments awarded in 2018 and paid out in 2022. The company explained the exceptional payment was provided in the context of the Group's pivot into a pure luxury focused company, and no exceptional remuneration has been rewarded since the one-off payment was granted in 2018. Additionally, since 2020, the company has simplified its long-term incentive plan.

Outcome: Overall, the company does not provide a compelling rationale for the one-off payment or sufficient transparency regarding the long-term incentive plans. Therefore, we decided to vote against approving the compensation of the CEO.

Law Debenture - Governance

Objective: This meeting was part of the broader investment trust thematic engagement.

The board meets six times a year where it discusses both the operational side of the business which currently accounts for 25% of the NAV, as well as the equity portfolio. The fund manager and the co-fund manager attend every board meeting to discuss the portfolio. Additionally, the head of ESG at the Investment adviser (manager) presents to the board at least once a year.

The annual report does a good job of disclosing the voting activities and includes some rationale examples for the votes. However, we would welcome the same level of granularity for the engagement activities. The annual report mentioned that the board reviews a set of quantitative ESG metrics, which are not disclosed. We mentioned that it would be useful to disclose which ESG metrics the manager is looking at and how they are being used.

The chair is agnostic to directors owning shares. The chair highlighted that if a director owned a very large position that is significant to their net worth, then he would have a conversation with them as he thinks that that could affect independence. The board currently meets UK diversity targets.

Outcome: We outlined to the board where improvements might be made in terms of responsible investment disclosure – specifically engagement examples and more information about the integration of ESG factors.

Marsh McLennan - Governance

Objective: To discuss concerns raised regarding the CEO's compensation.

We engaged the company to discuss amendments to the remuneration policy. In February 2022, the compensation committee amended the conditions associated with the long-term incentive (LTI) awards. The board adjusted the retirement age at which the LTI will fully vest for the CEO, from 65 (with at least one year of service) to 62 (with at least five years of service).The CEO (due to step down by the end of 2023) has been in role for ten years, and with the company for 25, the board thought it appropriate to recognise this tenure and for the CEO to earn full vesting treatment for 2020 and 2021. These changes are subject to provisions including clawback, smooth succession planning and a three-year performance provision, which we welcome. The retirement age had already been reduced for other employees from early 2023. Given the timing of the CEO's retirement he would have been subject to previous retirement provisions and pro-rating of LTI awards.

Outcome: The company provided additional context on the LTI awarded to the outgoing CEO. The rationale seems reasonable with sufficient provisions in place, and we will support management on this item.

Melrose Group - Governance

Objective: To discuss concerns regarding the proposed remuneration policy.

The company has put forward a new executive remuneration policy. This is largely based upon the structure of previous policies. As well as a more typical annual bonus, in the long-term plan (LTIP) executives can participate in a share of the increase in value of invested capital above a 5% annual charge. Given the demerger between the Melrose Group and the new Dowlais entity, the plan has been split into two. Both plans broadly follow the same incentive model. While the use of a single share price linked metric has the benefit of simplicity, there are concerns that broader market movements could provide outsized executive rewards. We engaged with the company and discussed the rolling cap that has been put in place to limit potential windfall gains while still providing incentive to management. The cap limits the number of shares that can be awarded in any individual year. Any awards in excess of the cap can be rolled over into the next performance year (up to the limit of the cap) and then are erased after two years. Although this does represent a potentially significant incentive opportunity there is a ceiling in place.

Outcome: On the basis of our discussion, the similarities to previous iterations of the policy and the presence of an effective cap on awards - we voted to support management on this item. We will continue to monitor the functioning of the LTIP moving forward.

Merlin Properties – Governance Social

Objective: We initiated an engagement with the company regarding concerns on levels of pre-emption rights in equity issuance and meeting local board diversity recommendations.

Our proxy adviser recommended voting against the re-election of a member of the nomination committee as board gender diversity stands at 38% (below the Spanish financial regulatory authorities' recommendation of 40%). The company has committed to reaching the 40% threshold and aims to have a strategy in place to achieve this by the next AGM. The company is also aiming to issue capital of which 20% would be without pre-emptive rights. Best practice guidance tends to recommend a 10% limit, but the company put forward that 20% is the local market norm. There are no specific targets for the authority to issue equity, but the company is looking to have resources available should opportunities arise.

Outcome: We voted to support management on the re-election of the director as the company has committed to closing the small gap to local market recommendations on board diversity. We voted against authorisation to issue equity as it exceeds generally accepted pre-emption rights best practice.

Murray Income Trust - Governance

Objective: This engagement was part of the overall investment trust thematic engagement and the first-time meeting Murray Income's board.

The board meets formally five times a year, and in every meeting, the board discusses the investment adviser's (manager) voting and engagement activity. The manager takes an engage rather than divest approach to fossil fuels. We emphasised that we do not expect this fund to have sustainability objectives but rather to take into account responsible investment risks and opportunities as part of the investment objective.

The current disclosures include a breakdown of the votes and engagements by category. Adding examples of voting rationale and engagements would help add some colour to the disclosures. The trust does include an example of the integration of ESG factors which we find useful.

At the time of our conversation the board was compliant with the UK diversity targets.

Holding shares is not a requirement, however, all the directors have a shareholding to some extent.

Outcome: The board has achieved a good diversity balance. We suggested adding voting and engagement examples as a potential way to add more colour to the disclosures.

Ocado – Governance Social

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.

Pacific Assets - Governance

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

At every board meeting, the investment manager (manager) provides updates on investments, and sustainability is an important topic of discussion. The board has also accompanied the manager on an Asian trip to observe first-hand how it interacts with companies. The trust is transparent about its stewardship activities, including voting decisions and engagement efforts. Additionally, the trust is classified under Article 9 of SFDR, which requires extensive reporting on sustainability objectives. While the board does not have a specific director responsible for sustainable investments, all directors are expected to stay informed on the subject. The trust does not engage in stock lending.

The chair is aware that two directors are approaching the end of their nine-year tenure and is working with an undisclosed executive search firm to find suitable replacements. The board places importance on diversity and is specifically seeking for candidates from an ethnic minority, preferably with experience in investing in Asia, given that this is an Asian fund. The chair believes that the board is currently too large. In his view for a "plain vanilla" long-only equity trust five members would be more appropriate, however, due to succession planning and the resultant overlapping of new directors it will fluctuate from five to six for a couple of years.

The chair expressed that he and the board are keen to meet with shareholders more frequently. To this end, the manager organises events throughout the year, including investor lunches attended by some board members. While the manager has not focused on direct-to-consumer efforts in the past, there have been some attempts to increase visibility on various retail trading platforms. Additionally, the trust has hired a PR agency to expand its marketing reach.

Outcome: Over the next couple of years, a couple of directors will be reaching a tenure of nine years, so the chair has made succession planning a priority. trust effectively discloses its stewardship activities and how it applies sustainability objectives to its investment process.

Pantheon International - Governance

Objective: The board elected a new chair of the trust at the end of last year. This call was an introductory call to exchange views on the trust.

