RESPONSIBLE INVESTMENT QUARTERLY

QUARTER 2, 2022

QUILTER CHEVIOT
INVESTMENT MANAGEMENT

CONTENTS

WELCOME

We have reinvigorated the quarterly voting and engagement report to reflect that it covers so much more than our stewardship activity. It has been a busy quarter as this is the peak AGM season across all geographies. At the same time, we have also seen an increase in shareholder resolutions being put forward at US company annual general meetings.

This has been a busy quarter in other ways as well – there has been a lot of commentary about 'ESG' in the media and the industry as a whole. We have addressed a number of the concerns raised in a series of articles we have included within the *In the spotlight* section of this report. We also launched our quarterly responsible investment newsletter, if you would like to subscribe to this, please click **here**.

Within Quilter Cheviot, we launched a new DPS Focused investment strategy, which harnesses our research and responsible investment process, as well as data from external providers, to implement ESG factor screening on a positive and negative basis. This will ensure more emphasis is placed on ESG risks beyond the firmwide approach to active ownership and ESG integration. This strategy sits alongside our Positive Change and Climate Assets strategies. For more information see the **Responsible Investment at Quilter Cheviot** section on our website.

We also began to collect clients' responsible investment preferences as part of our ongoing process of ensuring that we are delivering the investment solutions appropriate for each client. This will take place over a two-year cycle and is ahead of regulatory change within the UK, as we feel that this is an area which is coming under increasing scrutiny and it's important that we get this right.

Our colleague, Kirsty Ward, took part in the MPS in the Loop vlog and will be hosting our new RI Reels vlog which is launching over the summer. The first edition will be focused on introducing the responsible investment team and future vlogs will cover different responsible investment related topics.

Our focus is now turning to our climate action plan across Quilter as well as thematic engagements on diversity, water and disclosure by investment trusts.

Contact:

Gemma Woodward
Head of Responsible Investment
e: gemma.woodward@quiltercheviot.com
t: 020 7150 4320

Greg Kearney
Senior Responsible Investment Analyst
e: greg.kearney@quiltercheviot.com
t: 020 7150 4147

Nicholas Omale
Responsible Investment Analyst
e: nicholas.omale@quiltercheviot.com
t: 020 7150 4321

Ramón Secades
Responsible Investment Analyst
e: ramon.secades@quiltercheviot.com
t: 020 7150 4323

Kirsty Ward
Responsible Investment Analyst
e: kirsty.ward@quiltercheviot.com
t: 020 7150 4661

VOTING ACTIVITY

Over the second quarter we voted at:

286
COMPANY MEETINGS

Over the quarter we voted on:

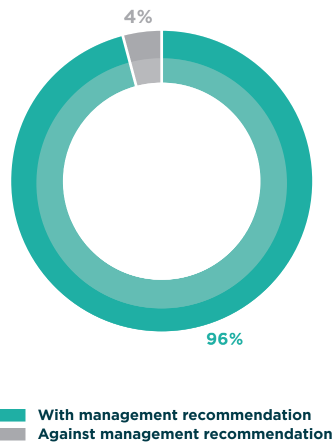
4,783
RESOLUTIONS

for 196 resolutions we voted against/did not support management

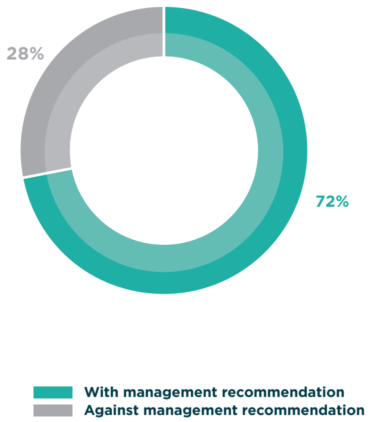
We enabled clients to instruct votes at 22 meetings

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

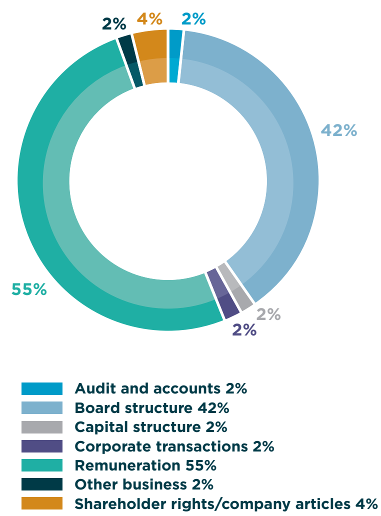
MANAGEMENT RESOLUTIONS VOTED IN Q2 2022



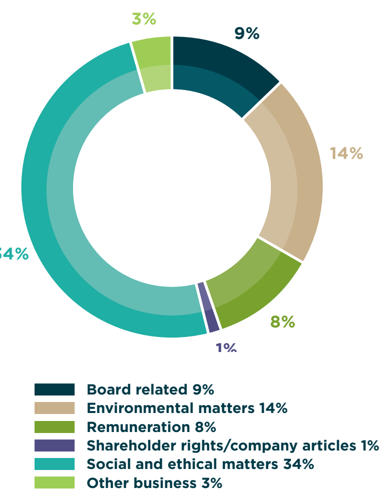
MEETINGS WITH VOTES AGAINST MANAGEMENT IN Q2 2022



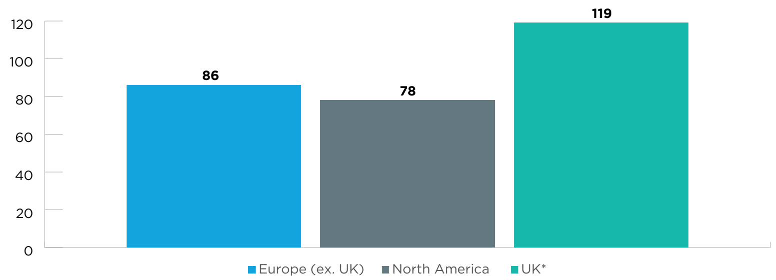
TOPICS WHERE WE HAVE VOTED AGAINST MANAGEMENT IN Q2 2022



SHAREHOLDER PROPOSALS SUPPORTED IN Q2 2022



MEETINGS VOTED IN EACH GEOGRAPHY IN Q2 2022



* Includes the Crown Dependencies of Jersey and Guernsey

Q2 2022 VOTING

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

Key voting activity:

In a number of cases, where we have voted against compensation-related issues we have also voted against directors being re-elected.

