QUILTER CHEVIOT

RESPONSIBLE INVESTMENT

Investing in diversity disclosure

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

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

SDG Alignment

> *A garden's beauty never lies in one flower."*
>
> Matshona Dhliwayo

Annually we send our ESG (environmental, social and governance factors) Request for Information (ESG RFI) to our third-party managers. This focuses on their approach to responsible investment as well as the firm itself. Approximately half of our assets under management (AUM) are managed through third-party funds rather than directly invested. Therefore, as part of our responsible investment approach it is critical that we engage with our third-party managers. To effectively do so, we consider:

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

We use the responses to the ESG RFI to inform our engagement with the third-party managers we invest in and then identify engagement themes; for 2023 we have focused on diversity disclosure.

1 United Nations

Approver: Quilter Cheviot Limited 18 January 2024

Diversity metrics

Of the ESG RFI responses, 14 firms only provided gender diversity data and did not include details of ethnic diversity. As we specifically requested both metrics of diversity, we contacted these firms for further information on the ethnic diversity breakdown at the firm level and within the investment cohort.

We discussed this internally with our Head of Inclusion, Diversity, and Wellbeing to determine what other information would be useful for understanding diversity in these firms. Based on those conversations, we concluded that an Equal Pay Audit would be a useful addition to the conversation. Gender-based Equal Pay Audits are common, but audits can also be conducted based on ethnic diversity, therefore we included both in our letter.

Letter to third-party manager firms who had not provided ethnic diversity data

Thank you for taking the time to complete our ESG related Requests For Information (ESG RFI). After carefully reviewing your response, we noticed that you have not disclosed the ethnic diversity of your firm. Diversity data are an important component of our internal ESG factor analysis process, and we believe that more inclusive companies are better placed to benefit from a wider talent pool. Diversity data are used in our investment process in numerous ways and are considered by our fund research analysts as part of our ESG incorporation strategy when selecting funds. Therefore, we kindly ask you to provide us with the following information and to consider disclosing it publicly in the future.

- The ethnic diversity of your company (globally)
- The ethnic diversity of your investment professionals
- Can you confirm that you conduct an Equal Pay Audit? If yes, is the Equal Pay Audit only comparing gender, or has this been extended to the ethnically diverse employees in your organisation?

Thank you for your cooperation.

As a result of the letter, all 14 firms were able to provide more data, which we have incorporated into the analysis below. One firm could not confirm its ethnic diversity due to a small sample size, but it is collecting more data to address this.

Regional approach to diversity disclosure

In the absence of a single definition of ethnic diversity, we consider ethnicities on a self-identification basis.

According to the UK Government "In the UK we use 'ethnic minorities' to refer to all ethnic groups except the white British group. Ethnic minorities include white minorities, such as Gypsy, Roma and Irish Traveller groups." This definition will change depending on the region.

Diversity, equity, and inclusion have moved up the social agenda in recent years. Promoting diversity and inclusion across the workforce demonstrates a commitment by firms that the workforce reflects the environment in which it operates. However, policies and practices vary across geographical regions. As a result, forming a global view of how well third-party managers perform in these areas remains challenging.

The UK has led on workforce diversity disclosure. An increasing number of firms are choosing to collate workforce data in areas such as ethnic diversity, and information on socio-economic background. However, this is yet to be regulated. Currently, listed firms are required to report against the board level FCA diversity targets. On a comply-or-explain basis, firms should demonstrate progress in achieving 40% women on board, at least one of the senior board positions (Chair, Chief Executive Officer (CEO), Chief Financial Officer (CFO) or Senior Independent Director (SID)) should be a woman and at least one member of the board should be from an ethnic minority background excluding white ethnic groups[2]. The European Parliament bases its gender balance directive on the protected characteristics laid out by the European Union. As a result, the terms 'sex' and the 'under-represented sex'. are used when referencing gender diversity. *The European Parliament may take appropriate action to combat discrimination based on sex, racial or ethnic origin, religion or belief, disability, age, or sexual orientation*[3]. Across Europe, the European Parliament has enacted binding transparency measures for the workforce focusing on two areas, gender pay gap and diversity reporting.

Across Europe, listed firms are required to have 40% of non-executive directors, or 33% of all directors, members of the underrepresented sex by the middle of 2026.[4] However, granular disclosure regulations are governed by each country. For example, in Germany, unlike the UK, listed firms employ a two-tier board, with regulations applying to the supervisory board only. France has enacted the Rixain Law, which has introduced a stepped approach to increasing gender equality within large firms (over 1,000 employees). By 2031 firms that do not comply with 40% representation will be fined up to 1% of their annual payroll.

