RESPONSIBLE INVESTMENT QUARTERLY

QUARTER 1, 2023

QUILTER CHEVIOT
INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited, 20 April 2023

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WELCOME

The first quarter of 2023 has been focused on setting our priorities for the coming twelve months as well as meeting regulatory reporting requirements, such as the Taskforce for Climate-related Financial Disclosures report for Quilter plc, as well as our Stewardship Code report which we submit annually to the Financial Reporting Council.

We are in the process of designing thematic engagement frameworks for five key topics focused on our direct equity holdings. These are all linked to our three mega themes of climate change, human rights and natural capital. More on these will follow over the coming year. For our holdings in third-party funds and investment trusts we are also developing and continuing thematic engagements. I had the pleasure of speaking at the Association of Investment Companies' (AIC) annual conference in early March; the audience was primarily non-executive directors of investment trusts. The invitation resulted from our engagement with the AIC regarding our collaborative work with Quilter Investors, which is focused on board composition and responsible investment-related disclosure. We intend to publish our first phase of research on this in Q2 which will be focused on investment trusts operating in the equity sector.

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VOTING ACTIVITY

Over the first quarter we voted at:

50 COMPANY MEETINGS

Over the quarter we voted on:

666 RESOLUTIONS

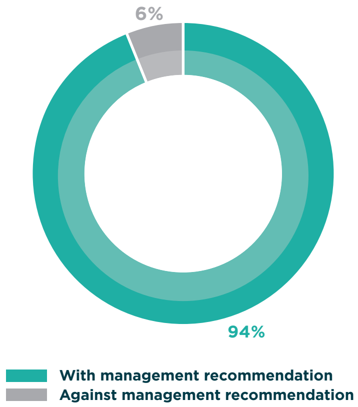
for **43** resolutions we did not support management (this includes shareholder proposals).

We enabled clients to instruct votes at 8 meetings

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

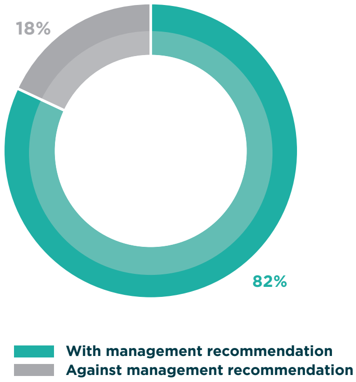
MANAGEMENT RESOLUTIONS VOTED IN Q1 2023

(excluding shareholder proposals)



MEETINGS WITH VOTES AGAINST MANAGEMENT IN Q1 2023

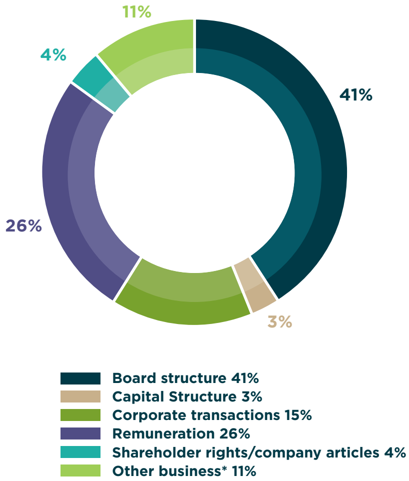
(including shareholder proposals)



Over Q1 2023, at 50 meetings (82%) all resolutions were voted in line with management. At 9 meetings (18%) we voted against management on at least one resolution.

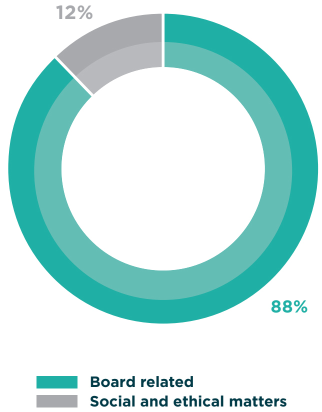
MANAGEMENT RESOLUTIONS VOTED AGAINST BY TOPIC IN Q1 2023

(excluding shareholder proposals)

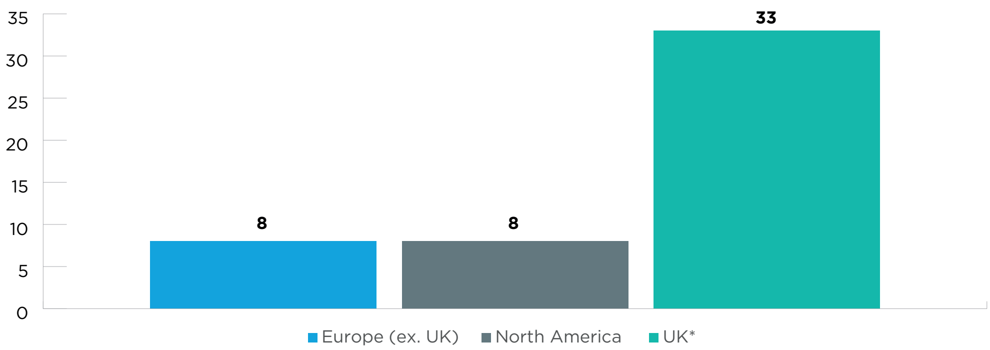


*The other business category includes allowing virtual only meetings.

SHAREHOLDER PROPOSALS SUPPORTED IN Q1 2023



MEETINGS VOTED IN EACH GEOGRAPHY IN Q1 2023



* Includes the Crown Dependencies of Jersey and Guernsey

Q1 2023 VOTING

In the first quarter of 2023, Quilter Cheviot voted across the following markets: UK, US and Europe. These are the key voting issues during the period.

11x votes against electing / re-electing director

We voted against the election of directors for two specific reasons: 1) independence concerns and 2) concerns regarding a multi-class structure with unequal voting rights. In this instance, Dolby Laboratories does not have a time limit on when dual shares will be converted into common shares, which is not considered best practice.

Companies voted on: Dolby Laboratories (x5), Siemens Healthineers (x6)

7x votes against management on compensation related resolutions

We voted against remuneration policies where the overall quantum was considered excessive and where there was discretionary intervention which is not

Companies voted on: boohoo, Capricorn Energy (x3), Dolby Laboratories, UniCredit (x2)

Other voting activity

1x vote in favour of an independent board chair (shareholder proposal)

Unlike the UK, in the US it is common for the CEO and chair roles to be combined - our concern here is focused on company's 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.

Company voted on: Walgreens Boots Alliance

1x vote against an independent board chair (shareholder proposal)

In this case the board has a lead independent director with clearly delineated and robust duties, the company has established governance guidelines and there are no concerns regarding board and committee independence or the company's perform.