At the October 2022 AGM, the new chair took over. Prior to this, he had been a non-executive director (NED) on the board for five years. As the new chair, he assessed the current board and is seeking a new NED following the retirement of the previous chair, additionally the chair of the audit committee will be stepping down in 2025. Consequently, the board is currently in the process of hiring a new director.

Furthermore, the chair is actively engaging with shareholders, having already met with nine and planning to meet with around 40 more. He is keen to receive feedback from shareholders and has established a review committee comprising of board members and partners to implement any necessary changes. We welcome the chair's efforts to connect with shareholders and incorporate their feedback.

According to the chair, it is crucial for NEDs to have experience in PE. He added that NEDs who lack understanding of PE have difficulty providing valuable feedback. In addition, diversity is a factor to be considered since the board does not meet the Parker Review requirements. The board will be working with an executive search firm to aid the process.

We requested additional information regarding the investment adviser's (manager's) impact on its investee companies, as the current case studies lack this detail. The trust's annual report provides insight into the manager's responsible investment strategy, including the questions it asks when selecting underlying managers. The website also features videos and additional information on these engagements.

Outcome: It was a useful introductory call to the new chair. We will schedule a follow-up call as part of our investment trust thematic engagement.

Pfizer – Social

Objective: To discuss concerns surrounding a shareholder resolution on the impact of patent exclusivities on product access.

Members of The Interfaith Centre on Corporate Responsibility (ICCR) placed a shareholder proposal on the agenda at the Pfizer AGM (having also done so at most large US pharmaceutical companies). The resolution asks for pharmaceutical companies to report on their policy on extended patent exclusivities and how this impacts product access. Our proxy advisor recommended voting for the resolution.

Pfizer has been engaging with the proponent for many years and believes the company's current disclosures meet the vast majority of the proponent's request. They have committed to continue the engagement with the ICCR following the AGM. Use of patents is a structural aspect of protecting intellectual property and ultimately making products commercially viable in the pharmaceuticals industry. There have been concerns that the complex use of patents and patent extensions can create a 'thicket' of barriers preventing generic (and cheaper) access to these products. Based on our analysis and engagement it is not clear that Pfizer is using such a strategy and it is notable that our proxy adviser has not recommended supporting this resolution at most other similar AGMs.

Outcome: After reviewing Pfizer's patent exclusivities policy and discussing internally we have decided to vote against the shareholder resolution (in line with management) as we do not think the company is materially behind its peers on this issue. We will monitor progress going forward.

RIT Capital Partners - Governance

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

Hannah Rothschild sits on the board as a non-independent non-executive director; however, she is not a member of any of the board committees. She beneficially holds 9.15% of the company's issued share capital; and is the daughter of Lord Rothschild, who established the trust. The board regards her as being non-independent as she represents the family's interests; in these circumstances the chair is comfortable with her exceeding the usual nine-year term.

The board has recently hired three directors, two of those were replacements for existing directors, however, the board also looked for an additional director to UK diversity targets. We questioned the size of the board, as with the new hires the board has nine directors – uncommonly large for an investment trust board. The chair argued that being self-managed the board needed enough people to populate the committees without the same directors sitting on all committees. We appreciate that concern as we have voiced this with other trusts; however, the board is outsized compared to peers.

The board had an external board evaluation in 2021 performed by an external firm. The same firm was used on the previous board evaluation, so it had the advantage of knowing the company when it pitched for this evaluation. The evaluation process consisted of an extensive questionnaire followed by interviews, after which, the external provider produced a report which was reviewed by the Senior Independent Director. From the recommendations of this report, the board is considering adding an extra board meeting every year. However, overall, the evaluation did not yield as much insight as the chair had hoped for and he is considering using another firm for the next evaluation.

The manager shares a quarterly report of all the new investments and the minutes of the investment committee meeting. Additionally, during board meetings, voting engagement activities are also discussed. We would welcome disclosure regarding voting and engagement; information on the responsible investment approach is scattered through the annual report and having a section focused on this (and on the website) including examples and more meaningful information would be helpful.

Outcome: There has been a notable improvement in the access to the board and management, however, there is still room for improvement when it comes to responsible investment disclosures and transparency. In terms of board composition, we appreciate that the non-independent director represents the interests of the largest (and founding) shareholder, so we will not push for nine-year tenure or a fully independent board as we would normally do.

Scottish Mortgage - Governance

Objective: To discuss one of the non-executive directors (NED) speaking out on perceived issues with the board and investment strategy and his resignation; as well as the retirements of the chair and a further NED.

The Senior Independent Director (SID) (and incoming chair) summarised the situation and outlined the board's point of view. We already had concerns regarding the previous chair's length of tenure which had not been assuaged during our meeting with her and therefore we discussed our concerns regarding her long tenure and the lack of transparency on the succession plan. The trust has undertaken board evaluations, and the SID's view is that these have been useful. The board has retained the same executive search firm to recruit new directors. Over the last months, three directors have left the board, leaving a board comprised of three men.

The trust has an allocation to unlisted companies and concerns have been raised that the trust is close to its prescribed limit however the SID reinforced the message that this is not the case as the limit is measured from the initial investment valuation. However, the limit means that the manager could be restricted from further investments. Additionally, the illiquid private investments may hinder the board's ability to buy-back shares to improve the discount between the net asset value and the share price.

Outcome: Prior to the board upheaval, we already had concerns regarding the chair's tenure, as during our meeting with her she gave no indication that she regarded this as an issue. The board now has the opportunity to reset, and we will evaluate its progress, particularly regarding diversity.

Shell PLC - Environment

Objective: We joined a group engagement with the chair to discuss progress on the company's climate transition strategy.

The company emphasises the trilemma of energy production: affordability, security, and transition planning. It is apparent that the emphasis on the first two factors of the trilemma is currently more prominent. We raised concerns regarding the balance between significant distributions and accelerating low-carbon capital expenditure. Shell has often highlighted the importance of the fossil fuel activities in generating the returns that would fund the transformation into a lower carbon integrated energy company. In the context of recent elevated profits, this does not seem to be the case. The chair highlighted concerns regarding the return profiles of some utilities-like renewable opportunities, with the return opportunities of continued fossil fuel production looking much more attractive in the short to medium term. Although more ambitious than many global peers, Shell's climate transition plan remains heavily dependent on unproven (carbon capture and storage) CCS technology and nature-based solution targets to meet long-term decarbonisation goals. We also believe the correct balance between shareholder distributions and the opportunity to accelerate energy transition capital expenditure has not been met. Although not explicitly stated, we believe the company may pare back decarbonisation targets to allow for more fossil fuel production (in a similar manner to BP). We will monitor the situation moving forwards to see if this is the case.

Outcome: We voted against management on an item approving progress on the company's transition plan.

Stryker - Governance

Objective: To discuss a shareholder resolution on political contributions and expenditure.

After interacting with the company, we learned that it does not make any campaign contributions and it does not have a political action committee. The company belongs to trade associations and but has limited political related activity. The shareholder request is focused on additional transparency; however, the company already provides comprehensive disclosure in its annual report.

Outcome: Given that the company's current disclosures are aligned with relatively good practice we will be voting against this item.