In the US, the willingness to disclose on gender and ethnic pay gaps as well as on diversity and inclusion initiatives has been met with pushback in some states. At a federal level, firms are required to submit an Employment Information Report (EEO–1)[5] which provides a demographic breakdown of the employer's workforce by race and sex. However, unlike standard practice across the EU and UK, these data are often not reported publicly.

As highlighted, different jurisdictions have different approaches to defining diversity and this is reflected in the data disclosed. Furthermore, while it is recognised that quotas and regulations/ directives alone are not sufficient, encouraging enhanced reporting in key areas of diversity is an essential step in incentivising progress.

Analysis of the responses of our ESG RFI

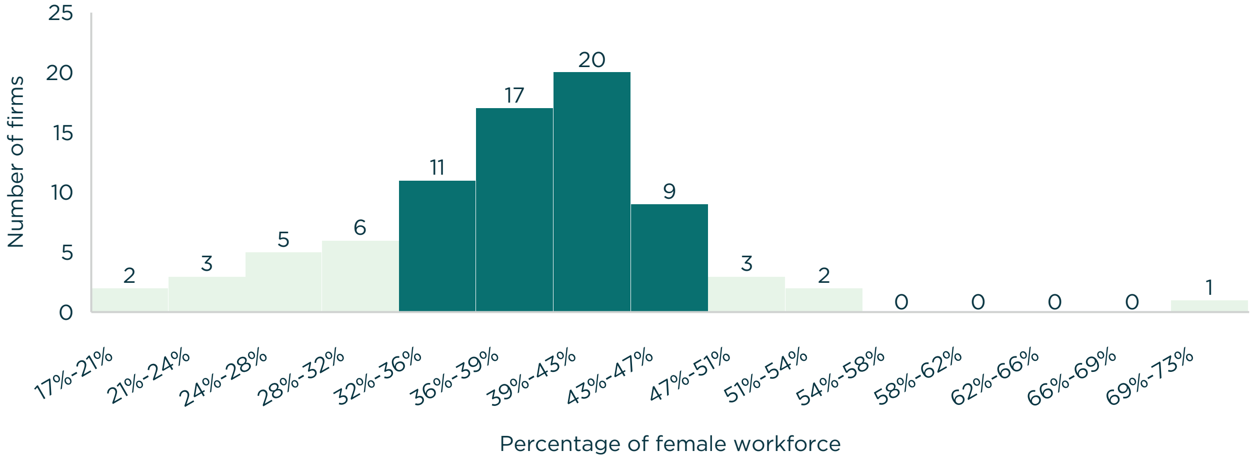
Through the ESG RFI process we collated data from 79 firms representing the third-party managers we invest in for our clients.

Gender

The following table displays the distribution of all female employees across the 79 firms within scope. From the data presented, we can observe that:

- As expected in the broader financial sector, most of the firms are male-dominated. The majority of these firms have between 32% and 47% female workers, which is shown by the highlighted rectangles in the middle of the chart.
- 20 firms have female representation between 39-43%.
- At the lower end of the scale, there are 16 managers who have less than 32% female representation.

Distribution of female representation as a percentage of total workforce



2 FCA finalises proposals to boost disclosure of diversity on listed company boards and executive committees | FCA

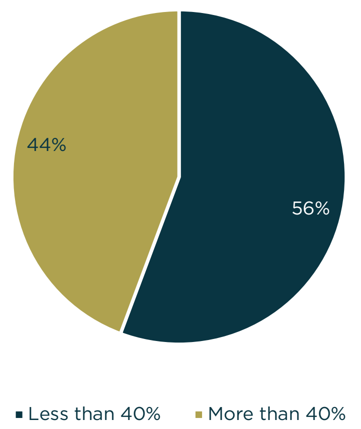
3 EUR-Lex - 12008E019 - EN - EUR-Lex (europa.eu)

4 EU Directive on Gender-Balanced Boards Supports Workplace Equality (shrm.org)

5 EEO-1 Report Frequently Asked Questions | U.S. Department of Labor (dol.gov)

Out of all the firms, only three had a majority of female employees with one outlier having 73% female representation within its workforce. It is important to note that the data pertain to the total workforce and not just investment professionals.

