RESPONSIBLE INVESTMENT QUARTERLY

QUARTER 4, 2022

QUILTER CHEVIOT

INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited, 30 May 2023

CONTENTS

WELCOME

In the final quarter of 2022, we focused on concluding thematic engagements, considering the implications of the UK's proposed new Sustainability Disclosures Requirement (SDR) regulation and setting priorities for 2023.

The RI Reels vlog continues to showcase responsible investment-related topics, and we received very positive - and unsolicited - feedback that it helps in understanding what being a responsible investor means. It is to Kirsty Ward and Violet Hayden's credit as they have worked hard at developing this.

We completed four thematic engagements in 2022 covering our mega themes of climate change, human rights and natural capital, as well as joining collaborations on linked topics. Our annual responsible investment report will showcase these thematic engagements more extensively.

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VOTING ACTIVITY

Over the fourth quarter we voted at:

55
COMPANY MEETINGS

Over the quarter we voted on:

641
RESOLUTIONS

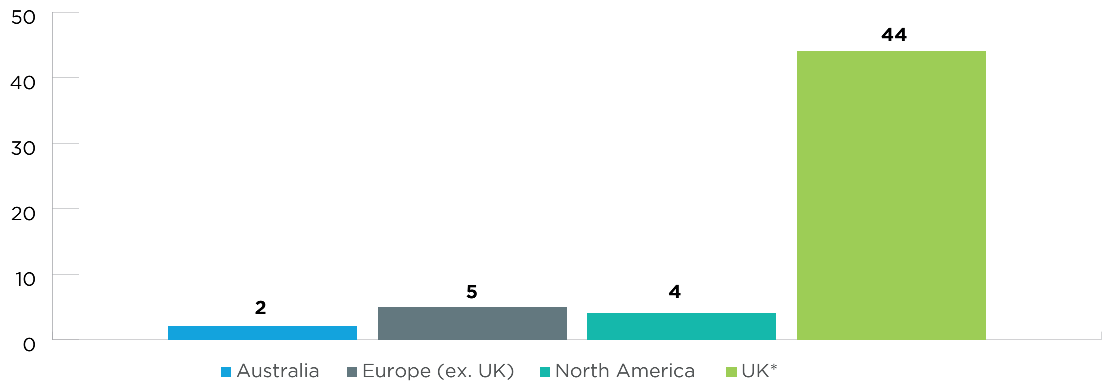
for X 1 resolutions we voted against/did not support management

We enabled clients to instruct votes at 10 meetings

VOTE 10 X

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

MEETINGS VOTED IN EACH GEOGRAPHY IN Q4 2022



* Includes the Crown Dependencies of Jersey and Guernsey

Q4 2022 VOTING

In the fourth quarter of 2022, Quilter Cheviot voted on a wide range of issues across the UK, US, European and Australian markets.

1x vote against electing/re-electing directors
We voted against the election of one director at the Seeing Machines annual meeting. Our voting decision was based on independence concerns. The director is not deemed independent and sits on the Remuneration Committee, neither of which complies with UK best practice for a company of this size.
Company voted on: Seeing Machines

We supported management on the following shareholder proposals:

3x votes supporting management on climate change reporting, against shareholder resolutions
We have supported a number of these climate-related shareholder resolutions, which we assess on a company-specific basis. However, in three instances, we believed that these companies had already addressed these issues or the shareholder resolution was unrealistic and too broad in scope.
Companies voted on: BHP (x2), Microsoft

2x votes supporting management on the current tax transparency reporting, against shareholder resolutions
Our voting decision was based on the fact that the two companies already provide information regarding tax contributions in their tax filings, and the proposed GRI Tax Standard is not commonly used in the U.S. or among the companies' peers.
Companies voted on: Cisco Systems, Microsoft

1x vote supporting management on the company's current constitution, against shareholder resolution
The request to amend BHP's constitution is potentially broad with no regulatory framework to oversee shareholder proposals.
Company voted on: BHP

We supported management and voted against the following shareholder resolutions at the Microsoft AGM.

1x vote against reporting on hiring of persons with arrest or incarceration records

The company has implemented the main requests of the Fair Chance Business Pledge and is disclosing sufficient information for shareholders to assess the impact of its various diversity and inclusion initiatives.

1x vote against reporting on government use of Microsoft technology

The company provides adequate information on its human rights principles, due diligence, and oversight related to government use of its technology.