Templeton Emerging Markets - Governance

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

The current chair is nearing the end of his nine-year tenure and will be stepping down in the next year. The search for a successor has begun. The board recently appointed another director, that brings valuable experience in impact investing and Asia. The trust is transparent about its voting and engagement activities and conducts some stock lending for extra income, but it can be recalled for voting purposes. The chair believes it would be beneficial for all directors to hold shares, but it is not mandatory. The trust has been repurchasing shares to combat the 14% discount but acknowledges the current macro environment of emerging markets. The board undergoes regular evaluations and concluded that the cross-directorship between the chair and (Senior Independent Director) SID did not impact their independence.

Outcome: The trust provides sufficient disclosures about responsible investment, which includes details about voting decisions and engagement activities. Additionally, the board is aware of the diversity requirements in the UK and has a plan in place for succession.

The Schiehallion Fund - Governance

Objective: This was part of the broader investment trust thematic engagement and the first-time meeting Schiehallion's board.

The trust's portfolio is composed of c.15% quoted equity; however, the trust does not report voting or engagement information for those holdings. We would welcome more disclosure regarding the engagement of the manager with investee companies, both for quoted and unquoted. The chair said that she has been considering adding a case study of the engagements as she agrees that this would help add some colour to the disclosure. The chair has been pushing the manager to be more explicit with its responsible investment disclosures.

The Senior Independent Director (SID) of the trust has operational experience with private companies. Other directors have experience sitting on boards of private equity trusts. The chair explained the board's view that the manager's valuation process is amongst the most rigorous in the market. The chair believes that the board currently has the right balance of experience and is not looking to make any immediate changes.

The Trust launched in 2019 and the original three directors were placed by the manager. The first independent recruitment for the board was done three years after the IPO. This process was managed by the chair and was done through an executive search firm. The board wanted directors with operation experience in private equity and venture capital. The executive search firm produced a long list and shortlist, and the process was run independently from the manager. The process resulted in the addition of two new directors.

We mentioned that the trust tends to disclose less than other private equity funds, for example, the trust does not produce a factsheet. Although lack of transparency is not an issue specific to the trust, other trusts managed by Baillie Gifford (the manager) also have this issue. The chair said that the board has all of the information it requires at any point, but this point was noted, and she would let the manager know.

Outcome: The main takeaway was that we would like more disclosure from this trust. First in terms of financial information, we think shareholders would benefit from more timely information disclosure on the fund composition and performance. Additionally, we also mentioned that including case studies could help explain how the trust is integrating ESG factors into the investment process.

Throgmorton - Governance

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

In the past, we have discussed the possibility of disclosing more details of the trust's stewardship disclosure, including examples of engagements, and voting rationale. The chair mentioned that this was discussed with the investment adviser (manager), and the conclusion was only to include a simple breakdown of engagements and votes. The manager had expressed concerns that doing more than this might be seen as greenwashing. However, we believe that a more transparent approach to disclosing the trust's stewardship activities would be beneficial and not considered greenwashing, as it is already in place and is just not being disclosed. The chair also noted that the level of disclosure is set at the manager level and that the board does not always have the flexibility to change the reports or website. As the manager runs several investment trusts, there is a standard model that it follows.

The chair currently sits on the board of four companies as non-executive director of two operating companies and chair of two investment trusts, including Throgmorton. The chair made the point that some investors already consider this to be over-boarded because they count the investment trust positions as they would an operating company; however, most investment trust positions are not as burdensome as operating companies, and additionally, proxy advisors rarely include positions on private companies, charities or pension schemes all of which can be very time-consuming.

Last year the board carried out an external board evaluation. This resulted in a small number of proposals that the trust will adopt, notwithstanding that the overall conclusion was very positive.

Outcome: We would like to see more transparency regarding the stewardship activities, such as the reasons for voting and examples of engagement.

Total Energies - Environment

Objective: We engaged the company to discuss the upcoming agenda at the 2023 AGM, particularly progress on climate transition planning.

Over the past 12-18 months the company has added more detail to its climate transition targets and disclosures, including targets to reduce scope 3 oil by 2030 (-30%) and an 80% reduction in methane emissions by 2030. The company has also confirmed it aims to keep worldwide scope 3 emissions constant by 2030 while reducing lifecycle carbon intensity of energy products produced and sold by 25% over the same period. This will be achieved by a focus on increasing production of natural gas while scaling down oil production. In terms of sales mix the company aims to have a 50% gas, 30% oil and 20%

low carbon product split by 2030. While disclosing on scope 3 emissions and having some product specific targets, the company is keen to emphasise that this is its clients' emissions and not the company's. This is an obvious gap in the strategy but one that few oil majors have closed. The company has provided a clear picture of the progression of the sales mix through to 2030 and onto 2050, a high-level vision which is positive. There are concerns the company will be unable to align with a net zero 1.5-degree trajectory given its focus on ramping up gas production. The company claims a significant proportion of new gas activities is replacing coal use outside of western Europe, and this is an opportunity is it actively targeting. The two main concerns are the company's lack of focus on scope 3 emissions (although improved disclosure is noted) and the balance of distributions versus capital expenditure to enable the energy transition. On the latter point around a third of capital expenditure through to 2030 will be allocated to low carbon energy and they aim to target a c.10% ROACE (return on average capital employed) on low carbon spending (including trading) over that period. This compares relatively favourably to peers, but there is still uncertainty over whether this spending could have been accelerated given recent windfall profits.

Outcome: On balance we are comfortable with progress made and welcome additional reporting in areas such as worldwide scope 3 emissions. We also welcome the 2050 sales mix vision the company has provided. Concerns remain over the increases in fossil fuel production relative to net zero commitments. We will monitor progress moving forward but will vote to approve a management resolution on climate strategy progress at the 2023 AGM.

Veolia Environment - Governance

Objective: To discuss the amendment of articles of association regarding corporate purpose.

Our proxy advisor recommends voting against an amendment to the articles of association as there are concerns the proposal would deprive shareholders of any right of approval on the content or any influence over the future possible evolutions of the corporate purpose. We interacted with the company. The amendment seeks to include the corporate purpose within the company's by-laws where it previously was not mentioned, as well as, ensuring the board is held accountable to the corporate purpose. The company previously engaged with shareholders on this topic, and it is considered by the board and shareholders to be an asset for the company. The new corporate purpose is aligning the company with the transition to a more sustainable economy, which we support.

Outcome: Considering the explanation provided by the company, we have decided to support management on amending articles of association, as we consider a commitment to the corporate purpose to be beneficial to shareholders.

Walmart - Governance

Objective: Our proxy advisor recommended voting against approving executive compensation and supporting two shareholder resolutions on conducting racial equity and workplace safety audits. We contacted the company but were unable to set up a formal conversation. We have concerns over the (long-term incentive plan) LTIP component of executive compensation. The program uses one-year measurement periods rather than multi-year performance periods – commonly seen as best practice. There are overlapping metrics used in both the annual and long-term incentives structures that could result in duplicate awards. Shareholders are also requesting a third-party audit into racial equity at the company as well as an audit into workplace health safety conditions. One of the focal points of the latter audit is a spate of gun incidents taking place in stores between 2020 and 2022.