43x electing / re-electing directors

We have voted against the election of directors due to failures in addressing problematic stock pledging activities (i.e. obtaining loans against the shares owned), independence concerns, and time commitment issues.

Companies voted on: LVMH Moet Hennessy Louis Vuitton, Hikma Pharmaceuticals, Danaher Corporation, The Gap, Intel Corporation, Halliburton Company, Informa, TotalEnergies, Henkel AG & Co. KGaA, Deutsche Telekom, Hermes International, Heineken, Vivendi, Just Eat Takeaway.com, KION Group, Netflix, T-Mobile US

55*x votes against management on compensation related resolutions

We have voted against remuneration reports and policies where there are not robust STI and LTI performance metrics in place. Additionally, where fixed performance targets were lacking and special bonuses awarded during the year, excessive pay-out concerns were raised.

Companies voted on: The Coca-Cola Company, Wells Fargo & Company, Flutter Entertainment, Kering, Bayer, TechnipFMC, General Electric Company, Johnson Service Group, Philip Morris International, Standard Chartered, ConocoPhillips, Koninklijke Philips, KION Group, Intel Corporation, JPMorgan Chase & Co, Halliburton Company, Keywords Studios, Amazon.com, Chevron Corporation, Meta Platforms, Petrofac, Netflix, Whitbread, Informa, Boohoo Group, Hermes International, LVMH Moet Hennessy Louis Vuitton, Vivendi, Cellnex Telecom, AXA, Ocado Group, International Consolidated Airlines Group, Veolia Environment

We voted in favour of the following shareholder resolutions:

11x votes in favour of reporting on lobbying payments and policy

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

Companies voted on: Johnson & Johnson, The Boeing Company, Eli Lilly and Company, Gilead Sciences, Amazon.com, Meta Platforms, McDonald's Corporation, Alphabet, Netflix, Caterpillar

* Withheld votes have been included within votes against figures.

12x votes in favour of reporting on a third-party racial equity audit

We supported these resolutions in order to achieve increased disclosure to better understand companies' effectiveness at addressing racial inequality, particularly where targets have been set.

Companies voted on: Wells Fargo & Company, Johnson & Johnson, Waste Management, American Water Works Company, Republic Services, Mondelez International, Altria Group, The Home Depot, Chevron Corporation, McDonald's Corporation, Alphabet

8x votes in favour of an independent board chair

Unlike the UK, in the US it is common for the CEO and chair roles to be combined – our concern here is focused on companies' performance and compensation practices being behind peers, and the view that the separation of these roles would be beneficial to shareholders, particularly in establishing independent oversight.

Companies voted on: The Coca-Cola Company, Eli Lilly and Company, Bristol-Myers Squibb Company, Marriott International, JPMorgan Chase & Co, AT&T, Meta Platforms, Salesforce

3x votes in favour of reporting / adopting GHG emission reduction targets

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

Companies voted on: ConocoPhillips, Phillips 6, Exxon Mobil Corporation

3x votes in favour of a report on board oversight of risks related to anticompetitive practices

We supported these resolutions at healthcare companies given their previous involvement in related activities.

Companies voted on: Pfizer, Gilead Sciences, Eli Lily & Co

Other voting activity:

23x votes to support management and the current arrangements on the ability to call a special meeting (against special resolution)

There were several shareholder resolutions putting forward proposals on reducing the ownership threshold for shareholders to call a special meeting. Our view is that a lower threshold is not necessarily aligned with long-term shareholder interests as a single shareholder would be able to reach the proposed threshold which could lead to increased expenditure of company costs and resources. Additionally, where such resolutions proposed a reduced the holding time requirement, this could lead to short-termism.

Companies voted on: Sonoco Products Company, Honeywell International, BorgWarner, Texas Instruments Incorporated, The Boeing Company, Baxter International, Bristol-Myers Squibb Company, Gilead Sciences, Ecolab, Newell Brands, United Rentals, Danaher Corporation, American International Group, Intel Corporation, JPMorgan, Chevron Corporation, McDonald's Corporation, Caterpillar

4x votes supporting management and the current board diversity reporting (against shareholder resolution)

The board's Governance and Nominating Committee states a commitment to a diversified board, the company is not significantly lagging its peers in board diversity, and it provides sufficient disclosure on board diversity data.

Companies voted on: Wells Fargo, NextEra Energy, Alphabet, Johnson & Johnson

3x votes supporting management in regards human rights risk assessments (against shareholder resolution)

There were three shareholder resolutions which we determined that we would not support for company specific reasons. Two of these were related to Amazon, the first related to tax transparency. In the second resolution at Amazon, we felt that the positives of the company's facial recognition capabilities outweighed the potential concerns. In the case of Royal Bank of Canada, the resolution was focused on the financialisation of housing; we feel that the company already has significant commitments and policies that address these concerns.

Companies voted on: Royal Bank of Canada, Amazon.com

5x votes in support of management and current GHG emissions reporting (against shareholder resolution)

We have supported a number of these resolutions and we assess these on a company specific basis. For these resolutions we felt that the companies had already addressed these issues or that the resolution was unrealistic.