1x vote against reporting on development of products for use by the military

The company provides sufficient information on how it assesses and mitigates its reputational and financial impacts related to its involvement in the development of weapons for the military.

1x vote against reporting on the cost/benefit analysis of diversity and inclusion

It is not standard industry practice for a company to disclose a detailed cost-benefit analysis of its diversity and inclusion efforts. Furthermore, Microsoft already provides shareholders with sufficient information to assess its diversity and inclusion efforts.

ENGAGEMENT ACTIVITY

Here, we outline examples of our engagement in the three months to the end of December 2022. 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.

Aberforth Smaller Companies Trust

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

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

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

Associated British Foods

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

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

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

Alliance Trust

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

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

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

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

AstraZeneca

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

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

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

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

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

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

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

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

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

Aviva

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

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

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

There is a clear cost implication when the company must backfill jobs, however, there is not a direct correlation. For example, when 200 employees are off, that does not automatically translate to 200 extra salaries, and only a minority of maternity covers are backfilled externally. A positive side of parental leave cover is that it allows for internal development opportunities, by exposing employees to experiences and learnings that they might not otherwise had.

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

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

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

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

Baillie Gifford Japan Trust

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

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

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

Baillie Gifford US Growth Trust

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

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

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

Diageo

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

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

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

DS Smith #1

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

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

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

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

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

DS Smith #2

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

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

Fever-Tree

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

Fever-Tree's business model means that no significant water risk sits within its direct operations. The core of the company's water strategy involves collaborating with partners and third parties to mitigate its indirect water risk.

Fever-Tree is monitoring the water usage trends of its partners over time. For the ingredient suppliers, it has implemented a three-way auditing system to assess the quality of their operations. By outsourcing its manufacturing, Fever-Tree has translated its water risks from direct operation to its supply chain. Potentially, this reduces visibility, and even control, of water use attributed to its products. It is critical that Fever-Tree has a good supply chain risk management system in place. Indeed, from a broader sustainability perspective, it appears to be putting efforts into this, having recently hired a sustainability manager.

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

Fidelity European Trust

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

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

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

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

Finsbury Growth & Income

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

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

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

Frontier IP

Objective: To participate in a consultation on the new remuneration policy. The key concerns are the possibility of unintended large pay outs, further increases next year and a lack of detail on the annual bonus KPIs.

The chair quantified the proposed increase for the following year. We urged him to disclose this during the consultation so that investors are aware of this. It was also clarified that the KPIs for the annual bonus will be different from those of the long-term incentive. Finally, we recommended a two-year holding period for any share-based compensation.

Outcome: The discussion helped us to gain additional clarity on the remuneration policy. We look forward to reviewing the details of the policy when it is published with the AGM documents.

Greencoat UK Wind

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

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

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

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

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

Intermediate Capital Group

Objective: To discuss the new remuneration policy to be proposed at the 2023 AGM, with the Interim Chair of the Board and Chair of the Remuneration Committee (RemCO).

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

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

JD Sports Fashion

Objective: To meet the new Chair of the Remuneration Committee (RemCo), to discuss the planned restructuring of the remuneration policy, and to discuss how JD Sports will improve corporate governance.

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

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

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

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

Outcome: This was a positive meeting, and we are awaiting more granular detail on the policy. We will also track governance improvements.

JP Morgan American

Objective: Following a recent meeting with the board, Quilter Cheviot was asked to attend a private session with the board to provide thoughts on various topical subjects including responsible investment. The investment advisor did not have representatives at the meeting. We reiterated our previous feedback on responsible investment disclosure and provided additional feedback and views on other issues which, given the nature of the meeting, we will not disclose publicly.

Outcome: We welcome opportunities to discuss matters with the board in an environment that is conducive to a frank exchange of views and will track progress regarding the responsible investment disclosure.

JP Morgan Emerging Markets

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

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

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

Kion

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

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

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

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

Lloyds Bank

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

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

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

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

Measuring the policy's impact on retention is difficult, but Lloyds Banks says, anecdotally, it has appeared to help attract senior leaders. It claims the return levels after family leave are very high and there is no claw back if an employee chooses to leave the company straight after family leave.

Keep in touch days are used to facilitate employees' return after family leave. These days can be taken flexibly; some employees take them throughout the leave, others prefer to use them towards the end to aid the transition back into the workforce.