Outcome: We voted against approving CEO compensation and for the two shareholder resolutions as we believe they provide welcome additional transparency on the issues.

Watts Water Technologies - Governance

Objective: To raise concerns related to the re-election of the governance committee members and a request to amend certificate of incorporation to allow exculpation of certain directors on the board.

Our proxy advisor recommends voting against the governance committee members as the company maintains a multi-class structure. The dual voting rights are not subject to expire on a certain date. In this instance, the company highlighted that one shareholder holds the majority of voting rights, and the board does not have the ability to change the current voting structure. Regarding the proposed amendment to the Certificate of Incorporation, the company states it is important for its officers to be protected against the risk of potential financial ruin and the amendment is crucial in attracting and retaining the best talent.

Outcome: Given the specific ownership structure and domicile we decided to support the election of the governance committee members. We voted against proposed amendment, as if passed, the proposal could result in a lack of board accountability.

Xylem - Governance

Objective: To discuss a shareholder request for an independent board chair.

The company has had an independent chair since 2011. Considering no governance concerns have been highlighted regarding the current leadership structure, the board considered this shareholder request unnecessary.

Outcome: The company currently has an independent chair, and we will support management on this item.

FUND ENGAGEMENT

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

The engagements are split into four areas:

1. The firmwide approach to responsible investment

2. Manager and strategy approach to responsible investment

3. Engagement on ESG risk and exposure

4. The firmwide approach to net zero

Third party manager - senior responsible investment leader: The firmwide approach to responsible investment

Objective: To gain an overview of the firm's approach to stewardship and voting, as well as the firm's net zero commitment.

The meeting focused on exploring some areas covered in our responsible investment RFI (Request for Information) in more depth. The RFI is a document we send to our third-party managers annually. We discussed whether the same approach is taken for ESG integration within the equities' investment process as for corporate bonds and we understood that there is some work in progress to have a more common approach across the two. We discussed how the firm approaches voting and shareholder resolutions; on the whole the firm tends not to support overly prescriptive shareholder resolutions.

We discussed the firm's approach to climate change and how its net zero commitment will be rolled out across the firm's assets as it currently only covers the firm's insurance assets. The firm is an active member of Climate Action 100+ and has a clear focus on assessing and engaging its most significant financed emissions. Additionally, the firm is making good progress on considering impacts on biodiversity and is cognisant of the complexities involved.

Outcome: Overall the firm has strong practices in place. We will be expecting the firm to add further assets to its net zero commitment over time.

Third party manager – US equities - senior responsible investment leader: The firmwide approach to responsible investment

Objective: To understand the firm's stewardship resource, progress on diversity and inclusion (D&I) within the firm and stewardship priorities including thinking around net zero commitments.

The stewardship team has expanded to include an analyst who has experience in human rights and policy, as well as a proxy voting specialist and a further resource who leads on carbon accounting and reporting. Alongside this the firm has developed a network of champions across the firm's investment research teams. The stewardship team focuses on thematic research, best practice and guidelines, and acts as a resource to the investment team. The research analysts are ultimately responsible for incorporating ESG risks and opportunities within the investment process; we support this approach as we believe that to properly integrate ESG factors into the investment decision making it has to be part of the research analysis.

The firm reports on both gender and ethnic diversity. The firm has a low turnover of staff and promotes internally rather than hiring in portfolio managers. This means that it is key for the firm to target diversity of intern and graduate hires. This is now coordinated by someone in the research team who is passionate about improving diversity, equity and inclusion. The firm has not made a net zero commitment and we discussed the methodology it applies to holdings and the firm's engagement priorities, which include digital ethics and modern slavery.

Outcome: On our analysis, the fund portfolio aligns with 1.5 degrees, but this is an outcome of the growth biased investment style as opposed to a focus on the transition plans of the holdings. We understand the difficult backdrop in the US but also made clear the importance we see of companies having a climate transition strategy, with technology companies like Microsoft showing how meaningful action can be taken on carbon emissions. We also appreciate the importance of using access to management to engage on topics such as digital ethics, given the rise of AI.

Third party manager – senior responsible investment leaders and product specialists: The firmwide approach to responsible investment

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 clients 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.

Third party manager – engagement on the energy sector: Engagement on ESG risk and exposure

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 the 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 in order 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.

Third party manager – US equities – responsible investment analyst: The firmwide approach to net zero

Objective: To discuss the net zero approach and progress on diversity and inclusion (D&I)

The firm reports on gender but not ethnic diversity. This is something we discussed at our last meeting and remains a work in progress, with privacy issues flagged by staff when trying to collect the data. The internship programme has been expanded this year using some external D&I initiatives.

The firm has signed up to NZAM, using the Science Based Targets (SBTi) portfolio coverage approach. We discussed the targets versus the current positions and engagements, in particular with the oil and gas holdings. Additionally, the firm has engaged with all the holdings within the fund which have not set a Science Based Target.

Outcome: We gave feedback that we would like to see the firm report on ethnicity data and explained our reasons again for this. We also gave feedback on the manager's views of the US oil companies and challenged what sounded like a degree of acceptance of the limited ambition in their transition plans.

Third party manager – fixed income – climate specialist: The firmwide approach to net zero

Objective: This was a follow up meeting to understand in more detail the firm's approach to considering climate risk across its assets under management as well as discussing in more detail the firm's reasons for not signing up to any net zero

initiative.
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 clients 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 clients 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 clients. We noted that the Net Zero Asset Managers initiative (NZAM) 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.

Third party manager - Infrastructure - senior sustainability leader: The firmwide approach to net zero

Objective: To discuss the approach to considering climate risk in the portfolio and net zero commitment planning.
This was a dedicated meeting to understand the idiosyncratic nature of infrastructure investments when it comes to analysing and reporting on climate risks as well as determining and delivering on net zero commitments. The firm has not yet signed up to the Net Zero Asset Managers initiative (NZAM) however there is detailed work in progress for analysing climate risk within the portfolio. Additionally, work is being undertaken to understand how to navigate net zero commitments for infrastructure investments where challenges include how the investments are structured. We discussed the portfolio's exposure to holdings with transition risk and the expectations for those; the firm considers that overall exposure to transition risk is low.

Outcome: Guidance has recently been published by the Institutional Investors Group on Climate Change (IIGCC) for infrastructure investments which provides a framework for us to assess the firm against.

IN THE SPOTLIGHT

POINTS DON'T MEAN PRIZES

Gemma Woodward, Head of Responsible Investment

Source of image: iStock

The question of ensuring non-executive directors (NEDs) have enough time to carry out their role is an important one. Broadly the methodology used by proxy voting advisers is that a NED, or executive director, can have a maximum of five points, after which they are deemed to be over-boarded I.E., there's a concern they are spreading themselves too thinly and cannot devote sufficient time to the positions they hold. A points system is a helpful calculator, although it can be a blunt tool and assigning 'points' based on the positions held is not a fool-proof approach.