Company voted on: Visa

1x vote against reporting on public health costs due to tobacco product sales (shareholder proposal)

The company currently provides sufficient disclosure regarding its policies and practices related to the sale of tobacco and its risk oversight mechanism. Additionally, the company does not appear to be lagging most of its peers regarding sales of tobacco products.

Company voted on: Walgreens Boots Alliance

Apple

1x vote in favour of gender pay gap reporting (shareholder proposal)
We supported this proposal as shareholders would benefit from the median pay gap statistics to improve transparency on this issue.

1x vote in favour of amending proxy access right (shareholder proposal)
In this instance, although the company has adopted proxy access, it currently falls short of best practice in that it permits the nomination of just one candidate, based on the current board size of nine. It is common for companies of this size to nominate at least two proxy access candidates.

1x vote against Report on Civil Rights and Non-Discrimination Audit (shareholder proposal)
The company appears to provide shareholders with sufficient disclosure to assess its management of risks related to its operations in China and to have policies in place that seem to address human rights concerns raised by the proponent.

1x vote against adopting a policy establishing an engagement process with proponents to shareholder proposals (shareholder proposal)
The company's existing board guidelines appear adequate to allow for oversight of shareholder engagement, and the company was adequately responsive to the proponents' 2022 shareholder proposal.

1x vote against reporting on operations in China (shareholder proposal)
The company appears to provide shareholders with sufficient disclosure to assess its management of risks related to its operations in China and to have policies in place that seem to address human rights concerns raised by the proponent.

ENGAGEMENT ACTIVITY

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

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

Aquila European Renewables Income Fund – Environment

Objective: To engage with Aquila European Renewables Income Fund (AERIF) as part of our ongoing thematic engagement on the lifecycle of renewable energy infrastructure assets, specifically wind turbines and solar panels. Phase 1 is engagement to obtain information and learn best practice.

First, we discussed supply chain management. When onboarding a new supplier as part of the pre-investment stage, AERIF expects them to complete an extensive sustainability questionnaire. This is followed by a materiality assessment, which includes 50-60 sub-risk categories. The materiality assessment is reviewed and updated annually to ensure the most relevant risks are assessed. After this review, there is a request for policies and management systems to ensure the suppliers code of conduct is in line with AERIF's values.

Next, we discussed the treatment of assets at the end of their useful life, to minimise environmental impact. AERIF is focused on buying assets at a very early stage (acquiring maturing assets is not part of its business model). These assets tend to be bought during the permitting stage or when ready-to-build. However, Aquila is looking at the topic of end-of-useful life and is completing lifecycle assessment studies.

Outcome: A positive meeting. AERIF's supply chain due diligence is line with best practice identified from previous engagements on this topic. On the topic of end-of-useful life, AERIF is in a similar position to most of the investment trusts we have engaged with. Most of the assets in its portfolio are at an early stage.

Asia Dragon Trust – Governance

Objective: This was part of the overall investment trust thematic engagement and our first time meeting the board of Asia Dragon.

The board is heavily involved in the production of the annual report. The board also shapes the disclosures rather than accepting the template provided by the investment adviser (manager).

There is a concern that annual accounts are becoming extensive. Therefore, the board is mindful of what it includes in the annual report. We suggested that including a couple of examples of the voting rationale would help to bring some colour to the voting disclosures.

On the other hand, the annual report provides good examples and case studies of its engagement process. The board receives regular reporting of the manager's responsible investment activities, including detail accounts of the proxy voting, proxy adviser reports and engagements. The chair is planning to have an external board evaluation in 2024 when all directors will have served at least one year.

Outcome: Overall, we are happy with the trust's current disclosures and the board's oversight. We asked the board to consider providing examples of voting rational as this can help investors understand how the trust is using its voting powers.

Bellevue Healthcare Trust – Governance

Objective: This was part of the overall investment trust thematic engagement. We have met with the board of Bellevue Healthcare Trust (BBH) on multiple occasions since 2018.

The board believes there are issues with rating agencies and ESG metrics, especially when covering smaller companies. Therefore, the investment adviser is cautious when using such metrics. Instead, it relies mainly on its own proprietary data and engagements. We suggested that disclosing voting rationale and engagement examples could help add some colour to the stewardship disclosures.

Three directors have now served six-year terms. Therefore, to ensure an orderly succession, the board will consider hiring one or two more directors, whose terms on the board will overlap with the existing directors for a couple years. This means that for a temporary basis the board will increase to seven directors.

The board automatically invests its fees after tax into the trust's shares. There is a three-year holding period after which the directors can sell the shares. The board is considering whether this structure will limit the candidates that can apply to the trust, as some individuals will be unable to afford this scheme.

The board has considered disclosing historic holdings. However, it believes there is a price associated with auditing these reports. Furthermore, it is not clear that the benefit to shareholders would outweigh the cost.

Outcome: A helpful conversation. We have engaged with the board on numerous occasions and have seen the fruits of this through the disclosure of current holdings as well as providing feedback on the responsible investment-related reporting. We look forward to reviewing the latest annual report and would welcome additional responsible investment disclosure.

BHP – Environment

Objective: BHP is reviewing its industry association guidelines. We joined group investor engagement session to understand the current thinking and direction of the new policy.

BHP uses two variables to identify significant associations. The first requirement is whether the association is on the InfluenceMap industry association list. The second is whether the membership fees are over $100,000.

InfluenceMap is global not-for-profit think tank that maintains a database of corporate and industry association lobbying of global climate policy.

BHP's new policy review includes three main changes:

1. A shift from its previous binary approach to assessing advocacy alignment. It now classifies associations based on the degree of alignment (for example, 'alignment', 'some misalignment', 'material misalignment') to BHP's global climate policy standards.
2. A comprehensive overview of the climate policy advocacy of all its material memberships.
3. BHP has added advocacy examples from InfluenceMap to supplement the data collected from its normal data collection process.

BHP is also revising its global climate policy standards, which indicate the actions it is taking to support the Paris Agreement goals. This revision has been driven by major changes in the last few years in terms of policy and BHP's portfolio. The policy is expected to be released in April/ May. There was also discussion about the policy should be reviewed yearly or every three years.

Outcome: It was useful to understand BHP's considerations when formulating the industry association policy review and we will continue to monitor how this progresses.

BlackRock – Governance

Objective: This event was organised by BlackRock Investment Stewardship's (BIS) for a small number of asset managers to discuss BIS's outlook for the year ahead and to provide an opportunity to engage with the team.