Companies voted on: Shell, JP Morgan, Chevron, BP

There were numerous shareholder solutions across various topics over the quarter which were assessed on a company specific basis.

ENGAGEMENT ACTIVITY

We outline some examples of our engagement during the three months to the end of June 2022. In line with the Shareholder Rights Directive II (SRD II) disclosure regulations we have, in the majority of cases, included the name of the company or fund. 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 always 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.

Boohoo Group PLC

Objective: To raise concerns related to approving the remuneration report, new LTIP and re-election of both the board chair and chair of Remuneration Committee at the 2022 AGM.

We engaged with the company on the above issues. In relation to the chair re-election, we believe that they have been instrumental in the implementation of the 'Agenda for Change' (the initiative brought in to improve the governance and the quality of supply chain management following scandal in 2020). This process was externally verified by Sir Brian Leveson and KPMG. We discussed the proposed remuneration policy with the company and whilst we understand that the bonus potential is on the higher side of the market, it is still broadly in line with peers. This is balanced by positive changes, particularly, with the integration of meaningful ESG metrics within the remuneration policy. However, we do not support the actions of the remuneration committee regarding the adjustments made to the annual bonus.

Outcome: We voted against the remuneration report as we do not see a compelling rationale for the discretionary adjustment to bonus metrics (especially in the context of poor shareholder returns). We are also opposed to the increase in the CEO bonus to 200% of salary, a significant amount for a company of Boohoo's size.

Britvic PLC

Objective: To receive an update on the sustainability approach through a small shareholder group meeting. The company gave an overview of the sustainability strategy and how the board has been involved in the agenda. In terms of general highlights, ESG metrics are now embedded into executive remuneration packages (comprising 20% of bonuses linked to the sustainability strategy). More specifically, some of the metrics cover increasing use of recycled packaging and reducing calories per serving. The company has had science-based targets (SBTs) related to carbon emissions since 2019 and has reduced overall emissions profile (scope 1 and scope 2) by 29% since then.

Outcome: A useful catch-up meeting, which gave us a clearer picture of the company's sustainability strategy.

Fundsmith

Objective: To discuss the approach taken to considering environmental and social factors within the investment process, voting and engagement.

We met with the head of research and then with the head of sustainability to discuss in more detail how environmental and social issues are considered for different sectors, the approach taken to voting and engagement, as well as Fundsmith's stance on net zero and TCFD. We have suggested the manager should include more examples of engagements on environmental and social issues, given that examples in the current reporting are very much dominated by governance issues, particularly remuneration. We have encouraged Fundsmith to make a statement about its stance on net zero and we have encouraged support of TCFD. We appreciate the reporting burden that is felt by smaller investment firms, but equally note that the fund is classified as article 8 under the EU SFDR.

Outcome: We will watch to see if there is an improvement in fund reporting on engagements related to environmental and social factors and will follow up at further meetings.

GlaxoSmithKline PLC

Objective: To discuss the remuneration policy, with a focus on gaining further clarity around the bonus arrangements.

We met with the company secretary to discuss the annual bonus targets which have been adjusted from 200% of base salary to 300% of base salary. There were concerns that this increase was set against a backdrop of underperformance against TSR (total shareholder return) measures, and such a bonus increase could result in a focus on short-term performance. Whilst it was acknowledged that the current bonus pay-out sits at the top end of the top 10 UK companies, and that following the demerger, GSK will be part of the top 20 UK companies; in relation to industry group peers, the total compensation remains average globally. The newly proposed remuneration policy emphasises the importance of performance delivery. Around 40% of the targets are non-financial and the Remuneration Committee worked with the Corporate Responsibility Committee to ensure targets are appropriate

Outcome: Based on our engagement, there appears to be a shift in the performance culture and a commitment to transparency regarding performance targets. As a result, we decided to support management at the upcoming AGM.

Hermes International

Objective: To raise concerns related to a potential conflict of interest in the discretionary power to set executive remuneration and board independence.

Our proxy advisor recommended voting against the remuneration report as the discretionary power to set executives' remunerations lies in the hands of the General Partner, leading to an important conflict of interest. The company remains unresponsive about last AGM's significant dissent on compensation-related items. There are also concerns regarding the election of two board members, given the lack of independence at the board level. We received no response from the company.

Outcome: We voted against management on the remuneration report and the re-election of both directors.

HSBC Group

Objective: To receive an update on the sustainability approach through a small shareholder group meeting.

We engaged with HSBC Group's chief sustainability officer and global head of sustainable finance on developing transition plan strategies and the announcement of sustainable finance investment pledges. HSBC Group has made several high-level commitments over the past couple of years as it brings together a more cohesive group level transition plan. This includes a commitment to publish and implement a policy to phase out the financing of coal-fired power and thermal coal mining in the EU and the OECD by 2030, and other regions by 2040. The company has also committed itself to implement a strategy to align its provision of finance across all sectors with the goals and timelines of the Paris Agreement. This will start with two of the most high-carbon sectors, the oil & gas and power & utility sectors. The final strategy will be published in H2 2023.

Outcome: This was an engagement for information. Many of the aspects detailed above are encouraging, but the proof will be in the final published strategy. Engagement with existing clients will be key as HSBC remains a significant financier of fossil fuels, particular thermal coal. It is unclear how escalation will work in practice. There is more work to do, and we will monitor developments.

HVPE (HarbourVest Private Equity)

Objective: We engaged with the fund to raise concerns related to board independence and the management of conflicts of interest.

The company explained that the current board structure has been in place since the creation of the fund, and is written into the fund's articles; this permits the investment manager to have two employees on the board i.e. the two non-independent directors. The chair is mindful of potential conflicts of interests and manages this in two main ways. The first is by monitoring the behaviours of the two directors in question and ensuring that he is alert for any bias. The second is by listening to the shareholders, both by engaging with them and monitoring the AGM votes.