An example of a points system used to assess over-boarding in the UK is:

- NED position = 1 point
- Non-executive chair = 2 points
- Executive position = 3 points
- Executive position + non-executive chair at another company = over-boarded

However, in reality it is not this straightforward.

Firstly, often not enough thought is given to differing workloads depending on the type of position. There is often a difference between the workload for an investment company versus an operational company; and within investment companies there will also tend to be variations. For example, being a NED on an equity investment trust usually has a less intense workload than the same role for an infrastructure focused investment trust – this is reflected in the number of meetings as well as the fees paid to NEDs.

Within operational companies there are differences as well – being a NED on the board of a global bank will bring higher level complexity compared to the same position for a more UK focused bank – indeed the former pays the chair double the salary of the former.

Secondly, NEDs are usually not just on the board, but also members of committees. Being a member is usually less onerous than being the chair of a committee, and not all committees are equal. The number of meetings, and the workload associated with the committees will vary.

Thirdly, usually only positions in publicly-listed companies count towards the points system that proxy voting advisers and some investors use. 'Day jobs' are not counted unless they are an executive position. Positions on private companies, not-for-profit boards and pension scheme trusteeships are not calculated. The responsibilities at a private company will mimic elements of a listed company and may even require a NED to be more hands on. The Pensions Regulator states that 'boards should meet often enough to maintain effective oversight and control. In most cases this will be at least quarterly'.

Turning to the not-for-profit sector, if we think about a typical meeting schedule for a large charity, this usually involves around four board meetings a year (for half a day each), plus an away day. On top of this trustees usually have committee responsibilities, which might mean an additional four, or more, meetings a year which, for instance, could take three hours per committee. Being the chair of the board or one of the committees adds to the responsibilities and workload. Having said this I came across an advert for a pro bono charity position which would take up 2-3 days a month...

Fourthly, whilst many boards will conduct some of their meetings virtually, many will now ensure that a good proportion are conducted in person. Therefore, we need to add travel into the mix. Whilst the idea of working on a train seems appealing the reality can be somewhat jarring even if that first-class seat is expensed.

So how do we judge this? Shareholders are paying the NEDs' fees and therefore, as part of an active ownership agenda, we need to be able to evaluate whether that money is being spent wisely and that there is sufficient time being devoted to the role.

Comparison of investment trusts:

	Chair	NED
Infrastructure fund 1	£110,000	£58,000
Infrastructure fund 2	£92,500	£56,500
Equity fund 1	£51,000	£35,000
Equity fund 2	£41,460	£27,640

Source: annual reports' forecast fees for next financial year

Comparison of operational companies across different sectors (all are in large-cap UK benchmarks):

	Chair	NED
Company 1 – consumer staples	£687,000	£80,500
Company 2 – consumer services	£538,000	£90,000
Company 3 - banks	£750,000	£82,000
Company 4 – financial services	£325,000	£76,500

Source: annual reports' forecast fees for next financial year

The points system is a helpful starting point and a foundation to build upon. However, to help shareholders undertake more informed evaluations (and therefore voting decisions) a qualitative assessment is a useful addition. We would suggest that consideration should be given to the following:

- What type of company is this?
- What are the other non-listed company responsibilities?

And then for all positions held including those at non-listed companies:

- What does the meeting schedule look like?
- Are there additional committee chair responsibilities?
- What are the fees that are being paid for each non pro bono position?

GREENWASHING

Gemma Woodward, Head of Responsible Investment

Source of image: iStock

The Financial Conduct Authority (FCA) is undertaking a number of consultations on a wide variety of responsible and sustainable investment-related issues. It is anticipated that a new anti-greenwashing rule will come into effect in the third quarter of 2023. The term greenwashing was coined in 1986 by the environmentalist Jay Westerveld in his essay highlighting the introduction of the practice by the hotel industry in the 1960s. We have all seen the signs in our hotel room asking us to reuse towels in order to save the environment. The only thing that was saved was money hotels spent on laundry.

The UK government's Greening Finance publication[1] defines greenwashing as:

When misleading or unsubstantiated claims about environmental performance are made by businesses or investment funds about their products or activities. This can lead to the wrong products being bought – undermining trust in the market and leading to misallocation of capital intended for sustainable investments.

There have been a number of recent incidents where financial service firms have been found to be greenwashing.

In 2022 the UK's Advertising Standards Agency banned two HSBC[2] adverts focused on sustainability. The reason why? The adverts only focused on the positive and did not mention that the bank finances fossil fuel projects or point out its links to deforestation. This is the first time UK adverts have been banned on account of greenwashing.

In 2022 the US equivalent of the FCA, the Securities and Exchange Commission (SEC) fined the Investment Adviser division of BNY Mellon[3] US$1.5m. The firm was found to have misstated the extent to which ESG (environmental, social and governance) investment considerations were taken

1 Greening Finance: A Roadmap to Sustainable Investing (publishing.service.gov.uk)
2 HSBC adverts banned after greenwashing complaints - FTAdviser
3 SEC fines BNY Mellon over ESG in first case of its kind | Financial Times (ft.com)

into account for the mutual funds it managed. BNY Mellon had suggested that all investments had undergone an ESG quality review, however that was not always true. The SEC found that the division had "failed to adopt and implement policies and procedures. To prevent the inclusion of untrue statements of fact".

Also in 2022, Goldman Sachs[4] was fined US$4m by the SEC. It was found to have misled customers about its ESG approach. The issues were broadly two-fold: ESG analysis was undertaken after the investments were made (contravening the stated approach) and written policies and procedures regarding the evaluation of ESG factors within its investment process were only introduced sometime after the strategy was adopted.

Greenwashing is not just about the exaggeration of claims. There are different ways to greenwash. Here are some examples.

Irrelevant claims / information

This is when irrelevant information is included to make a product or strategy sound 'greener' than it is. An example would be when a technology fund proudly states that it does not invest in fossil fuels. It would likely not invest in fossil fuels regardless, as this is not in line with its mandate, but by stating that it does not invest in oil & gas makes it seem more climate-conscious than it perhaps is.

Focusing on the positives and ignoring the negatives – greenlighting

In the HSBC example, the adverts only focused on the good and did not give a balanced picture. This can be more difficult than it might first appear, as no company is perfect – there is always a trade-off. This is why understanding and evaluating all the ESG factors as well as any sustainability attributes is important within the investment decision making process. In Europe the SFDR (Sustainable Finance Disclosure Regulation) includes the principle of Do No Significant Harm (DNSH for short). At the moment the UK looks unlikely to add this into its rules, although it is looking to include disclosure around unexpected investments – this is something that has yet to be defined, as what is unexpected to one person, might not be to another.

Downplaying 'green' credentials – green-hushing

In early 2023 Morningstar[5] reported that in Europe around 40% of funds had been reclassified by the fund manager (not by Morningstar), to a less stringent sustainability category. The decision had been to move them from the EU's Article 9 to Article 8 (the difference being that Article 9 funds have to have a sustainable investment objective whilst Article 8 funds promote environmental or social characteristics).