Blackrock's team covered the stewardship priorities for the year. Priorities are mostly unchanged, and the team confirmed it will continue to scrutinise. It is likely to support fewer shareholder proposals because as the number of shareholders rises, even if it supports approximately the same number of proposals in absolute numbers, the support as a percentage of total shareholder resolutions decreases. The team also provided some practical examples of past engagements and escalation techniques.

Outcome: This helped us understand the lifecycle of the engagement at BlackRock and the priorities for the upcoming year.

Boohoo – Governance

Objective: To discuss remuneration, specifically the 2023 Growth Plan.

Our proxy advisor recommended voting against the 2023 Growth Plan at the upcoming AGM. Under this plan, rewards will be based solely on share price growth and may vest over a period of less than three years, which is not considered best practice.

The company regards shared based remuneration as the best way to align the objectives of the executives to those of shareholders. Its contentions are that a strong remuneration package is necessary in order to attract talent in a challenging market.

The overall quantum of pay is very high given the recent decline in share price. However, the board highlighted the potential return for shareholders is significant (up to £4.4bn). Nonetheless, we expect a range of both financial and non-financial KPIs to be linked to remuneration. The proposed growth plan consists of five tranches. Each tranche is subject to a performance condition whereby a 90-day average share price hurdle must be achieved. These conditions result in a vesting period between 12 months and six years. The vesting period is not in line with local market standards, which expects long-term incentives to vest no earlier than three years from the date of grant.

Outcome: While we appreciate the need to attract talent in the current market, best practice is seen where both financial and non-financial KPIs are linked to remuneration and the overall quantum of pay is considered excessive. Therefore, we voted against the 2023 Growth Plan.

Caledonia Investments – Governance

Objective: This was part of our ongoing investment trust thematic engagement. Caledonia is 49% owned by the Cayzer family holding. As such, it has certain governance practices that we would not expect from traditional investment trusts.

The board has a working relationship with the family as a 49% holder in the trust. There are two non-independent directors who attend all board meetings. However, the non-independent directors do not sit on the remuneration or audit committee. Over the past year, the board has had external training on responsible investment. While the disclosure of the trust indicates it does vote and engage with investee companies, it does not disclose examples of its stewardship activities. The company secretary confirmed that the manager receives Glass Lewis voting recommendations.

The board is currently recruiting another director. This process is now close to being finalised. The board has used the executive search firms Odgers and Lutyens for the two latest board appointments. The chair has been on the board for seven years. When asked about his succession plan, he said that current board directors could be suitable to replace him, but the decision is not up to him.

Outcome: We understand that family holding influences the board composition, which we would not expect on a traditional structure investment trust board. Additionally, there is room for improvement in terms of responsible investment-related disclosures and we are keen to see the manager become a Stewardship Code signatory in the future.

CDP Water letter to governments – Environment

Objective: Following on from our water risk engagement in 2022, we signed the CDP open letter to governments on the water crisis.

According to CDP, 2.3 billion people currently live in water-stressed areas. Since 1970, the world has experienced a dramatic 84% decline in freshwater biodiversity. Together with 30 investors representing over USD 1.7trn in assets, we co-signed the letter in anticipation of the first UN Water conference in New York in March 2023.

The conference is focused on accelerated implementation and improved impact towards achieving Sustainable Development Goal 6 (increasing access to water and sanitation) and other water-related targets. Among other things, the letter highlights the lack of international water commitments and of internally aligned corporate water disclosures.

Outcome: The conference ended with over 700 voluntary commitments aimed at driving transformation from a global water crisis to a water-secure world, including high-level commitments from nations, the private sector, and NGOs.

Compass Group – Governance

Objective: Our proxy voting service provider recommended an abstain vote for the re-election of the remuneration committee's chair and an against vote for the remuneration report based on the company's approach to the previous year's voting outcome. We have reached out to the company to provide further context on those items.

The company explained in a letter that, in its view, the ISS recommendation is driven solely by the perception that the company has not responded to shareholders that did not support the approval of the remuneration policy at the 2022 AGM. The company disagrees with this view and reiterated that it has consulted extensively with investors after the AGM. Last year, we engaged with Compass and supported its remuneration policy.

Outcome: After reviewing and discussing the letter internally, we have decided to vote in support of management.

Darktrace Engagement – Environment Governance

Objective: The purpose of the meeting was to have a broad discussion on Darktrace's sustainability profile as well as the role of Mike Lynch.

The first discussion point was the lack of reporting and disclosure on sustainability issues such as carbon emissions, customer privacy, and diversity and inclusion. On carbon reporting, the company has prioritised Scope 3 emissions as this accounts for 98% of overall emissions.

Regarding sustainability metrics unrelated to carbon, Darktrace is at an early stage of scoping out best practice and is collaborating with the finance department to enhance the quality of reporting.

The final discussion point was on the ongoing governance concerns from the history surrounding Mike Lynch at Autonomy and his involvement with Darktrace as a shareholder. He is only an investor in the company and formerly an advisor, but Darktrace has cut those advisory ties with him over the last two years.

Outcome: A positive meeting, which helped improve our understanding of Darktrace's sustainability profile. The company is at an early stage with scoping its best practice reporting. We expect overall disclosure to improve, following the recommendations the company has been receiving from several investors including Quilter Cheviot.

Edinburgh Investment Trust – Governance

Objective: This engagement was part of the overall investment trust thematic engagement and the first time meeting the board of Edinburgh Investment Trust (EDIN).

The board has undergone a refreshment with two new directors joining in the last year. Before the recruitment of the latest director, the board created a skills matrix to identify what experience it would be looking for in the new directors. The chair is happy with the current composition. There are no further changes planned apart from the retirement of one NED who has served their term. At the time of our conversation, the board had met the FTSE Women Leaders and the Parker Review diversity targets.

The trust selected an executive search firm to source the candidates. The chair mentioned that diversity was an important element of the remit it gave the search firm. The investment adviser (manager) was not involved in the recruitment process until after the new director was appointed.

The chair encourages all directors to own shares, but there is no set rule or threshold. Currently, there is one director, but due to compliance reasons, they are not permitted to hold shares.

The board recently discussed stock lending but decided the minimum return would not be sufficient. The trust has just published its new website, which we think showcases the trust's personality better. Retail investors make up around 40% of the trust, a number that has been growing over the last years. Therefore, the holdings through investment platforms have become a large part of the register. The trust is also running several events for retail and investment advisers. Investec, the trust's broker, is also running an event with the trust to reach awareness.

Outcome: The trust has recently updated its website and is focusing on multiple marketing efforts. We have made some suggestions regarding the disclosure of responsible investment disclosures, and we look forward to reviewing the upcoming annual report.