Outcome: The key discussion point was the appropriateness of having two board members that are also employees of the investment manager and how the conflicts of interests are managed. As this is our first engagement with the board we will support the re-election of the non-independent directors at the 2022 annual general meeting, but we have communicated our concerns to the board and will consider voting against directors employed by the investment manager at next year's AGM if put forward for re-election.

Janus Henderson UK Absolute Return

Objective: A follow up discussion on integration of environmental and social factors within investment process, voting and engagement.

We met to discuss progress made on ESG integration. Some exclusions have been applied on more controversial areas and reporting includes a number of engagements on environmental and social issues, as well as engagements on governance issues. We discussed team and central responsible investment resource, firm level and portfolio-level exclusions, training, data sourcing and integration, and embedding the consideration of ESG factors into investment decision making.

Outcome: We will follow up later this year on progress, as well as have a meeting on net zero considerations.

Johnson Service Group

Objective: To raise concerns over a proposed increase in executive salary.

Our proxy advisor raised concerns over the remuneration report being put forward at the 2022 AGM, more specifically a proposed increase in executive salary and award of bonus payments. We engaged the company to better understand the issue. It is noted that the salary increases are in line with the wider workforce and that the maximum bonus opportunities have been reduced by half, however, these adjustments do not adequately acknowledge the impact of Covid-19, which has caused the company to seek government support, furlough employees and suspend its payment of dividends.

Outcome: Based on our conversation and proxy advisor recommendation we concluded that the remuneration arrangements were excessive, given that furlough support has not been repaid, especially as peers have taken a more measured approach. Therefore, we voted against the remuneration report.

LGIM, BMO and Schroders

Objective: To discuss and learn from different approaches to net zero commitments.

We asked how each is approaching net zero asset manager commitments and the particular methodology selected, such as the Net Zero Investment Framework or Science Based Targets (SBTi). While different methodologies may work best for different firms, engagement on company progress towards sufficiently ambitious interim targets will be important, as well as investment in climate solutions, with the ultimate goal of getting economies to net zero and not just portfolios.

Outcome: The discussions were helpful for adding to our understanding of best practice when speaking with other asset managers about their approaches to net zero commitments.

L'Oréal SA

Objective: To raise concerns related to executive and board level remuneration.

In the run up to the 2022 AGM, concerns were identified surrounding the compensation of the chair and CEO, particularly two long-term compensation plans that would continue to pay-out after the CEO's departure without being prorated. We contacted L'Oréal to provide further clarity on the compensation plan and retirement policy. L'Oréal states it applied a revaluation coefficient in respect of salaries and pension contributions published by the French state pension fund. From our perspective (and that of our proxy advisor) this is not considered best practice according to the local corporate governance code.

Outcome: We voted against the remuneration report owing to lack of clarity provided by the company and the compensation plans not being prorated, which we considered an example of excessive remuneration practice.

LVMH

Objective: To address concerns related to board independence and executive remuneration.

The number of independent members of the board is not in line with best practice and the functions of the chairman and CEO are combined, another independence concern. The remuneration report and remuneration policy lack disclosure on the level of achievement of the performance conditions of both the STI and the LTIP. The company does not disclose targets or pay-out scales for the annual bonus; the nature of the LTIP criteria, the vesting scales and the performance periods are not disclosed. The cap on the exceptional remuneration is not disclosed. We received no response from the company.

Outcome: We voted against management on the multiple items on remuneration (report and policy) as well as the re-election of two directors, including the chair.

Marks & Spencer

Objective: To raise concerns regarding the remuneration report being put forward at the 2022 AGM.

The departing CEO's notice period consists of 18 months rather than the 12 months considered best practice (as per UK Corporate Governance Code). Additional concerns included the appointment of co-CEO positions who will individually be paid at similar levels to the outgoing CEO, despite the shared role. The competitively positioned salaries should also be considered relative to the company's declining market capitalisation over recent years.

Outcome: Based on the engagement, we are more comfortable with the strategic direction of employing co-CEOs, but are not comfortable supporting an 18-month notice period for the departing CEO and voted against the remuneration report at the 2022 AGM.

Ocado Group PLC

Objective: To raise concerns regarding diversity (board and executive level) and an amendment to the remuneration policy.

The company has again failed to meet the 33% target for board gender diversity. Ocado has five executive positions on the board (a relatively high number) who are all men. The company has voiced efforts to improve the pipeline of talent, but this has not yet turned into tangible results. On a positive note, new senior leadership hires are now gender balanced with women representing 50% of new hires. The company has proposed to expand its 'Value Creation Plan' (part of its LTIP). We have concerns that the potential pay-out from this newly proposed component could be excessive as although there is a cap in place it does not kick in until later in the plan.

Outcome: We expected Ocado to make faster progress on diversity and have informed the company that if the situation does not improve by the 2023 AGM, we will vote against the re-election of the chair. The lack of clarity on the maximum award component of the expanded 'Value Creation Plan' also means we voted against the proposed remuneration policy.

Throgmorton Investment Trust

Objective: To promote better disclosure of stewardship and ESG integration activities.

Better disclosure has been an ongoing point of engagement for investment trusts. At Throgmorton, differentiating the Trust has been a topic of much debate on the board. There is an understanding that more can be done to update the website so that information is specifically about Throgmorton as a company. From our perspective, reporting all of Blackrock's activity is not helpful as we want to see what is happening at the Trust level and we would like to see more ESG integration examples within the reporting.

Outcome: We will continue to monitor developments and will form a voting position over the next 12 months.

Unite Group

Objective: A follow-up conversation from an engagement in 2020 to raise our concerns that executive pension contributions are not in line with the wider workforce, as per UK corporate governance code best practice.