This could be seen as firms looking to avoid the regulator's scrutiny by avoiding the disclosures required for an Article 9 fund. Funds and strategies that have sustainable investment objectives need to be able to prove these and report against them. Another interpretation is that the lack of clear guidance meant that the classifications were not well understood and therefore as more information emerged, funds took the opportunity to reclassify themselves.

Product names and labels – green-labelling

We have seen a huge rise in the launch of funds containing words like ESG, responsible and sustainable; or old funds being repurposed and renamed. As a result of this we have seen reclassifications of these from service providers as well as from the fund houses. In early 2022 Morningstar removed 1,200 funds (worth US$1.4tn) from its European sustainable investment list. It had delved into the funds' documentation and as a result "Morningstar data analysts have revisited these disclosures and tightened their criteria to tag funds as sustainable investments in the database."

Creating misleading links to the UN Sustainable Development Goals – rainbow-washing

Funds with sustainable investment objectives use a framework to report against, in order disclose

4 Goldman Sachs to pay $4mn penalty over ESG fund claims | Financial Times (ft.com)
5 ESG Fund Downgrade Accelerates | Morningstar

how they are meeting those objectives. One of the frameworks that might be used is the UN Sustainable Development Goals (UN SDGs). An example of how this can be abused would be if a fund or strategy is misrepresenting or exaggerating its alignment to the UN SDGs, which are often used as a framework for sustainable investment outcomes. This is called rainbow-washing as the UN's 17 SDGs are all different colours.

How do you mitigate the risk of being greenwashed?

1) What are you looking for?

There are two distinct approaches to being a responsible investor:

- Risk mitigation and identifying opportunities: the integration of ESG factors and stewardship within the investment process
- Specific responsible investment related objectives: this builds on the first element and relates to linking products or strategies to specific responsible investment related outcomes or objectives.

It is important to understand and have clarity about which approach is being taken. If a strategy or fund has specific responsible or sustainable investment outcomes and objectives than that is very different to being concerned about mitigating risk or identifying investment opportunities.

2) Do not fall for ESG

There is no such thing as an ESG fund or an ESG company, just as there is no such thing as the perfect company: all will take different approaches so direct comparisons are not possible. An investor is always going to have to weigh up the different elements of the ESG triangle of environment, social and governance factors. Using the term ESG investing is misleading – what is actually of interest and what is the investment doing? Responsible investment is an umbrella term for different investment activities including:

- Active ownership I.E. voting and engagement
- The integration of ESG factors
- Screening out activities
- Sustainability focused investment
- Impact investing

Because many things are often lumped under 'ESG' there is often no delineation between different approaches, making it difficult for investors to understand which approach is being taken. Investing for impact is very different to investing in a strategy that is focused on voting, engagement and integrating ESG factors within the investment process.

If an investor is concerned about avoiding certain exposures, they should seek a fund or strategy that excludes those areas. End consumers all have their own view about what 'ESG' means to them and in the absence of clarity from the investment industry, clearly stating what fund or strategy does what, it can become confusing.

3) Identifying clients' responsible investment preferences

One of the ways we look to mitigate greenwashing is by ensuring we are reflecting clients' responsible investment preferences in the way we invest. We have three responsible investment client preferences: Aware, Focused and Dedicated. These are three very broad categories that we use across Quilter. Within these, we have defined different investment solutions to meet clients' preferences. Within our suitability and advice processes we seek to capture clients' preferences by discussing with them how important responsible and sustainable investment is to them.

IN THE SPOTLIGHT

ENGAGING WITH THE EXECUTIVE SEARCH FIRMS

Greg Kearney, Senior Responsible Investment Analyst

Engagement conducted as part of the 30% Club GROWTH THROUGH DIVERSITY

In discussing gender diversity performance with investee companies at board and executive levels, it is not uncommon for laggards to claim the talent pool "just isn't there" or their recruitment consultants "struggle to find qualified women". Most observers would admit that there are clear gender imbalances in certain sectors, but we decided to test the extent and prevalence of this common refrain by directly engaging with recruitment consultants.

As with many engagement campaigns this started with a letter. Investors within the 30% Investor Group wrote to executive search firms in order to better understanding how gender diversity is integrated into the processes and assessments when placing executive and non-executive directors. The 30% Investor Group believes that boards that genuinely embrace cognitive diversity as manifested through appropriate gender representation and a broad spectrum of skills and experience are more likely to achieve better outcomes for our investors. After the initial letter writing, we spoke to five recruitment consultants. As well as understanding the processes implemented and challenges faced by recruiters we were also interested to hear more on their engagement with external frameworks and partners, so were pleased to include a conversation with FTSE Women Leaders (an independent business-led organisation which sets recommendations for Britain's largest companies to improve the representation of Women on Boards and in Leadership positions) in our engagement campaign. A special thank you to representatives at Egon Zehnder, FTSE Women Leaders, Korn Ferry, Page Executive, Russell Reynolds and Sapphire Partners for taking part in this dialogue.

Key findings

- Overall progress: There was a size bias to firms engaged (mostly large global firms), but on balance, gender diversity is a key focus. All firms were resourced with formal, established diversity leads and there is an impetus on adding women contacts to talent databases at a quicker rate that male additions. Expertise and contacts in this area is explicitly recognised a as a competitive advantage.
- Client/Agent relationship can be a limiting factor: Regardless of the suggestions and practice of recruitment consultants, there is a limit to their power. The client controls the final specification. It is an important role of investors to engage with companies to outline expectations around diverse hiring practices and monitor implementation.
- Accumulating diverse contacts: For most recruiters the starting point in building a long list is a central contact repository. The ultimate success of a search is often dependent on the depth and variation of this database. These databases are historically male dominated, but a number of the larger recruiters spoken to are targeting evolution of these repositories by ensuring more women than men are added annually.
- Early involvement is essential: For most firms there is a strong preference to be involved at the start of the process, particularly the job specification. Correct wording is key. All contacts highlighted gender biased wording (e.g. 'gravitas', 'chemistry', 'go-getter') and focussing on key candidate criteria (rather than preferred criteria) as important elements in attracting and placing women candidates.
- Ongoing support: Placement of the candidate

is not the final step in the process. A key responsibility of a recruiter is helping to embed the candidate into the role and the organisation. Examples of practices in this area include access to cross organisation mentorship and women director networks.

- Board training: Prior to beginning the recruitment process, many of the recruiters found that board and executive level training on DEI improved the outcomes of a search process.
- FTSE Women Leaders accreditation: This should be expected. All firms we engaged signed up to the enhanced code of conduct for accredited recruitment consultants. Among other requirements, this commits firms to demonstrate that at least 40% of FTSE 250 board placements are assigned to women as well as regular progress reporting. A less stringent voluntary code is also available for smaller firms to commit to.
- Executive candidate profiles are evolving: Outside of specific gender diverse requirements, requested candidate profiles are evolving away from an impetus on 'strong leadership' credentials to leaders with digital and technology skill sets.
- Internal talent retention often key to a diverse executive: This is often outside of the recruiter's mandate, but it was observed that gender diverse executive teams are commonly the result of excellent women talent retention programmes. External hiring processes complement but do not replace this.
- Sector bottlenecks: Although there are examples of excellent hiring practices and diverse teams across sectors there are narrower talent pools in certain industries which can contribute to hiring difficulties. A lack of women board or executive candidates with experience in construction, technology and insurance were specifically mentioned. These issues are often surmountable. Solutions to these problems involve better internal talent retention and programs or flexing job specifications to hire from parallel sectors.
- Pandemic hiring practices: It may be too soon to draw conclusions, but most of the recruiters suggested that the pandemic had a positive impact upon women placements. Candidates were less geographically limited; it was easy to set up a virtual initial pre-meeting to discuss roles and the absence of formal meetings (over 'dinner or drinks') benefitted women candidates' ability to participate.