Emerson – Environment Social Governance

Objective: The purpose of the meeting was to discuss Emerson's approach to managing its ESG risks.

The first discussion point was female board representation and gender diversity across the company. Emerson highlighted the company's current goal to double leadership positions held by women. At the board level, there are no strict targets for female board representation, but the company is committed to improving the ratio beyond the current level. Moving on to social risk oversight, Emerson reports on workforce diversity but has not disclosed equal opportunities data in the last three years.

The percentage of shares required to call a special meeting at Emerson is 85%, which is significantly higher than the U.S. average. This requirement was enshrined in the company's articles over 30 years ago and any amendment to it would require a vote of 85%. This is not anticipated given the percentage of broker non-votes.

The final discussion point was the company's hazardous waste management. The company is reviewing how to best report on this in preparation for the upcoming annual sustainability report.

Outcome: A largely positive meeting where we covered all material issues flagged in our ESG factor dashboard.

Experian – Environment

Objective: We met with Experian to receive an update on its sustainability business strategy.

There has been internal evolution to bring more coordination to its sustainability activities. In terms of risk, a data breach is the most material for the business. There has not been a major breach for many years. Experian is working on data that shows the percentage of the revenue that could be linked to Sustainable Development Goals. However, it is hard to audit these numbers.

We used this opportunity to ask Experian about its executive remuneration. The company confirmed that executive pension contributions are now aligned with the wider UK workforce.

Outcome: A helpful conversation to understand the evolution of Experian's sustainability strategy.

F&C Investment Trust – Governance

Objective: This was part of our investment trust thematic engagement and the first time meeting the board of the F&C Investment Trust.

The trust's disclosure currently includes engagement examples and a breakdown of the voting by categories. The disclosures show the alignment of underlying companies to Sustainable Development Goals (SDGs). We highlighted that it is important to be very clear when using metrics like this, as it can mislead investors into thinking investments are made based on their alignment to a particular SDG objective. In the case of the trust, however, this is coincidence, not intentional.

The trust has exclusions of tobacco production, cluster bombs and landmines and thermal coal. We also discussed private equity (PE) exposure. This asset class tends to be less well reported from a responsible investment perspective. Additionally, as the PE position is held through a fund, it is harder to assess the assets.

While the chair does not pressure directors into buying shares, it agrees that owning shares is a good thing. Additionally, the board is relatively young, so directors might have different financial priorities. The chair believes that eight directors is the right number for the board. Given the number of external managers, it tends to meet more often than other investment trust boards.

Outcome: While the board has a good gender balance, it is still falling short of the Parker Review targets. Regarding the disclosures, we believe shareholders would benefit from clarity around how different responsible investment metrics are being used, or not used, and will monitor the disclosure and reporting of these.

Fidelity Special Values – Governance

Objective: This was part of the overall investment trust thematic investment and the first time meeting the board of Fidelity Special Values (FSV).

The board has regular meetings with the manager. During these meetings, responsible investment is discussed. These are lively discussions with the manager's team. The manager spends a lot of time thinking about what leadership in its investee companies looks like. So, governance is at the core of the strategy. While the whole board looks at responsible investment, its newest director has taken the lead in this area. The current disclosures do not include details of the trust's voting or engagement activities. However, the chair indicated that this is information the board receives from the manager.

The trust used Cornforth consulting to recruit the latest directors. The company was looking for sales and marketing experience, but the board was aware of the diversity element.

The chair mentioned his intent to serve three years as chair and retire after a ten-year tenure.

The trust currently does not require directors to own shares. At the next board meeting, the chair will discuss the possibility of having more formal requirements, as he thinks is important for directors to hold a substantial number of shares. We indicated that while we agree in principle with this, the rules should remain flexible to ensure that being able to hold shares is a not a prerequisite for being a director and therefore discriminate against younger, less wealthy candidates from a diversity perspective.

Outcome: The board has a thoughtful succession plan in place. In terms of responsible investment disclosures, we have identified where we would like to see more information.

Foresight Solar Fund Limited – Environment Governance

Objective: This conversation finalised the thematic engagement on the lifecycle of renewable energy infrastructure assets, specifically wind turbines and solar panels. The purpose of the engagement was to define information and best practices in the sector. We have held preliminary conversations with various companies to improve our understanding regarding best practice for supply chain management and the treatment of assets at the end of their useful life.

The discussion focused on the process of sourcing solar panels and mitigating risk in the supply chain. The investment adviser (manager) explained that an evaluation was undertaken, and it believes it is compliant with the EU taxonomy, as renewables are at the centre of this policy.

The management uses the Ethixbase platform to screen current and potential suppliers. Among other things, Ethixbase flags fines and violations of local policy, which Foresight Solar Fund Limited (FSFL) then investigates.

The company is also using third-party firms to conduct on-the-ground audits, when possible. It mentioned that China is particularly tricky and there is the danger that pushing too hard could damage relationships. We mentioned that this information is not currently in the sustainability report and that we would welcome its inclusion. FSFL is working on the new annual report and told us we can expect additional disclosures.

The manager explained that, in its view, there are no definitive solutions yet. The recycling market is an evolving space. FSFL has been approached by several companies offering recycling services, some of them free of charge. However, FSFL wants to ensure that recycling companies are correctly vetted before committing to anything. FSFL has already committed to ensuring that none of these assets end up in a landfill. The investment adviser mentioned that any decision regarding the disposals will be discussed with the board first.

Outcome: A useful engagement to learn more about

FSFL's supply chain and decommission management. There have been many positive developments over the last 12 months, which will hopefully be reflected in the new annual report.

GSK – Environment

Objective: We participated in the sustainability roadshow to discuss the steps GSK has taken to ensure ESG is integrated into the company strategy, and how the company has developed corporate key performance indicators (KPI) to measure progress against each area of focus.

Areas of focus are access to medicine, global health and health security, environment, diversity, equity and inclusion, ethical standards and product governance. From these priorities, 23 targets have been developed, against which progress will be measured. To select the areas of focus, the company looked at the metrics used by ESG rating agencies and data suppliers, as well as the metrics that investors and regulators like to see.

There has been a great effort to make all targets as quantifiable as possible. However, when there was an ESG-related issue deemed material, but not quantifiable, it has also been included.

The company talked about how it is using research and development (R&D) to reduce its carbon footprint. Currently, a single product, inhalers, causes almost half of the company's greenhouse emissions. GSK is looking into alternatives, such as powder-based medicines to reduce its impact.

Outcome: A useful call to understand the thinking around ESG targets. We will continue to monitor progress with the next report.