The company secretary confirmed the remuneration committee committed to a three-stage reduction, to bring the pension contribution level for the CEO and CFO down to the broader workforce rate over a reasonable timeframe. The first two reductions moved the contribution to 17% and then 14% of salary, taking effect on 1 January 2021 and 1 January 2022 respectively. A final reduction to 11% of salary will take

effect on 1 January 2023, bringing the pension contributions of the CEO and CFO in line with that offered to the wider workforce. This is in line with UK best practice.
Outcome: The company is on track to meet UK best practice standards for pension contributions.

Walgreens Boots Alliance
Objective: We sought dialogue with the company to raise concerns related to failure to respond to 2021's 'say on pay' vote result.
In response to last year's failed say-on-pay vote, the proxy included disclosure regarding feedback received from shareholders. However, disclosure of engagement efforts was incomplete and, more concerning, the pay program changes did not fully address the most prominent shareholder concern regarding the use of positive discretion to increase 2020 LTIP.
Outcome: Despite multiple efforts to initiate dialogue, the company failed to respond. We voted against the remuneration report and election of directors. We also voted to support a shareholder resolution (against management) to reduce the ownership threshold for shareholders to call a special meeting.

Young & Co's Brewery
Objective: To raise concerns regarding ex-gratia discretionary payments made during the fiscal year.
We contacted the company to seek further clarity on the item above. The company indicated that the discretionary addition to annual bonus payments was put in place in light of the challenges the company has faced during the pandemic and the exceptional performance over this period.
Outcome: We typically do not support upward adjustments (or additions) to in-flight bonus awards. Therefore, we voted against the Financial Statements and Statutory Reports at the 2022 AGM.

COLLABORATIVE ENGAGEMENT

CDP Non-Disclosure Campaign
Objective: To join 263 investors from nearly 29 countries in urging companies with a significant environmental impact to disclose data through CDP, the global non-profit that runs the world's leading environmental disclosure system.
Over 1,400 of the world's highest impact companies will be engaged in this campaign. These companies cover over US$24 trillion (as of 22 June 2022) in global market capitalisation and are estimated to collectively emit more than 4,800 mega tonnes (Mt) of carbon dioxide equivalent (CO_2e) annually. The campaign aims to increase environmental disclosure among companies that have either never disclosed, or stopped disclosing, through CDP. Transparent corporate disclosure is crucial to directing capital towards the transition to a net zero, nature positive future. For us, the focus is on the companies that we hold within our centrally monitored equity universe.
Outcome: Climate change, deforestation and water security have become material issues to many industries and consistent, comparable data is key to addressing the associated risks and opportunities. We believe that increased corporate transparency on environmental impact is a key enabler to improve company performance and create a more resilient economy. The campaign in 2021 (which we were not party to) saw 25% of companies engaged via the campaign responding to at least one CDP questionnaire.

IN THE SPOTLIGHT

GOODBYE ESG

Gemma Woodward, Head of Responsible Investment

Has the Financial Times called the end of ESG? It published an article on 6 June 2022 called 'How ESG investing came to a reckoning' and the clickbait tag for it was RIP ESG. This was three years after it launched the FT Moral Money channel.

ESG has become a byword for everything that fits under the responsible investment umbrella. By this we mean the different approaches investors might utilise in pursuing a responsible investment strategy. These are some of the issues that we think have contributed to the 'ESG is over' narrative.

'ESG funds' and 'ESG companies'

There is no such thing as an ESG fund or an ESG company, just as there is no such thing as the perfect company: all will take different approaches so cannot be directly compared. There is no perfect company – you are always going to have to weigh up the different elements of the ESG triangle of environment, social and governance factors.

Being clear about the approach taken

Because everything seems to have been lumped under ESG there is no delineation between the approaches taken. Investing for impact is very different to investing in a strategy that is focused on voting, engagement and integrating ESG factors within the investment process. If your concerns are about avoiding certain exposures, then you would be seeking a fund or strategy that excludes those areas – in this instance only a strategy which achieves that is going to meet your criteria. End consumers all have their own view about what 'ESG' means to them and in the absence of clarity from the investment industry, clearly stating what fund or strategy does what, it becomes massively confusing.

The rise of 'ESG' labelled funds

Despite the EU introducing labelling protocols for funds (hello Articles 6,8 and 9) and the UK looking to do something similar, we have seen massive growth in funds including words such as ESG, sustainable or responsible within the title, no doubt as a means to ride the wave of demand for such products. The FCA called this issue out in July 2021, and we have also seen Morningstar remove over 1,000 funds from its European sustainable investment list after reviewing the underlying investment mandates.

'ESG' means I will make money / 'ESG' stocks underperforming

There has been a significant influx of money into 'ESG' labelled funds, and this seems to have been driven to some degree by the view that ESG = 'good and I won't lose money. This is a bandwagon I want to be on'. That's one common myth – incorporating responsible investment within your process does not mean that you are miraculously protected and are never going to lose money.

There is another myth that 'ESG stocks' have gone out of favour and that is the end of ESG. We have seen a period of market rotation where growth stocks, which had performed very strongly until recently, have started to lag as value came back into favour. A lot of companies that score well on ESG metrics (see section below on ESG ratings) tend to have growth characteristics, therefore ESG and growth stocks became conflated.

Oil

As the very different approaches to responsible investment have all been lumped under the wording ESG, the confusion over what this means, has grown exponentially. For example, how on earth can an 'ESG fund' own an oil company? Well, if the fund is focused on stewardship and ESG integration and the manager has a strong track record of engaging with oil companies then yes, it can. However, if this is being marketed as a sustainable fund, that would be a different story. At a recent financial adviser event the panel was asked whether we should sell out of two of the largest renewable companies in the UK - the punchline being that these are BP and Shell. Whether you should divest or engage is a much-debated topic – however under the responsible investment umbrella you can credibly pursue either approach.