Interesting practices

- Diversity and inclusion charter: As with most processes, this starts from the top. In beginning to implement diverse hiring practices the key starting point is a high-level document that sits above the policy and outlines the commitments the company has made. This should be backed by senior leadership.
- Wildcard candidates: One practice mentioned by a number of recruiters was the use of one or two 'wildcard' candidates. This essentially involves approaching the specification from a more creative perspective (with candidates not necessarily fitting the criteria outlined). This candidate is not often chosen but can have a positive impact on how other diverse candidates on the short/long list are viewed.
- Deputy appointments and larger boards: Recruiters often mentioned creating additional deputy positions and expanding boards to develop talent. Anecdotally, some firms saw the opposite trend taking place (i.e. smaller boards and executive teams), but these supporting roles can be a way to expand the pipeline of talent and prepare candidates for more senior roles.
- Encourage staff to take up advisory board positions: One recruiter gave examples of a couple of US companies that actively incentivise mid-level executives to take external board advisor positions to prepare them for senior leadership.
- Long/short list quotas: A minority of firms engaged have formal or informal minimums for the percentage of women on short and long lists (typically 40%).
- Mentoring programs: In our conversations with recruiters this came in several forms but often had two main aims. Firstly, to encourage candidates who would not traditionally consider board positions as career path. Secondly to

better embed placements into the role by providing a network of advice and support. In both instances it is helpful to have mentors who add diversity themselves. Many recruiters offer access to external networks but also assisted in establishing internal mentoring programs.

Gender Balanced Boards – FTSE Women Leaders

As part of this engagement campaign, we met with the FTSE Women Leaders Review. In 2021 the organisation set several ambitious targets including target a 40% representation target for FTSE 350 board and leadership teams, targets supported by update FCA listing rules finalised in April 2022. In addition to these targets the Review is recommending all FTSE 350 companies should have at least one woman in the Chair, Senior Independent Director role on the Board and/or one woman in the Chief Executive Officer or Finance Director role (also supported by FCA listing rules). In 2022 the board target was met three years ahead of schedule. UK Boards have made significant progress on a voluntary basis; however, executive level representation remains low. The key role investors play to support this process was highlighted. Recommendations to shareholders included engagement on companies not meeting requirements and adjusting voting policies to act against laggards.

FTSE Women Leaders Review's does take a market-wide approach and regularly engages with Executive Search firms on recruitment and planning perspectives. They also have a voluntary code of conduct and separate accreditation process (an enhanced code of conduct) for Executive Search firms. At the time of our conversation 75 firms had signed up to the code of conduct and all firms engaged in this campaign were accredited. As well as committing to promoting women leader progress companies are required to report on progress versus a number of prescribed metrics.

Questions for companies based on our findings

- What measures are you taking to meet the new recommendations on gender balanced boards and how is this considered in recruitment consultant specification designs?
- Does your company promote the use of 'wildcard' candidates, deputy positions or larger boards to encourage diverse placements?
- What measures does the company have in place to retain and advance women to senior management/executive positions?
- Does the company have explicit measures or minimum requirements applied to long-list supplied by recruiters?
- What mentoring programs do have in place – how are these structured and what has been their impact?

Next steps

As further disclosure is required by the FTSE Women leaders Review on Executive Director appointments, we will continue to encourage investee companies in working with Executive Search firms for candidate selection for female and ethnic minority representation.

- Continue to encourage investee companies in working with Executive Search firms to understand process for candidate selection for representation at Executive Director and Chair level/ethnic minority representation.
- The Parker-Tyler review has set for a deadline for FTSE 250 companies to appoint a director of ethnic minority representation to its Boards by 2024, therefore we will continue our campaign to engage with the FTSE250 companies and subsequently combine these discussions with Executive Search firms.
- How will this be tied into recruiting members from ethnic minorities?
- How will Executive Search firms help move the needle from saying "one" and done" on ethnic minority representation?
- What is the role of the Executive Search in ensuring that the ethnic minority talent pool continues to develop at board and executive candidate level?

IN THE SPOTLIGHT

HOW TO MAKE RESPONSIBLE INVESTMENT REPORTING ADVISER - AND CLIENT-FRIENDLY

Gemma Woodward, Head of Responsible Investment

Source of image: iStock

Consider the firm's approach and metrics but also what clients want and need to know

If you work in responsible investment, you will be well aware of the plethora of regulation coming your way. A good chunk of this is focused on disclosure to the end investor – that's your clients and advisers. While this is admirable, there are questions about how useful and accessible some of this disclosure will be to the consumer. The real conundrum is how do you deliver accessible and meaningful responsible investment reporting to your clients and advisers?

A good way to start is to ask: what is responsible investment reporting? It is not a fund or portfolio score provided by an ESG ratings agency. Reporting should encompass a number of different elements and here's some thoughts on what you might want to consider.

What is the firm's approach?

First, if the firm is touting itself to be a responsible investor there will be several elements to its approach – therefore the reporting should incorporate these. In essence the work being undertaken by the firm (not just a data dump from your ESG ratings provider of choice) should be the point of the exercise.

These could include the following: voting statistics and the rationale for the voting decision (a bunch of numbers on their own is not useful); examples of engagements for the underlying investments (with objective and outcomes); examples of how the integration of ESG factors works within the investment process; and finally, metrics.

What metrics do they use?

Second, the metrics used need to be client friendly with qualitative commentary crafted alongside. The big question is which metrics should be used? Presumably climate metrics are a good starting point – if we follow Taskforce for Climate-related Financial Disclosure guidance we would use Weighted Average Carbon Intensity (Waci) and compare this to the appropriate benchmark. That might be of interest to some clients, however unless you are targeting a reduction in Waci, is it that helpful?

Another way to look at this might be to assess the percentage of the portfolio's holdings that have a commitment in some form or another to net zero. What non-climate metrics might be of interest? At the moment it's a bit of a head scratcher as you want to future proof reporting in line with the UK taxonomy and ISSB, but we don't know what those look like yet. In fact, that is a whole other topic – there is a raft of responsible and sustainable investment focused regulatory change on its way however at this point it is all separate bits of a jigsaw which makes it harder to build a future-proofed reporting and disclosure framework as we don't know what the end product will look like.

What do clients and advisers need to know?

Third, how do we align reporting to clients' and advisers' preferences? Perhaps what we actually need to do is engage with the client and adviser community to find out what might be interesting to them?