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

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

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

Mercantile

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

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

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

Mondelez

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

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

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

NatWest

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

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

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

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

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

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

Ocado

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

The company has fair representation of gender diversity at senior management levels and across the wider employee base. Talent development and succession planning are the responsibility of the People Committee and Ocado highlighted the structural challenges that the board faces. The company works alongside recruitment consultants to expand the search for qualified candidates. Ocado had broadened its current non-executive search to the US and across different industries. Rightly, the board seeks to balance hiring talent with the required expertise alongside reaching the expected board gender diversity targets.

The company acknowledges it can be challenging to address gender diversity in different geographical contexts. Ocado uses recruitment teams to carry out marketing to attract a diverse pool of applicants. The company does not have specific gender targets but focuses on creating a positive and attractive employee culture through family friendly policies and female and parents' community networks.

The company recently also established a 'Women in Tech' mentoring programme to develop female talent. People metrics form part of the overall remuneration policy for directors, which sits within their personal objectives. Currently, there is no specific focus on diversity and inclusion metrics, so we would welcome the incorporation of such metrics into both the short-term and long-term incentive plan.

Outcome: The company acknowledges the importance of diversity at the board level and across the wider workforce. However, we are concerned this positive dialogue is not translating into improving board gender diversity, with performance relatively static since 2018. We reiterated our expectation to see significant progress towards meeting the 33% threshold by the next AGM or we will use our voting rights to express disapproval. The board expects to appoint another female member by the end of the year and a further addition, ideally, within 18 months.

PepsiCo

Objective: We spoke to PepsiCo as part of our thematic engagement on water. The focus of this thematic engagement is the food, beverage & tobacco industry group. PepsiCo is a water-intensive company, which scores an 'A-' as part of the CDP Water disclosure framework. PepsiCo is also a customer-facing bran, which means that public perception of its water risk is an important factor to consider in understanding water management and risk mitigation.

PepsiCo's operations are complex. This means that managing water risk with a cohesive strategy and targets can be difficult. However, it has been making progress on its water stewardship. The unveiling of the PepsiCo Positive strategy last year puts in place water efficiency targets for all third-party operations by 2030. Additionally, $2.5billion raised in green bonds indicates major investment into sustainability improvements.

Outcome: The selection of 'best-in-class' and 'world-class' targets depending on the water stress also demonstrates that PepsiCo is thinking about water stewardship and focusing on areas where the company will make a difference to the water basin.

Pernod-Ricard

Objective: As part of our thematic engagement on water risk management we connected with Pernod-Ricard, a global drinks company.

Pernod-Ricard's sustainability strategy is focused on four main pillars: nurturing terroir, valuing people, circular making and responsible hosting. Water risk is included in the company's triennial risk analysis overview, and it uses the Aqueduct tool to map which sites are located in water risk areas.

Work has been undertaken internally to understand current water use in direct operations. However, as is the case with every business that relies on agricultural commodities, most of the water footprint is in the supply chain. Pernod-Ricard is in the early stages of creating a methodology to track the water usage and risk of its suppliers. For direct operations, it uses geospatial mapping to locate the sites that are located in water stressed areas. For those sites, it has a target to replenish 100% of the water consumed. It also has a 20% water use reduction target for every site, from a baseline of 2018 use. However, it is not looking into the efficiency variability between sites as a reference point.

Outcome: Pernod-Ricard is taking some measures to manage water risk in its direct operations, but it has room to improve its understanding of this risk in its supply chain. A key development would be to develop comparators between sites to understand efficiency drivers and areas to focus on.

Polar Capital Technology Trust

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

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

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

Princess Private Equity

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

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

Outcome: The current board composition does not seem to provide sufficient oversight or challenge to the manager. Additionally, the board is not independent with a director appointed by the manager.

Given the aforementioned concerns, Quilter Cheviot has independently taken the decision to escalate the engagement and has communicated its intentions in writing to the board.

Sage

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

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

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

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

Schroder Oriental Income Trust

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

undertaken with Quilter Investors.
The chair described the investment adviser's approach to responsible investment disclosures. While the approach to ESG integration is disclosed, examples and the detail around engagement and voting is lacking. We also discussed the change in lead portfolio manager and the board's oversight of the investment adviser. Finally, we spoke about the marketing of the trust.
Outcome: This was a helpful conversation with the board. The trust's ESG integration approach is clear, however, we welcome more engagement and voting disclosure. We look forward to continued dialogue with the board.