ESG ratings

We are not saying that ESG data providers are the root of all issues. We take data from multiple ESG data providers; however, we don't just rely on one for all of it. The reason being is that they all have a particular focus and quite often are providing their qualitative assessment on the underlying company. The main problem with ESG ratings occurs when investment firms use one ESG data providers' ratings in order to 'score' a product based solely on the output from the data provider. We have written about this previously in some length but in summary: 1) data are just data 2) the ratings do not reflect any of the work we do from an engagement or integration perspective and 3) the data set is not perfect or complete.

Greenwashing

Recently there have been two high profile instances of asset managers facing regulatory action, owing to their claims of being green not holding up to scrutiny. Part of the issue is that we do not have a clear framework across the investment industry that clearly labels what products / strategies do or do not do from a responsible investment perspective. This is something that the FCA is firmly focused on within its Sustainability Disclosure Requirements (SDR) proposals which hopefully will be helpful in this regard. However, most investors do not just hold UK companies but rather invest globally, therefore a major frustration is that we do not have global frameworks for investors and, most importantly, the companies that they are investing in, to report against. Too often it is apples versus pears.

What can we do to mitigate the 'ESG' blancmange?

Using a framework

To try and make this easier for our clients and advisers we have adopted the Investment Association's responsible investment framework and talk about five distinct categories:

- Stewardship – voting and engagement with the companies and funds that you invest in
- ESG integration – considering ESG factors within your investment process to identify risks and opportunities
- Screening – excluding specific sectors, countries or activities
- Sustainability focus – considering the positive and negative impact of the investments with often a focus on thematic priorities
- Impact – seeking to achieve environmental and social impacts as well as financial returns

This will develop no doubt following the work that the FCA is taking but at least it means we have a clear starting point to define what we are talking about.

Aligning clients' interests

In April we began collecting our clients' responsible investment preferences within our regular process of checking that we are meeting their investment needs, from this perspective as well as the other usual considerations. As we have only just started this process, we are not going to make sweeping statements about the end outcome however what it has done is instigate conversations about what type of approach a client wishes to take.

So Goodbye ESG and hello responsible investment.

PEOPLE HAVE BECOME LAZY ABOUT WHAT ESG ACTUALLY MEANS

Gemma Woodward, Head of Responsible Investment

From exclusionary screening to SDGs, the world of responsible investment is awash with jargon, buzzwords and acronyms. One of the worst offenders, is the blanket use of ESG (environmental, social and governance).

It has become a catch-all term that oversimplifies the complexities of ethical investment. People have become lazy about what ESG actually means and how it is used. When people talk about an ESG company or an ESG fund, what do they actually mean? Are we just ticking some random boxes?

When thinking about ESG factors as part of the whole responsible investment process, it is not just environmental, social and governance. You have got stewardship and integration. You have got screening, sustainable and impact investing, and other broad categories. But ESG has just become shorthand for all of this. This is where misconceptions and misunderstandings occur, because what you think as being appropriate for your requirements from a responsible investment perspective are distilled down to this one term. If you call something an ESG fund, it could be doing a whole variety of different things. The term is too basic.

Ultimately, it is clients – charities and their trustees – that will struggle. It gets more difficult for the end consumer to know what they should want. What are they supposed to be looking for?

There have been many iterations of responsible investment. If you are new to it, then 'ESG' is the kind of thing that captures the imagination. But often the end consumer still does not know what it means. We need to get so much smarter and precise about our language.

Engagement and awareness

In a recent Quilter Cheviot client survey, we found that respondents consider stakeholder voting and corporate engagement as low on the scale, when it comes to key priorities of responsible investing. This highlights a misconception of what the industry is and the goals it is trying to achieve. The engagement aspect of what we do is incredibly important, but that is not necessarily how it gets portrayed by the industry because it is long-term, complex and cannot be put in a nice little box or summed up in a neat little phrase. The financial services sector has become very lazy in explaining what it is we do and our purpose.

Quilter is looking at the terminology used and refining the language. We are going through the process, but it is hard to standardise the language across the entire organisation.

We will be focusing on engaging initially with clients over the next two years, and thereafter on an ongoing basis, to determine more clearly their responsible investment preferences, and what they want to achieve. This will not only help us to gain insight, but also increase awareness and understanding among clients of what is involved in meaningful responsible investing.

This is not just about taking into account ethical considerations or positive inclusions, which we have always done as part of our sustainable investment strategy, this is also a way of laying out our stewardship approach to our clients and demonstrating our integrating of ESG factors within the investment process.

Expectations and ratings

Another area oversimplified in responsible investment is expectations around fund ratings. If an investment manager uses one external data provider, often it will have inherent biases. It will look through your portfolio and chuck out a number or letter based on sustainability, which will almost certainly be better than the benchmark. But that rating is literally based on that provider's data; it doesn't take into account any other research.

To combat this, Quilter Cheviot uses multiple data providers and has its own research teams, which are charged with considering ESG factors within the investment process. This takes into account aspects such as voting, qualitative assessments and quantitative data dashboards.

We do not want to just give clients a number; it is too simplistic because it does not take into account the many aspects of stewardship. A number may make you feel good that you are beating a benchmark, but it is not a true reflection of what is going on and is therefore bordering on the meaningless.

Article first published in Charity Finance, May 2022.

COMING FORWARD TO BLOW THE WHISTLE ON ESG

Claudia Quiroz, Head of Sustainable Investment

Back in 2010 when we launched the Climate Assets Fund, I was the one knocking on doors to spur money flows into green investing. Recently though, I have been busier than ever before as interest in sustainable and responsible investing has skyrocketed. However, the industry is currently under the microscope of regulators and consumers alike, after being hit by claims its green credentials are being overstated and misrepresented, thus greenwashing is on the rise.