Henderson European Focus – Governance

Objective: This engagement was part of the overall investment trust thematic engagement and our first time meeting the Henderson European Focus' (HEFT's) board.

The trust provides a quarterly ESG report in which it discloses several ESG-related metrics such as carbon intensity, SDG alignment and controversies. The report also includes voting and engagement examples. The board explained that the trust does not have sustainable objectives, and the underlying objective is financial gain. The trust uses responsible investment as a risk mitigation tool. It focuses on engagement, voting and controversies research rather than quantitative data. The quarterly ESG report includes quantitative ESG metrics, although they are not used to making investment decisions.

There could be more clarity regarding how the investment adviser (manager) is using the ESG-related data. We found the ESG report to be useful, especially the engagement examples and voting rationale. On the voting rationale, we highlighted that providing more context around the decision for the voting examples could further enhance the disclosure. The board is mindful that its communications are accessible to retail shareholders. The chair has pushed the manager to improve its website.

Outcome: Overall, we are happy with the trust's current disclosures and the board's oversight. We asked the board to consider providing additional detail on how it integrates ESG factors into its investment process, especially to make it clear when ESG metrics are not being used.

Henderson Smaller Companies – Governance

Objective: This was part of our investment trust thematic engagement and the first time meeting the Henderson Smaller Companies' (HSL's) board.

The annual report includes examples of anonymised thematic engagements. The manager feels that making the reports public could hinder openness. While the report indicates 'for' and 'against' votes, it provides no examples of voting rationale.

Given the changes to the board over the last 24 months, the board decided to delay the external evaluation for another year. The current board evaluation is currently on its way and is scheduled to be finalised by April.

The former chair set a guide for the board to invest 25% of the fees by the end of the director's tenure, but this is not an enforced requirement. The chair encourages all directors to own shares but understands people have different personal circumstances and does not want to discriminate against directors that cannot afford the investment.

Marketing has been a point of conversation in every board meeting. There are significant changes taking place with the appointment of a new head of investment trusts.

Outcome: Overall, we are happy with the disclosures and board oversight. Diversity of thought has been a focus for the chair and is notable in the current composition of the board and recruitment plans. On the disclosure, while there are good examples of thematic engagement, we mentioned some aspects where we would appreciate additional disclosure.

Impax Environmental Markets – Governance

Objective: This engagement was part of the overall investment trust thematic engagement and our first time meeting the Impax Environmental Markets' (IEM's) board.

Responsibility for oversight of stewardship activities falls on the entire board. However, there is one director that has experience in the sector and, therefore, drives stewardship conversations.

The board is aware it must keep ahead of the ever-changing responsible investment landscape. Overall, we are happy with the disclosures of the trust, but we asked the chair to consider expanding the detail of its voting activity in its annual report. Disclosing the rationale of some of the key votes can help investors understand how stewardship activities fit within the trust's wider strategy.

The board is currently recruiting two new directors through an executive search firm. For one of the directors, the board is explicitly looking for responsible investment experience.

Outcome: We are pleased with the trust's disclosures and the chair's responsiveness to our suggestions. We look forward to continued collaboration with the board.

JPMorgan Global Growth & Income – Governance

Objective: JPMorgan Global Growth & Income (JGGI) is currently not in our monitored universe. Therefore, this engagement was part of the due diligence process.

The current board composition is the result of the amalgamation with The Scottish Investment Trust. Part of the agreement was that the board would add three directors from its board. The board has increased from four directors prior to the amalgamation to seven directors.

However, we noted that the board still falls short of the FCA and Parker review diversity targets. Due to the current board transformation, the chair is expecting to stay on the board for a further two years, which would mean a term of ten years. While we believe that nine years is considered best practice, in some cases limited longer tenures are required to ensure smooth successions.

The board will have its first external board evaluation next year. Currently, it conducts a formal internal evaluation yearly.

Outcome: Overall, we found no major concerns that would preclude us from investing. However, there is room for improvement in the board composition. The board is falling short of diversity targets, both in terms of ethnicity and gender. Additionally, the board lacks responsible investment knowledge, therefore we will explore this further before adding this to the centrally monitored universe.

Law Debenture – Governance

Objective: Law Debenture proposed changes to the remuneration policy, including increases in the fixed remuneration of the CEO and changes to the variable remuneration of the CEO and COO. We engaged with the chair of the remuneration committee to get further clarity on the proposed remuneration structure.

The current proposal is part of its triannual remuneration evaluation. The long-term incentive plan (LTIP) was first introduced in 2020 and set at 100%, with the view that it would be re-evaluated in the future. Additionally, the COO was recently given additional responsibility and, therefore, the board wants her to prove herself in the new role before increasing her fixed salary.

The company explained there is currently a high demand for talent in its sector, especially for executive females. The board is trying to create an attractive proposition to keep, what it thinks is, a great executive team. The company stated it is hard to find comparable peers as most of its competitors are private companies. The board uses the FTSE SmallCap as a loose reference to set its executive-level salaries.

Outcome: The engagement provided further context on the rationale for the remuneration increase. We will be supportive of the changes, subject to the continued good performance of the trust.

LXi REIT – Environment Governance

Objective: This was a meeting with the new appointed head of ESG at Alvarium, which is the adviser to LXI REIT. We used this opportunity to outline our expectations for ESG-related frameworks and disclosure in the real estate sector.

As LXi does not disclose in line with CDP climate (originally known as the Carbon Disclosure Project) or GRESB (Global Real Estate Sustainability Benchmark), it is difficult for us to assess it against its peers. We would expect a company the size of LXi to disclose to CDP and to seek external validation through GRESB. The REITs are not usually covered by data providers in the same detail as equities, so we suggested that engaging with them could be a useful exercise.

Outcome: We outlined that internally managed REITs tend to have better disclosure, and we encouraged the company to enhance its disclosure. We also expressed our preference for the company to disclose in line with best-in-class frameworks.

The Monks Investment Trust – Governance

Objective: This engagement was part of the overall investment trust thematic engagement. It was also a collaborative engagement with Quilter Investors.

There were several concerns raised about the board's composition from a tenure and diversity perspective. We discussed the plans for board succession and shared our view that a nine-year term for non-executive directors is best practice, as we believe independence can become an issue over time. The chair indicated his intent to stay on the board for the next two to three years (but less than five). At the time of our conversation, he had sat on the board for ten years. The senior independent director (SID) will be reaching a nine-year term at the next AGM and there are no plans to replace him.

The board is currently 50% female but does not have any directors from an ethnic minority background as required by the Parker Review targets.