Scottish Mortgage
Objective: This was the first engagement with the board of Scottish Mortgage (SMT) as part of the overall investment trust thematic engagement.
We discussed the board's oversight of the manager including which decisions fall solely under the board's discretion. The board is compliant with the Hampton-Alexander and Parker review targets. Finally, we communicated t our expectations for disclosure on responsible investment as well as in the monthly factsheet.
Outcome: SMT is already disclosing its stewardship activities, but further work can be done to integrate these disclosures in the annual report. We anticipate the board will have some rotation in the coming years, and we expect diversity to be considered. We look forward to continued engagement with SMT's board.

TRIG
Objective: We continue our thematic engagement on the lifecycle of renewable energy infrastructure assets – specifically wind turbines and solar panels. The first phase is based on engagement for information and the learning of best practice.
Our first topic of discussion was supply chain management. During the pre-investment stage of a new asset, TRIG will use negative screening to assess the sustainability of a project's supply chain process. This will allow the investment trust to only establish partnerships where there are shared values. After the initial negative screening assessment, TRIG will then complete detailed due diligence of supply chains to verify the origin of assets and ensure they have been responsibly sourced.
Our second discussion point was the treatment of assets at the end of their useful life. As part of TRIG's due diligence, it assesses the percentage of assets that can be recycled, and the quality of land being used for the renewable projects. TRIG will also consider how to establish a process to cut down on the transportation of materials to reduce emissions.
TRIG has established a process to continuously refine its due diligence and acquisition approach in the pre-investment stage. The next stage of this refinement will involve the implementation of a circular economy policy to ensure appropriate waste management plans are set out at the project level. The trust will also take the policy to potential partners to manage expectations and help it identify any gaps.
Outcome: This was an engagement for information, which we will use to improve our understanding of best practice around the lifecycle of renewable energy infrastructure assets. From the supply chain discussion, we learned that TRIG uses negative screening, detailed due diligence and engagement to ensure all projects and partners are in line with the trust's core values.
From the conversation on the treatment of assets at the end of their useful life, we learned that TRIG will be establishing a circular economy policy and is part of various industry research groups. One of TRIG's projects in France will be reaching the end of its useful life in 18 months. This will provide an opportunity to improve understanding, with more detail to be provided to investors. This was a very positive meeting, and we look forward to learning more from the project that will soon reach the end of its useful life.

United Utilities
Objective: To explore diversity plans at the board level and progress of both external and internal diversity programmes.
United Utilities performs well on diversity across senior management and the wider workforce. Challenges faced by the company include the geographical location of the head office (Warrington) and the industry being traditionally male dominated. Louise Beardmore was announced as CEO 'designate' and currently sits on the board; she will take over once the current CEO steps down in early 2023. Beardmore was previously Customer Service and People Director and has played a pivotal role in establishing the company's D&I strategy.
The company aims to improve diversity through its talent programme to train and develop women into senior roles. The Aspiring Talent programme focuses on areas such as Operations where there has been persistent underrepresentation of female leaders. Externally, the company works with recruitment agencies that focus on diverse hiring. By partnering with these specialist recruiters, the company works with local communities more effectively to attract female talent and a wider ethnic minority cohort. The

company's need for talent with a STEM skill set poses challenges and the company recognises progress is incremental.

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

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

Weir

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

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

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

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

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

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

Whitbread

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

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

The company has set timelines to improve board diversity. The board aims to increase board female representation by two candidates prior to the next AGM. Following this, an additional appointment in expected across the next 12-18 months. Korn Ferry, a recruitment consultant, will be used to assist in the hiring of new board members. The company also highlighted some key challenges in hiring senior-level female executives, particularly the industry push to hire experienced non-executive members, which is depleting the executive talent pool – candidates are choosing NED positions over C-Suite positions.

Outcome: Overall, the conversation was positive. Whitbread has short-term plans to increase board gender representation and it is expected to align with the FCA targets in the medium term. The company expects two female non-executive directors to have joined the board by the 2023 AGM. We expect the positive dialogue to translate into better board diversity at the next meeting, but we will continue to monitor developments.

FUND ENGAGEMENT

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

The engagements are split into four areas:

1. The firmwide approach to responsible investment

2. Manager and strategy approach to responsible investment

3. Engagement on ESG risk and exposure

4. The firmwide approach to net zero

1. THE FIRMWIDE APPROACH TO RESPONSIBLE INVESTMENT

Third party manager - senior responsible investment leader

Objective: Evaluate the progress made on voting and engagement.