Last year, former executive turned whistle-blower, Desiree Fixler, accused asset manager DWS of greenwashing. A year later, German police raided DWS offices and Deutsche Bank (majority owner of DWS) as part of a probe into allegations of greenwashing. It was the first time an asset manager has been raided in an investigation relating to responsible investment. One may ask, is this a one off? It is very likely not, as regulatory scrutiny is growing on both sides of the Atlantic to tackle allegations of greenwashing. Also, this year the Security and Exchange Commission in the US announced that it was determined to uncover overstated ESG claims. And more recently it disclaimed that it was investigating greenwashing in Goldman Sachs' asset management division.

Funds marketed as sustainable are the fastest-growing segment of the asset management industry. Assets in so-called ESG funds grew 53% year on year to US$2.7tn in 2021, according to Morningstar. Notably, European investors seems to be more in tune with responsible and sustainable investment, as the lion's share of the growth is coming from Europe. It is little wonder then that when Morningstar carried out a detailed review by examining prospectuses and annual reports of the self-classified sustainable funds in Europe, it identified around 1,200 funds that did not make the cut. Its sustainable investment universe then was reduced by 40%. Predictably, most of the removed funds declared their green credentials under the EU Article 8 section of the Sustainable Finance Disclosure Regulation, which oversees how asset managers incorporate ESG considerations within their investment process.

We discussed the issues around greenwashing at length during our first Climate Assets Fund live event at the end May, both from a consumption and an investment standpoint. Lucy Siegle, our keynote speaker (Quilter Cheviot Live: Investing in tomorrow's world) and self-proclaimed 'agony aunt for the environment', reflected on the greenwashing issues around fast food and fast fashion. Her talk was a very timely discussion, as recently Tesco found out the hard way that it is not enough to simply say that a product is better for the environment- any claims need to be evidence-based. The retailer failed to demonstrate that buying Plant Chef burgers is as much of an environmentally friendly choice as it claimed in advertising. The advertising regulator penalised Tesco for not having any clear evidence to support such a statement across the full lifecycle of any product in the Plant Chef range.

As a long-term investor in the sustainable space, alongside regulators and campaigners, I have an interest in getting sustainable investment right. In my view, it is all about protecting the consumer and ensuring that they get what it says on the tin. However, I will not deny that finding common ground on what makes a green or sustainable fund is a challenge for the whole asset management industry.

During our event we also discussed that when regulation is not robust enough 'greenwashing' is in the eyes of the beholder. There has been a mindset shift among investors and consumers alike based on current geopolitical events and changes of perception of what is an ethical or impactful investment and what is not. Take the defence sector, for instance. Before the Ukraine-Russia war, revenue generated from armaments and defence were a no-no for most sustainable investors, including Sweden's SEB bank. The bank however launched six ESG-labelled funds that allow investing in the defence sector since the war started. So, some now believe that defence companies are acceptable as sustainable investment. With growing geopolitical tensions, it seems now that some responsible investors are happy to support the armaments of sovereign states when faced with a neighbour's aggression. Equally, the conflict has caused shares in oil and gas companies to appreciate fast, supported by concerns on Russian supply. This shift has really tested the Climate Assets Fund, as performance has suffered given the underweight in oil and gas companies. Many however have changed their tune, like BlackRock for instance, whose Chief Executive Larry Fink has been beating the sustainability drum for years. Blackrock has now announced that it was likely to vote against most shareholder resolutions brought by climate lobbyists pursuing a ban on new oil and gas production.

The Climate Assets Fund will continue to pursue the philosophy of a fossil fuel free strategy as stated in the fund's investment policy, as we remain optimistic about the longer-term shift to renewables. In our view, the conflict will accelerate the transition to renewables because never again will countries want to be reliant on another country for energy. In the absence of clarity from regulators, the key for asset managers is to be transparent about the criteria by which the funds invest. Equally, clients need to interrogate the information provided and ensure their decisions on whether to allocate money are based on their understanding of what a fund does, or does not, stand for. In this environment, a clear and honest message as well as reading the small print is more critical than ever.

MPS IN THE LOOP: RESPONSIBLE INVESTMENT IN PRACTICE

Kirsty Ward, Responsible Investment Analyst; Olivia Wingrove, Investment Manager - MPS

In our latest Vlog, Kirsty Ward shines a light on Quilter Cheviot's approach to responsible investment within the Managed Portfolio Service.

WATCH VLOG

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 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.

Signatory of:
UK STEWARDSHIP CODE | 2021

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

Responsible investment 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 who want their portfolios to reflect their specific interests or preferences:

Sustainable investment – the Climate Assets Fund 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.

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 ESG practitioners. Meaningful engagement by fund houses with company management prioritised over formal exclusions on the basis that engagement can encourage change where it is needed most.

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

Ethical and values-oriented investment (ESG screening) - client specific
This is incorporated on an individual client basis, informed by their specific ethical preferences. These will vary from client to client and will focus on sectors, industries or individual companies.

*For UK, US and European equity holdings

GLOSSARY

Active Ownership: Where shareholders 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 assets classes such as fixed income, private equity, or real estate.

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

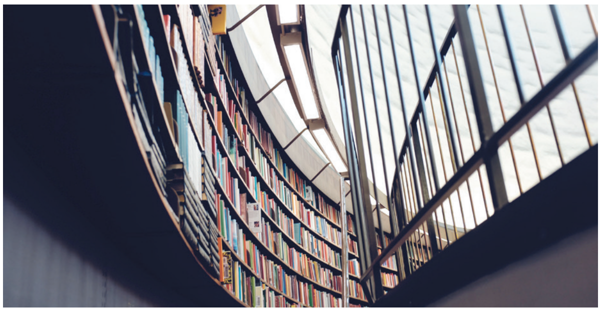
- forfeits all or part of a bonus or long-term incentive award before it has vested and been paid – this is called 'malus' and/or
- pays back sums already paid – this is called 'clawback'.