The chair believes that directors should have 'skin in the game' and encourages all the directors to own at least some shares.

Outcome: The trust's responsible investment disclosures are adequate, but we mentioned that increased disclosure of engagement activities could be beneficial for shareholders. We have concerns about the tenure of the chair and the SID and have flagged these to the board. However, we will support their re-elections in 2023.

NatWest – Environment

Objective: NatWest recently published its Climate Transition Plan and organised a webinar to explain the work that led to these targets.

NatWest is the first major UK bank to have sector-level targets validated by the Science-Based Target Initiatives (SBTI). The company mentioned that the engagement with SBTI was challenging. As the first bank going through the process, NatWest hopes this makes it easier for other banks engaging with SBTI.

Currently, NatWest is working on creating internal carbon price and climate metrics that are part of the executive remuneration KPIs.

The company explained that businesses are putting climate higher on the priority list and higher energy costs have made some transition projects profitable. Therefore, NatWest is focusing on giving businesses and individuals more tools to help their transitions to net zero.

NatWest has partnered with Cogo to provide clients with a tool to track their carbon footprint based on their purchases, with 330,000 customers accessing the tool. Additionally, NatWest has also launched a carbon planner-free tool to help businesses identify potential carbon savings. These initiatives are of plan to drive deeper consumer engagement.

NatWest stated this is an evolving area and as the science develops, its disclosure will also improve.

Outcome: A useful engagement that helped us to understand where NatWest sits on its transition journey.

NB Private Equity Partners Limited – Governance

Objective: This was part of our broader thematic investment trust engagement. This engagement was also a collaboration with Quilter Investors.

The chair explained that when he joined the board, he thought NBPE was a fantastic vehicle to invest in private equity. However, the communication with shareholders was not great, the website was not accessible, and the reports were using US accounting style. Additionally, there were some governance issues, including manager representation on the board. During his tenure, the board has undergone major changes. The trust hired a consultant to change the website and marketing. Additionally, the last non-independent director retired, and the board has moved to a fully independent board.

The current disclosures highlight the ESG integration process. However, we feel that further detail could be added. We suggested that the addition of examples can be an effective way of explaining the stewardship process.

The board knows it must meet the Parker Review target. Therefore, the chair is considering recruiting another director, temporarily bringing the board to six members, as a successor to the chair of the audit committee. When the current chair of audit eventually retires, the board would look to go back to five directors. An additional challenge is that the current chair of audit is based in Guernsey and the board thinks it can be helpful to have two directors based there.

The trust applies its responsible investment policy during due diligence at the point of investment when it has the biggest impact. The board has considered creating an ESG committee at board level. However, it does not think this would add much value as ESG developments are discussed at every board meeting. We agree.

Outcome: We will monitor the board composition as the trust needs to meet the Parker Review requirements in 2024. We will continue to evaluate the quality of the responsible investment disclosures where still see room for improvement.

Nordea – Governance

Objective: To discuss the rational for the proposal to hold virtual-only meetings.

ISS recommends voting against the proposal put forward by management to hold virtual-only meetings. The Finnish Companies Act was amended in 2022 to enable limited liability companies to hold virtual general meetings. The company believes that shareholders have other avenues to hold the board to account and this is more likely to take place at roadshows and through investor relations discussions. We engaged with the company over email. The company explained that shareholders can exercise their full decision-making powers, including the right to speak, make counterproposals and vote, in real-time, using a telecommunication connection and other technical means.

The company also highlighted that virtual meetings enable all shareholders to engage with the management regardless of the shareholders' geographical location. However, given a hybrid meetings model, which many companies already partake in, also allows shareholders to participate irrespective of location, we don't consider this a compelling rationale for virtual only. Furthermore, open and direct communication (facilitated by in-person meetings) with the board is important. Therefore, we decided to vote in line with ISS' recommendation on this item.

Outcome: Although the company stipulates virtual-only meetings still allows shareholders to exercise their rights in full, on balance, the option to attend a meeting in person is beneficial to enable shareholders to fully exercise their rights.

Octopus Renewables Infrastructure Trust – Enviroment

Objective: To continue our thematic engagement on the lifecycle of renewable energy infrastructure assets, specifically wind turbines and solar panels. The first phase is engagement for information and learning best practice.

On the topic of supply chain management, we first discussed the due diligence that is completed at the pre-investment stage. Octopus Renewables Infrastructure Trust's (ORIT's) supply chain policy was established by Octopus Energy, which is responsible for completing all due diligence and scrutiny of suppliers, along with a third-party consultant.

This due diligence process includes an ESG scoring mechanism, which assesses all material issues in the supply chain such as health and safety management. There is also a questionnaire (DDQ) to assess supplier policies and compliance with standards such as modern slavery and codes of conduct.

When working with suppliers from Chinese markets, there is enhanced due diligence, which recognises that this is a high-risk area.

On the topic of the treatment of assets at the end of their useful life, ORIT has a relatively young portfolio consisting of solar and wind assets. These wind assets still have an average useful life of 30 years. Therefore, the treatment of the assets at the end of their useful is not yet a priority and a policy on this has not been established. ORIT is, however, committed to recycling and has demonstrated this with panel replacements as old parts are given to panel recycling outfits and local contractors to maximise recycling potential.

Outcome: This was an engagement for information, which we have used to improve our understanding of best practice when it comes to the lifecycle of renewable energy infrastructure assets. The supply chain due diligence completed by ORIT is in line with best practice established from the previous engagement we conducted on this topic. The average useful life of the assets in ORIT's portfolio is 30 years, so there is currently no established policy on the treatment of assets at the end of useful life.

Persimmon – Social

Objective: As part of the 'Find it, Fix it, Prevent it' collaborative initiative, we met to discuss the company's approach to managing modern slavery risks within its supply chain.

The engagement covered two key areas – managing labour risks in geographies that have a heightened risk of slavery, and plans moving forward.

In its modern slavery statement, Persimmon highlights that a small proportion of its goods, such as stone supplies from India and China, originate from locations with a higher risk. In these instances, agency labour and sub-contracted labour are more prevalent and strict controls are required. The company is providing enhanced training to contractors and employees to increase awareness of the signs of modern slavery and ensure there is a robust whistleblowing provision in place. One area of concern is the lack of training material in local languages, which the company is addressing.

Persimmon has a three-line of defence framework. First line (operating company level) is responsible procurement. Second line (group level) includes the HR department, which checks employment practices and group-level procurement controls supplier assessment and performance. Third line (internal audit) performs annual internal audits. Persimmon relies on audit reports for confirmation that supplier audits have been carried out. There is an absence of a company representative present on the onsite audits, which raises concerns.