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

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

Third party manager – private equity

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

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

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

Third party manager – private equity

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

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

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

Third party manager – firm update

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

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

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

Third party manager – firm update

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

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

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

Third party manager – firm update

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

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

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

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

2. MANAGER AND STRATEGY APPROACH TO RESPONSIBLE INVESTMENT

Third party manager - UK equity

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

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

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

Third party manager - US equity

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

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

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

Third party manager – fixed income

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

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

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

Third party manager – cash / money market

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

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

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

Third Party Manager – Asia equity

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

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

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

3. ENGAGEMENT ON ESG RISK AND EXPOSURE

Third party manager - engagement on Rio Tinto

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

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

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

Third party manager – UK equity – engagement on Antofagasta

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

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

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

Third party manager - US equity – engagement on Exxon

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

We had a call with the portfolio managers and stewardship team to discuss their analysis and engagements with Exxon. We discussed the team's increased interest in the stock after new board members were elected in 202. This followed the Engine 1-led activism, which the asset manager supported by voting for the election of three of the four proposed new non-executive directors. Our discussion included the ambition of the environmental targets that Exxon has set to date, whether the team expects to see Exxon disclose scope 3 emissions data and set targets, and whether they are engaging on lobbying alignment. We pushed back on the view put forward by the portfolio manager that oil supply has been constrained by those advocating ESG considerations, rather than being constrained by factors such as Russia's war in Ukraine.

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

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

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

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

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

Third party manager – engagement on Xinjiang Goldwind

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

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

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

Third party manager – Asia equity – engagement on specific holdings

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

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

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

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

4. THE FIRMWIDE APPROACH TO NET ZERO

Third party manager - net zero

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

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

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

Third party manager – net zero

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

The firm is using the Net Zero Investment Framework (NZIF) methodology and now has 70 funds within this framework. The process involved individual fund managers agreeing to the net zero commitment, and then gaining fund level and regulatory approval. The firm uses data from multiple sources and considers eight metrics when evaluating companies' plans; a rating is given to each holding, to reflect their progress towards net-zero alignment.

Outcome: Our meeting with the responsible investment team gave comfort that the manager is focused on engaging with companies to decarbonise, in line with delivering 1.5 degrees of warming.

Third party manager – net zero

Objective: This was a follow-up meeting regarding progress on ESG integration and, in addition, to understand the firm's approach to net zero and views on the Net Zero Asset Managers initiative (NZAM), which the asset manager has not joined, to date.

The ESG-focused investment team has been expanded and new ESG data and analytics have been rolled out to the investment teams. This is going to be developed further from here to deliver greater flexibility, but this already reflects significant progress. We discussed the firm's rationale for not signing up to NZAM and reservations about committing the firm's total assets under management to net zero. We explained that we are keen to see all the fund houses we invest with sign up to NZAM, and note its caveats around client mandates, regulatory environments and the need for governments following through on their own commitments. We also gave our view that engagement and real-world change is key, not making changes to portfolios.

Outcome: It was helpful to hear about the progress made on ESG factor analytics, which we will then be able to consider further at our next meetings with the fund managers we invest with. We will continue our discussion on NZAM at our next meeting.

Third party manager – net zero

Objective: To understand why the firm has not signed up to NZAM, whether its net-zero ambition is credible or not.

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

Outcome: We will continue to engage with the firm on its net-zero ambitions.

IN THE SPOTLIGHT

COP27 SHINES LIMELIGHT ON LEADERSHIP

Gemma Woodward, Head of Responsible Investment

Source of image: iStock

The conclusion of the latest United Nations (UN) Climate Change Conference, widely known as COP27, drew mixed reviews but there were several reasons for optimism despite the underwhelming outcome being labelled by some as inadequate and another missed opportunity. Perhaps the most significant development was the announcement by, Simon Stiell, recently appointed UN climate chief, of plans to shake-up the annual summit to ensure a greater focus on transparency and delivering results going forward.

Speaking from the Egyptian resort of Sharm el-Sheikh just hours after the conference concluded, Stiell stated his intention to conduct a review of the COP process to make it as effective as possible.

Given the level of coverage and hyperbole which surrounded COP26, over 12 months ago in Glasgow, it was always going to be a tall task for this year's summit to capture the imagination in the same manner. There was plenty of criticism for COP27 before it had even begun, with the location and choice of sponsors seen by some as not befitting of an event touted as leading the global fight on climate change.