Female representation (below and above 40%)



Ethnic diversity

Ethnic diversity data collection proved to be a challenging task. Some firms were unable to disclose due to a number of reasons.

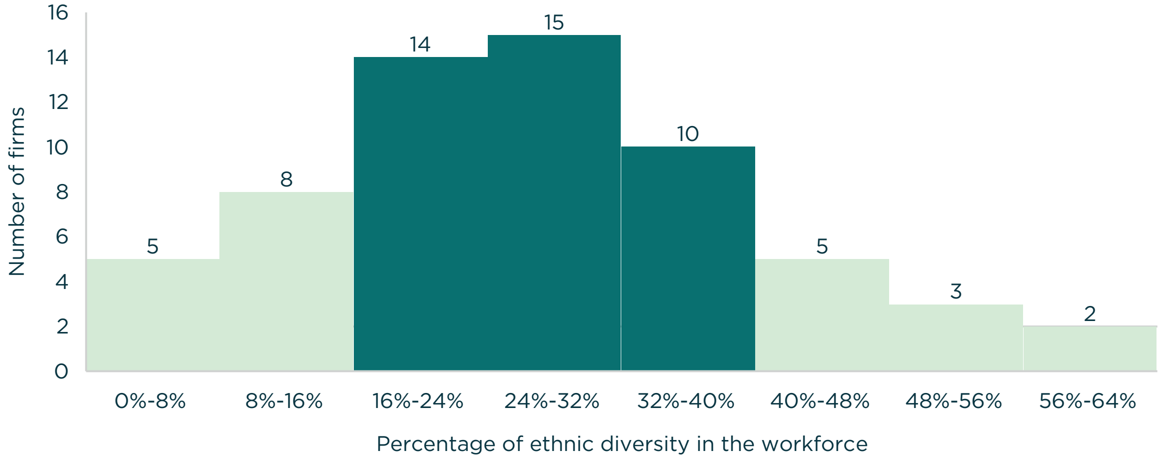
- Did not have the required information, for example ethnicity data in the UK is self-reported on a voluntary basis.
- In some instances even if the firm had conducted an internal survey, the response rate was insufficient for a significant sample. 80% self-identification reporting is recommended as a minimum.
- The team was too small (less than 20), and the firm felt there was not enough anonymity for employees to disclose the information.
- French and Swiss firms explained that due to local regulations, they could not track ethnicity but could track nationality instead.

Therefore out of the 79 firms included in the diversity analysis we only obtained usable data from 62 of them. The following table shows the distribution of firms based on ethnic diversity as a percentage of total workforce.

From the data presented, we can observe that:

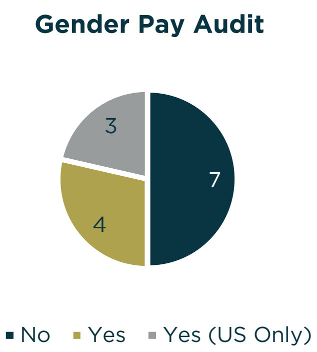
- Most firms had between 16% and 48% ethnic diversity
- Five firms had 8% or less ethnic diversity, while ten firms had over 40% ethnic diversity in their workforce.
- The average ethnic representation was 27%.

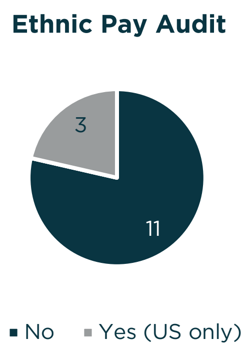
Distribution of ethnic representation as a percentage of total workforce



Equal Pay Audit reports

The charts below show the firms that conduct pay audits. The data reveals that gender Equal Pay Audits are more common, with half of the firms confirming that they perform one (although some US headquartered firms audit only their US workforce). Conversely, only three firms confirmed that they perform ethnic pay audits. However, it is worth noting that most investors have some form of pay analysis in place, with varying degrees of granularity.





Going forward

In recent years, there has been considerable progress made on the gender diversity reporting and this is easily accessible in the public disclosures of most firms. We acknowledge that work is required to move further towards gender parity in the finance sector, however we will seek to use the data to track progress and identify laggards.

Our findings show that ethnic diversity data are often incomplete. Concerns arise from both employees who are asked to provide this information and firms who may be sensitive about collecting this data, particularly for smaller employers.

Diversity will remain a key consideration in our ESG RFIs, and we will work to encourage better disclosure.

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