Moving forwards, Permission is focusing on technological innovation through using an app, which will allow employees to provide feedback on areas such as health and safety measures, training, and overall communication channels.

Outcome: Overall, a useful conversation. It is reassuring that Persimmon has identified specific areas with heightened risk and is taking steps to address these, and that key executives are responsible for, and oversee, the company's modern slavery risks.

Polar Capital Global Financial – Governance

Objective: This was part of our investment trust thematic engagement. We previously met the board in 2020.

The chair explained that in the last three years, there have been significant developments in the trust's approach to responsible investment. The annual report does a reasonable job of explaining how the trust is integrating ESG factors into the investment process.

The disclosures provide a breakdown of voting activity, but it lacks any information on the reasons behind the voting decision. We noted that providing more context around voting decisions could further enhance disclosure. The annual report does not include examples of engagements, which are a key part of the trust's stewardship strategy. Again, we believe shareholders would benefit from further disclosure in this area.

The chair has overseen a complete board refreshment with three new directors joining over the last three years. The chair will resign at the upcoming AGM and will be replaced by an existing director.

The board used two executive search firms for the latest board appointments. The chair is aware of the Parker Review targets and diversity was a consideration through the recruitment process as well as candidates with a responsible investment and fund management background.

When the trust was established, it was during a time when public perception on financial institutions was at an all-time low, so to show shareholders that directors had 'skin in the game' there was a requirement for directors to invest 50% of their annual fees into shares. The board has since abolished this requirement. However, the chair believes that, in principle, it is positive for directors to own shares.

Outcome: Overall, the trust has a reasonable responsible investment disclosure, and we have set expectations for the future in relation to additional voting rationale and engagement information.

Princess Private Equity Holding – Governance

Objective: Last year, we meet the board of Princess Private Equity after the trust announced the suspension of the dividend and the decision to stop further investments. We then escalated the engagement and communicated our concerns formally as well as our voting intentions in writing to the board

The trust announced that the chair, who is approaching 15 years on the board, will be stepping down at the next AGM. The current chair of the audit & risk committee will succeed him as chair of the board. He currently serves on other boards, and we questioned whether he could dedicate enough time to the board of Princess Private Equity. The board is in the process of recruiting a new non-executive director (NED) as part of a rather belated succession plan to replace a NED who is approaching a 10-year term. Given the tenure of this NED, we deem two out of the five NEDs as being non-independent, as there is a further NED who works for the manager and acts as the manager's representative on the board. We raised this latter issue, and we did not find the board's rationale convincing. Our position remains unchanged – shareholders would benefit from having a fully independent board.

Outcome: The trust has taken a step to improve the board composition. However, many of our concerns remain. The board still has two non-independent directors, including a management representative, and we are wary of the incoming chair's additional board mandates.

Schroder Asia Pacific Fund – Governance

Objective: This engagement was part of the overall investment trust thematic engagement and our first time meeting Schroder Asia Pacific Fund's (SDP's) board.

The board is aware that retail investors tend to be of an older demographic. The board has pushed the investment adviser (manager) to develop its marketing, to attract new retail investors and it is pleased with the progress.

We explained that we are keen to see the stewardship activities disclosures at a trust level. While some information about voting is disclosed in the annual report, we would like to see more detail on the voting rationale as well as engagement examples. The board agrees and has invited us to share our thoughts with the manager.

The chair will serve a ten-year term to ensure an orderly succession.

Outcome: The board was receptive to our suggestions, and we will monitor progress in relation to responsible investment disclosure.

Stellantis – Governance

Objective: Prior to the 2023 AGM, we engaged the company on concerns regarding remuneration to the outgoing CEO as well as the diversity of the board.

Our proxy advisor recommended voting against the remuneration report at the upcoming AGM owing to concerns related to the total pay-out to Mike Manley, the outgoing CEO of FCA NV. Prior to completion of the merger with Groupe PSA, a pre-merger agreement was put in place to uphold accelerated vesting of existing LTI awards, to implement a one-off retention award and a one-off 'recognition award' agreement to secure Manley's services for a short time during the initial integration phase of the new company.

Total outgoing payments amounted to EUR 51 million. While our proxy advisor considers this excessive, on engaging with the company we learned that most of the compensation (EUR 42 million) relates to accelerated vesting of exiting LTIs, which would have taken place regardless of Mike Manley's ongoing employment. This is because a merger event clause was present in his existing compensation agreement. We judge the early stages of the merger to have been successful and have no material concerns with the pre-merger agreement.

Overall board gender diversity is currently 27% and the board is recommending the election of an of a new male board member. This position is a shareholder-mandated board seat. The company has committed to meeting EU requirements on gender balanced boards by 2025 (when seven board positions are up for renewal). The company is currently far from meeting gender balanced requirements, and we believe it would benefit from more immediate action leading to a phased transition.

Outcome: We voted to support management on items related to the remuneration report but voted against the election of the newly proposed board member owing to continued low gender diversity at the board level.

Temple Bar Investment Trust – Governance

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

In 2020, the board changed the investment adviser from Ninety-one to Redwheel. The board reviewed several proposals from different investment advisers and decided on Redwheel because it had the most compelling proposal, which clearly articulated its investment process.

The board was keen not to change investment styles and maintain its value bias. Temple Bar Investment Trust (TMPL) is the first investment trust managed by Redwheel. There was a learning curve, especially during the first reporting season when the chair had to spend significant time working on the annual report. The trust has also retained Frostrow for company secretarial services.

The responsible investment disclosures show some examples of engagements, but we mentioned that increased disclosure of voting activities could be beneficial for shareholders.

Finally, the chair noted that changing the manager is a last resort alternative because it is disruptive and expensive.

The current chair has sat on the board for 12 years. His term was extended owing to the change of manager, and he will not put himself up for re-election at the upcoming AGM. His replacement has served as an NED for five years and will be appointed at the next shareholder meeting.

Outcome: A very interactive meeting. The trust's responsible investment disclosures are adequate, but we mentioned that increased disclosure of voting activities could be beneficial for shareholders.

FUND ENGAGEMENT

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

The engagements are split into four areas:

1. The firmwide approach to responsible investment

2. Manager and strategy approach to responsible investment

3. Engagement on ESG risk and exposure

4. The firmwide approach to net zero

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

Objective: To gain a deeper understanding of how asset managers can analyse and engage on social factors.

This was a meeting to discuss how the asset manager is considering social factors within its analysis and engagements for companies within different sectors. We discussed the challenges posed by less standardised metrics that are different for different sectors, how social issues are less well understood as financially material issues, as well as specific areas of focus such as modern slavery. We discussed how interlinked social factors are with environmental factors, including the physical impacts of climate change.