Furthermore, the macroeconomic and geopolitical backdrop has changed dramatically in the last 12 months, with inflation running at its highest level in a generation and the outbreak of war in Ukraine. Although higher oil and gas prices should discourage consumption and benefit alternative sources of energy, the associated higher cost of living for households, has meant a greater focus on near-term matters at the potential expense of longer-term ones, such as climate change.

International cooperation is essential for effectively tackling climate change and the last year has seen an increase in geopolitical tensions and revealed greater divides between some of the world's leading powers, as was demonstrated by the global response to Russia's invasion of Ukraine. However, there has been some positive developments in this regard in recent weeks with the meeting of US president Joe Biden and Chinese leader Xi Jinping on the sidelines of the G20 summit in Bali seen as a constructive step.

Not enough

Like its predecessor, the outcome of COP27 was seen by some key participants as not going far enough in tackling the issues at hand. In a sign of the fraught tension pervading discussions, negotiations over-ran their Friday deadline and took until Sunday morning to complete. That said, the agreement from almost 200 countries to create a fund to cover the "loss and damage" caused by climate change on vulnerable nations was widely cited as a ground-breaking deal. It may have taken 30 years since the creation of the treaty for international cooperation on climate change which underpins the COP meetings, but finally it appears that rich countries are starting to realise their responsibilities to offer financial support to poorer ones, in order to repair damage caused by a warming world.

As a further example of how individual COP outcomes should be placed in the wider context, the first indications of a willingness to support those worse off and more exposed to climate change were seen in Glasgow last year. Scotland's first minister Nicola Sturgeon promised to commit £2m to the cause, a seemingly insignificant sum given the associated costs earmarked to cover – Pakistan's damage and financial loss from a heavier than usual monsoon earlier this year has been estimated in excess of £30bn. Nonetheless, the commitment appears to have set the wheels in motion and led the breakthrough in Egypt. Sturgeon pledged an additional £5m at COP27.

As welcome as this significant step forward was, any sense of jubilation was kept firmly in check by the inability of negotiators to reach a deal on larger reductions in greenhouse gas emissions and ending the use of fossil fuels. Staunch resistance from countries including Saudi Arabia and Russia proved to be an insurmountable stumbling block. "We should have done much more. Our citizens expect us to lead," said Frans Timmermans, European Union (EU) climate chief who called the outcome "not enough of a step forward for people and the planet."

Almost seven years have now passed since the historic Paris Agreement to keep global warming well below 2C, and ideally 1.5C, compared to pre-industrial times, and many involved in the latest round of talks spoke of their dismay at the inability to reach an agreement on stepping up cuts to emissions. "Governments must now put words into actions, in particular by implementing policies that make effective progress on the mitigation pledges made," said Christine Lagarde in 2015, then Managing Director of the International Monetary Fund. That this quote could have been used after any of the COPs in the past seven years demonstrates the lack of tangible progress made since the Paris Agreement.

However, all is not lost. It is true that there has been a growing sense that for all the upbeat rhetoric and positivity surrounding COP events, tangible progress often leaves much to be desired, a feeling encapsulated by a panel discussion at the start of COP27 titled "When will leaders lead?" But the decision to review the process and look to increase effectiveness is a welcome one and bodes well for future iterations. For the requisite progress to be made in delivering effective action on climate change cooperation is key, with investments from both private and public sectors essential.

Any disappointments and feelings of inadequate actions following the conclusion of COPs should be placed in the appropriate context. The scale of the challenge in tackling climate change is enormous and will take not only globally concerted efforts, but many years to achieve. Therefore, it is unreasonable to expect ground-breaking strides forward at every annual event. The Paris Agreement was such a huge step in the right direction that expectations for subsequent summits were likely too high. Progress is being made and the long-term view should not be lost among over-hyped expectations and disappointments leading into and out of each COP.

REGULATORY LANDSCAPE

Toby Rowe, Sustainable Investment Specialist

Our planet faces critical sustainability challenges, from climate change to the ineffective management of finite resources. In recent years, these challenges have increasingly come to the fore, becoming a topic of significant public focus, attention and debate. One important method for progress in facing these challenges is investment, and sustainable investment has seen rapid growth with over US$2tn now held in global sustainable funds. Some financial institutions have been racing to meet the growing public demand for sustainable investment solutions, creating products in an array of forms that promise to help meet these sustainability challenges.