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

Engagement: Shareholders enter into purposeful dialog with the management or Board of a company with the intention of influencing corporate behaviour. The issues covered can be wide ranging, from corporate strategy, capital discipline, but also environmental, social, or corporate governance matters. Engagement is tool used in active ownership and can be conducted by one investor or a group of investors.

Environmental Factors: Issues related to the environment such as resource, water and land use, biodiversity, pollution, atmospheric emissions, climate change, waste. This is the 'E' in ESG.

Governance Factors: Issues relating to the governance of an organisation, also referred to as corporate governance, examples include board composition, executive remuneration, internal controls, balancing the interests of all stakeholders. This is the G in ESG.



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: A term that describes an activity, process or organisation which creates no net emissions of carbon dioxide. This can be achieved through use of renewable energy, process changes or offsetting carbon – or a combination of all these. Also referred to as carbon neutral.

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: Responsible investment is a strategy or practice that incorporates environmental, social and governance (ESG) factors into investment decisions and ownership activity.

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.

Social Factors: Issues relating to the relationship between companies and people, such as their employees, suppliers, customers or communities. Examples of social issues of interest to investors include health and safety, labour standards, supply chain management and consumer protection. This is the S in ESG.

Stewardship: Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. When investing in equities it involves proxy voting and active shareholder engagement with company management.

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: The SDGs, or the Global Goals, were adopted by all United Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. There are 17 goals reflecting the most significant challenges facing the world.

Voting Rights: When an investor buys a share in a listed company, that typically comes with specific voting rights which can be exercised at the company's annual general meeting or extraordinary meetings as a means of expressing the opinion of the shareholder about how the company is being managed. Typical issues upon which votes are cast include executive pay, board appointments, mergers or acquisitions, or sale of parts of the business and company annual report and accounts. Also referred to a proxy voting when voting rights are delegated.

OUR OFFICES

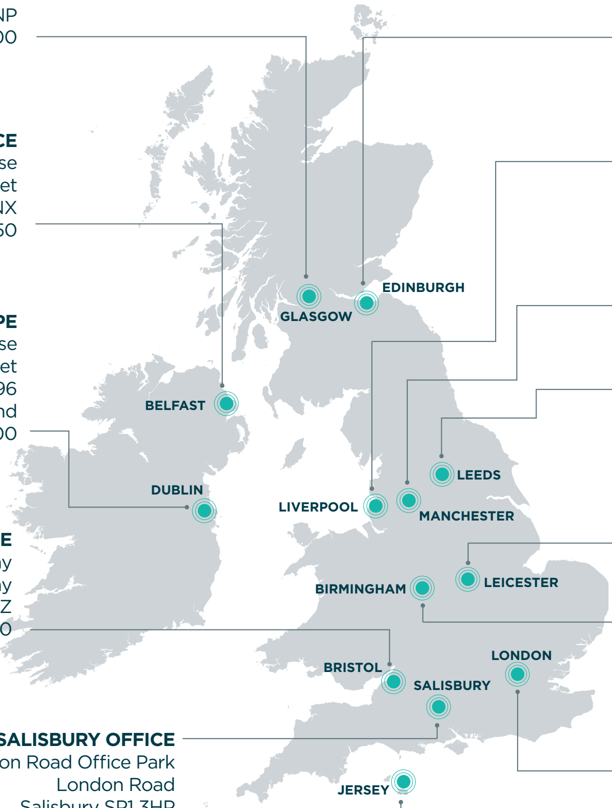
GLASGOW OFFICE
Delta House
50 West Nile Street
Glasgow G1 2NP
t: +44 (0)141 222 4000

BELFAST OFFICE
Montgomery House
29-33 Montgomery Street
Belfast BT1 4NX
t: +44 (0)28 9026 1150

QUILTER CHEVIOT EUROPE
Hambleden House
19-26 Lower Pembroke Street
Dublin D02 WV96
Ireland
t: +3531 799 6900

BRISTOL OFFICE
3 Temple Quay
Temple Way
Bristol BS1 6DZ
t: +44 (0)117 300 6000

SALISBURY OFFICE
London Road Office Park
London Road
Salisbury SP1 3HP
t: +44 (0)1722 424 600



EDINBURGH OFFICE
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EN
t: +44 (0)131 221 8500

LIVERPOOL OFFICE
5 St Paul's Square
Liverpool L3 9SJ
t: +44 (0)151 243 2160

MANCHESTER OFFICE
4th Floor, The Pinnacle
73 King Street
Manchester M2 4NG
t: +44 (0)161 832 9979

LEEDS OFFICE
2nd Floor, Toronto Square
Toronto Street
Leeds LS1 2HJ
t: +44 (0)113 513 3933

LEICESTER OFFICE
1st Floor
7 Dominus Way
Leicester LE19 1RP
t: +44 (0)113 513 3933

BIRMINGHAM OFFICE
8th Floor, 2 Snowhill
Birmingham B4 6GA
t: +44 (0)121 212 2120

LONDON OFFICE
Senator House
85 Queen Victoria Street
London EC4V 4AB
t: +44 (0)20 7150 4000

INTERNATIONAL & JERSEY
3rd Floor, Windward House
La Route de la Liberation
St Helier
Jersey
JE1 1QJ
t: +44 1534 506 070

DUBAI DIFC BRANCH
Office 415, Fourth Floor
Index Tower, Al Mustaqbal Street
DIFC, PO Box 482062
Dubai
t: +971 4 568 2360

To find out more about Quilter Cheviot or how we can help you, contact us on 020 7150 4000 or marketing@quiltercheviot.com

quiltercheviot.com

QUILTER CHEVIOT
INVESTMENT MANAGEMENT

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INVESTMENT MANAGEMENT

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