Clients will have different levels of interest in responsible investment, and within that there will be different skews. For some, the diversity of senior leadership is extremely important, for others it is how a company recycles – well not quite but you get what I mean. If we compare this to exclusions that clients may have for their investments, while some are common, clients don't all have the same concerns. What is an issue or interest for one client will not be the same for every client. So how do we try to align this?

Through the suitability cycle we are identifying clients' responsible investment preferences. These reflect the degree of interest that they place on ESG factors being integrated into portfolio construction. It would seem a reasonable conclusion to believe that clients in the category that is most focused on ESG factors (and indeed sustainability) will be most interested in responsible investment reporting. Therefore, from this we can try to tailor the availability of reporting in line with their responsible investment preference.

The elephant in the room is that for some clients this really is not of any interest whatsoever, and indeed to some can be seen as being a negative. We don't want to bombard clients with reporting that is not of interest to them and so we need to think about building modular reporting in order to be able to offer a pick and mix approach (without the liquorice laces) – or indeed turn off the reporting (unless required by the regulator) in order to meet different requirements.

This is all while trying to deliver the reporting in an accessible way. The responsible investment world is in love with a TLA (three letter acronym), and I know some of my colleagues think we make them up just to mess with them – we don't. It's a challenge, however the industry needs to work to make this more accessible to the end consumer and to not hide behind data that are meaningless in isolation.

Article first published in ESG Clarity, April 2023.

RI REELS

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

The Quilter Foundation

Kirsty Ward, Responsible Investment Analyst; Jennifer Piper, Manager of the Quilter Foundation, Quilter

Jennifer discusses the charity's approach.

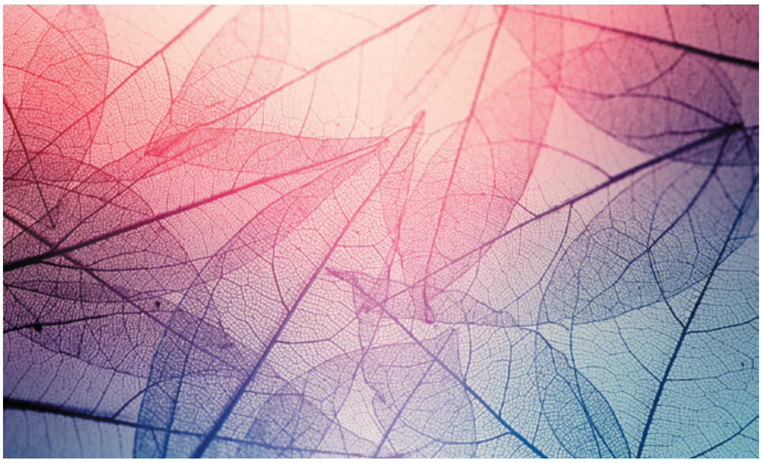
WATCH VLOG

Being a responsible wealth manager

Kirsty Ward, Responsible Investment Analyst; Beth Lloyd, Head of Corporate Responsibility

Beth discusses what it means to be a responsible wealth manager.

WATCH VLOG



Climate Assets Funds

Kirsty Ward, Responsible Investment Analyst; Claudia Quiroz, Head of Sustainable Investment

Claudia discusses our Climate Assets Strategy.

WATCH VLOG

Source of images: iStock

OVERVIEW

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

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

We use the ISS proxy voting service in order to inform our decision making, however we do not automatically implement its recommendations. When we meet a company to discuss governance issues, the research analyst does so alongside the responsible investment team as we are committed to ensuring that responsible investment is integrated within our investment process rather than apart from it. In 2022 we received confirmation that we had retained our signatory status of the FRC's stewardship code. This status was granted on the basis of our 2021 report. In order to maintain our signatory status, we submit a Stewardship Code report to the Financial Reporting Council (FRC) every April. The FRC will confirm if we have successfully maintained our signatory status later in 2023.

UK STEWARDSHIP CODE

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

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

RESPONSIBLE INVESTMENT AT QUILTER CHEVIOT

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

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

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

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

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

Ethical And Values Oriented Investment – Client Specific
This is incorporated on an individual client basis, informed by their specific ethical preferences and values. These will vary from client to client and will focus on industry groups, industries or individual companies.

* For UK, North American and European equity holdings
** Climate Assets Balanced Fund and Climate Assets Growth Fund.

GLOSSARY

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

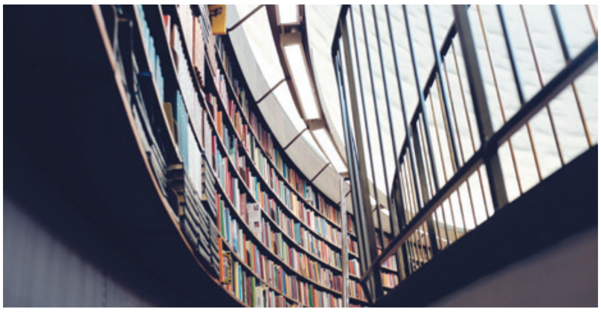
Clawback (and malus): Incentive plans should include provisions that allow the company, in specified circumstances, to ensure that a recipient:

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

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

Engagement: Investors enter into purposeful dialogue with companies, funds, industry bodies, and governments to discuss environmental, social, and governance related issues in order to gain more information or to encourage and achieve change. This may be in collaboration with other investors.

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



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

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

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

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

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

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

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

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

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

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

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

TCFD: Acronym that stands for the Task Force on Climate-related Financial Disclosures. The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information. Regulators are adopting TCFD and, in particular, the UK regulator (FCA) is requiring firms to apply these disclosure rules.

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

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

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

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

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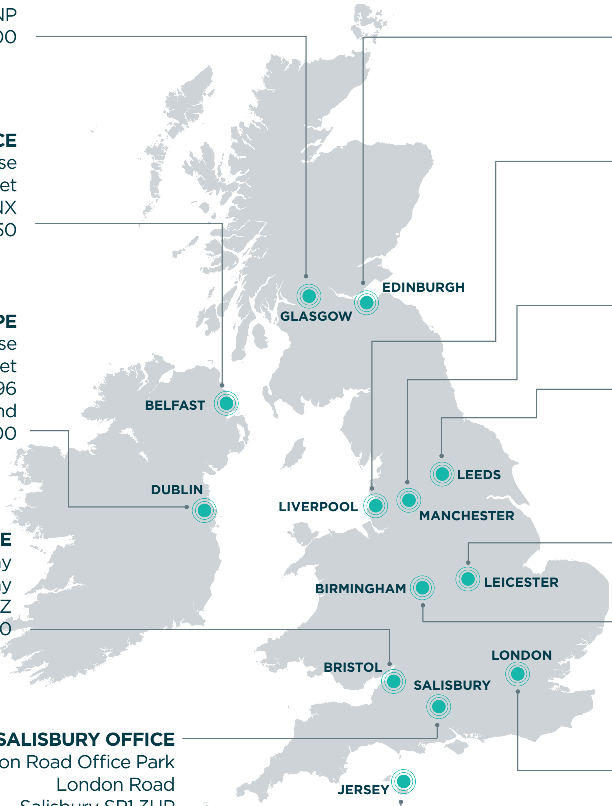

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