This has largely been a positive change, providing a plethora of routes for investors to contribute, however, it has brought challenges with the two most notable being:

- With so many options, how can investors identify funds with an investment approach that is aligned with their values?
- How do investors ensure a fund is doing what it says it is and avoid those that are guilty of so-called 'greenwashing'?

There is a significant risk that those making unsubstantiated claims may be eroding trust in the market, potentially slowing progress and limiting the positive impact that the industry has the capacity to generate.

A regulatory framework can play an important role in bringing much needed transparency to this fast evolving and, at times, cloudy area of the investment world. For example, the Task Force on Climate-Related Financial Disclosures (TCFD) product rules require in-scope funds to disclose carbon emission metrics and analysis, giving investors additional data on a fund's environmental impact.

A regime that feels like it is bringing even more of a watershed moment for the sustainable investment industry, however, is the FCA's Sustainable Disclosure Requirements (SDR). The final requirements are not expected until June 2023, but a consultation paper has recently been released which is expected to represent at least the core of the framework.

It will introduce a set of 'sustainable labels' for funds that can demonstrate they align with one of three defined approaches to sustainable investment. The labels will be used to distinguish those funds with a credible approach to sustainable investment from those without. The proposed regulation is strictly focused on strategies that have specific sustainable objectives; however strong a strategy's ESG integration or approach to stewardship, these factors alone would not qualify it for a label.

A suite of disclosures will be required too, to ensure the investment process is clearly and transparently explained to investors. Many of those in the industry - our Quilter Cheviot Sustainable Investment team included - welcome an enhanced regulatory framework and the clarity and tranparency that it should bring investors.

I have attended two sustainable investment conferences this year at which the Director of ESG for the FCA has spoken about SDR, and a couple of thoughts struck me. Firstly, I think he strikes the right tone. He talks about ensuring balance; setting a framework that acts as guardrails to protect investors, whilst not being overly burdensome on the industry and risking stifling investment. Secondly, it is refreshing for a regulatory body to engage so actively with those affected by a new regime.

He opened himself up to questions and candidly discussed the FCA's approach, challenges, and even lessons learnt from the European Union's implementation of the Sustainable Finance Disclosure Regulation (SFDR). This commitment to engagement was further shown by the FCA's use of advisory and working groups to benchmark proposals with representatives from the industry.

I do not think the proposed regime is perfect (yet?) and Quilter will be providing feedback to the FCA through this consultation process, focusing on the practical application of the proposals. However, overall, we welcome the important regulatory developments for the clarity, transparency, and comparability they will hopefully bring to the industry.

Once updated, we expect the additional rules and guidance to provide the guardrails required to ensure investors are protected, whilst supporting the industry to flourish and continue directing capital towards solutions to the critical sustainability challenges we face. When the time comes, we look forward to proudly displaying our sustainable investment label!

RESPONSIBLE INVESTING WON'T CHANGE THE WORLD

Gemma Woodward, Head of Responsible Investment

Recently the negative narrative around responsible investment has become focused on its so-called 'woke' agenda. This is particularly so, but not exclusively the case, in the US with Florida and Texas banning pension funds from investing with asset managers who make decisions based on ESG factors.

Now these are not managers whose sole investment criteria relates to building a better planet. These are mainstream and household names, with the likes of Blackrock, JP Morgan, abrdn and Schroders among those in the firing line. Simply put, they have been incorporating ESG factors and stewardship, to no doubt differing degrees, within their investment process.

Articulating approaches

Taking a step back, if we think about this in unsophisticated terms, following a responsible investment approach falls into two categories:

1. Risk mitigation and identifying opportunities: the integration of ESG factors and stewardship within the investment process
2. 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

The majority of these managers' strategies will fall in the first bucket of risk mitigation. The problem is it seems that even this is too dangerous, or 'woke', for certain states in the US, while for others it isn't enough.

This is a tightrope that is perhaps familiar to many asset managers at the moment in terms of clearly articulating what they are doing and what they hope to achieve. A lot of managers are trying to appeal to different audiences with very different requirements and this can result in confused messaging.

The incoming disclosures and labelling regulation from the Financial Conduct Authority should help with this in the UK at least, although the situation in the US is more nuanced.

In recent conversations with US based managers, for example, who aren't signed up to the UN-backed Principles for Responsible Investment, there is significant push back against making such a move given the uncertain regulatory position in the US and the actions of certain states.

Given the way the US is structured, it will be incredibly difficult for authorities to land on one set of regulations that pleases all 50 states, let alone also taking into account the global picture.

Certainly, the slap dash and lazy labelling of everything as 'ESG' has not been helpful and has resulted in a muddle. Now we have the different approaches to being a responsible investor being lumped together into an amorphous blob. We have come to a juncture where we need to think about the approaches we take.

Lost in translation

Taking the risk mitigation approach, hopefully by now it is accepted that ESG-related issues may have financial consequences for investors. By ignoring these asset managers are compromising their fiduciary responsibility. This is simply about doing your homework on the investments you manage. You are hopefully not claiming to change the world through this approach; however, you are assessing the risks and challenges for each investment you make though the lens of ESG issues.

As a result, I sometimes wonder whether we have got this all wrong by using this catch all 'ESG' label and this has created an industry and the root cause of why we should be looking at these factors has been lost.

I would think, and hope, that even the most die-hard 'anti-woke' talking head would be concerned if investors were not considering the efficacy of the management and the board; or whether the company had taken into account all the regulations that impact it globally. This tends to become more emotive when we add in the E and the S – and personally you are hard pressed to separate the G from the E and the S as they have intersectionality as ultimately, they all relate to how well a company is managed.

Much of this message has been lost in the conversations we have seen this year and ultimately this has resulted in a polarised debate. Consequently, influential politicians and investors have coalesced around these poles, and this has helped to foster some of this confusion. The only way to unwind this and ensure investors are on the same page when it comes to responsible investment is to get back to basics and simplify the terminology we use.

Article first published in ESG Clarity – October 2022.

RI REELS

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

Positive Change

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

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

WATCH VLOG

The use of data

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

Nicholas discusses the development and ongoing management of data dashboards.

WATCH VLOG

Sustainable Investment

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

Toby discusses Quilter Cheviot's approach to sustainable investment.

WATCH VLOG

Source of images: iStock

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. As part of Quilter, we became one of the first wave of signatories to the 2020 Stewardship Code.

UK STEWARDSHIP CODE

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

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

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.

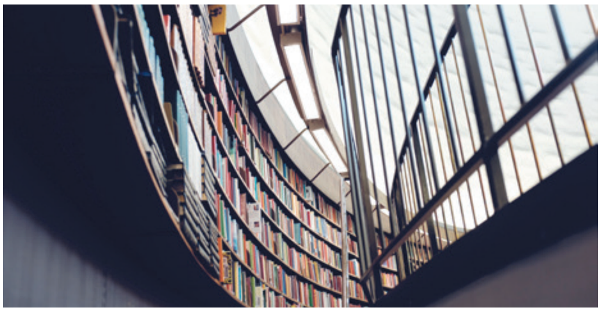
Clawback (and malus): Incentive plans should include provisions that allow the company, in specified circumstances, to ensure that a recipient:

- 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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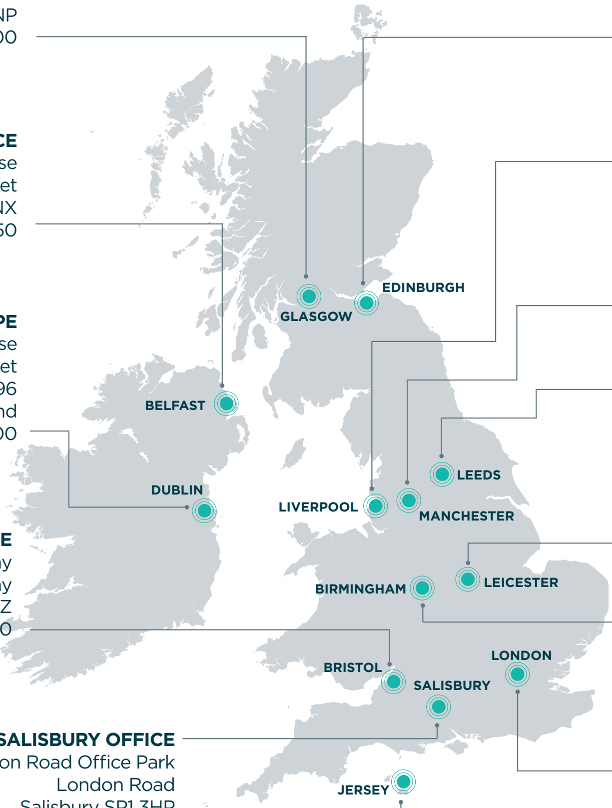

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