Outcome: We see the work being done to evaluate and engage on social factors to be well considered and among those following best practice.

Third party manager – UK equity: Manager and strategy approach to responsible investment

Objective: To understand the approach being taken to consider ESG factors in investment analysis, decision making and engagements.

This was a deep dive meeting ahead of the fund being added to research coverage to understand the approach in more detail. Governance factors have dominated the approach to date, reflecting a central tenet of the investment process that strong governance is key to identifying high quality companies, which they believe are then more likely to demonstrate strong social and environmental credentials and management. However, over the past year the team has rolled out the parent company's ESG framework, including a research template for all company holdings considering governance, sustainability risks and momentum. We also discussed how the team uses third party data and information gathered from its own engagements, as well as the firm's approach to the Net Zero Asset Manager (NZAM) initiative.

Outcome: Good progress is being made to incorporate the parent company's structured ESG framework into the team's approach. At future meetings we will look for further evidence of environmental and social considerations in the process.

Third party manager

1. Japan equity: Manager and strategy approach to responsible investment
2. ESG specialist: The firmwide approach to responsible investment; The firmwide approach to net zero

Objective: The meetings had four key purposes: 1) an update regarding ESG factor integration within the investment process 2) how this is applied by different teams 3) what data on the firm uses 4) the firm's approach to NZAM.

The first meeting was to understand how the portfolio manager leverages the central ESG resource in his investment analysis and engagements. We will follow up in 12 months regarding engagements with trading companies which were identified as having significant influence in Japan.

The second meeting was a follow up meeting with the ESG specialist to update on the roll out of ESG data to the investment desks and how investment teams are supported in this area. All bar two investment teams have an embedded ESG specialist – the two that do not have a specialist are viewed as undertaking this work well already. The firm is working towards delivering ESG data to its investment desks. A system pulling in company and portfolio level ESG metrics has been rolled out in beta form to the ESG analysts this week, delivering a set of core ESG related information.

The firm has committed 20% of its assets under management initially and has set net zero targets of 75% of portfolios being aligned by 2030 and 100% by 2040. There seems to be less of a target around engagement although it was noted that real world change should be the focus – instead, it seems likely that portfolios will be shifting towards climate leaders and divesting climate laggards.

Outcome: The central approach comes across well with good progress on new areas. We will be following up with meetings with the other fund managers that we are invested with to see how they are making use of the centralised resource.

IN THE SPOTLIGHT

OPPORTUNITY IN THE MASS OF REGULATION, NOT JUST RISKS

Gemma Woodward, Head of Responsible Investment

Source of image: iStock

The new year is still in its nascent stage but already firms have had a full agenda when it comes to regulation on sustainable investment.

January 1st saw the EU's Sustainable Finance Disclosure Regulation (SFDR) level 2 rules go live, strengthening the reporting requirements for sustainable and ESG-labelled financial products. This has already resulted in a number of fund groups reclassify their funds in order to avoid having the greenwashing finger pointed at them.

Now, most industry participants will have been prepared for this, but in the wider context it comes off an extremely busy year of responsible and sustainable investment regulation. While much of this regulation is necessary and should bring about greater clarity for end investors, it is not for the faint-hearted, firms need to be prepared to roll up their sleeves.

Just looking at the regulatory environment today, in addition to SFDR, you have the Task Force on Climate-Related Disclosures (TCFD) upping its reporting requirements, the International Sustainability Standards Board looking to finalise rules for its disclosures, the FCA's Sustainability Disclosure Requirements (SDR) consultation, the Consumer Duty, and so on.

Simply put, the regulatory burden is huge and growing.

We have favoured the FCA's trickle down approach and its timeframes to help firms and advisers get prepared for the various regulations, however we have to sound a word of caution. The trickle-down approach also means that it is potentially more difficult for firms and advisers to plan, as the detail of the regulations' endgame is not known and therefore building systems and procedures to meet these requirements is more complex.

And for advisers this is going to be an incredibly tough environment to navigate. The FCA has said it will consult separately on their requirements around SDR and it is good that this will drill down into additional detail of what it expects across the whole value chain.

Investing attitudes are changing today across all generations and interest in responsible and sustainable investment has not abated. It is highly likely that the SDR regime will result in products being labelled in accordance with their sustainable attributes. The difficulty that may well arise is that there is no mandatory suitability process to use as a tool to identify clients' responsible and sustainable investment requirements.

It is sensible, therefore, to start formalising your own process and many advisers have done this already, knowing it may have to be adapted once the FCA comes out with its own rules. This is potentially the best approach given the increasing demand for responsible and sustainable investing. However, it is also understandable if advisers don't feel confident enough to do so and want to see how these trickle-down regulations mesh together.

This is where fund and investment groups have a crucial role to play. They are naturally further along in the responsible and sustainable investing journey and have had more time, and arguably resource, to prepare for all this regulation. Sharing this knowledge down the value chain and identifying best practice will ensure we have alignment not only with each other, and the terms we use, but also with regulation.

Most importantly, however, is the need to distil all this into simple and understandable language. To make any of this regulation a success, we have to do better at making responsible and sustainable investment comprehensible and engaging with clients and advisers in a way that makes them feel that this is the right course of action – not just for the planet but for portfolios too.

The Consumer Duty should go some way to help with this given its emphasis on producing good customer outcomes in every product and service there is to offer. This means all communications need to be understood by the average client.

So, while regulation may be piecemeal and difficult to navigate this year, we have a shared interest in making it a success and find a way to make it help the industry flourish, not hold it back.

Article first published in ESG Clarity – February 2023

LIFECYCLE OF RENEWABLE ENERGY INFRASTRUCTURE ASSETS

Harry Gibbon, Investment Manager

In addition to the thematic engagement led by the Responsible Investment team, during the last quarter of 2022, our Sustainable Investment team focused our thematic engagement on the lifecycle of renewable energy infrastructure assets.

SDG Alignment

Renewable energy infrastructure investment trusts are an important component of our 'Clean Energy' investment theme. The trusts own and operate renewable energy assets, such as wind farms and solar power plants, and sell the energy generated. They are a strong source of income as they pay out their profits. They also act as a portfolio diversifier as their performance is not expected to correlate closely with equity or bond markets.

In the summer of 2022, we undertook a review of our renewable energy investment trust holdings. We planned an engagement project focusing on sustainability considerations across the lifecycle of their infrastructure assets, with a particular focus on supply-chain management and the approach to disposing assets at the end of their life. We began this engagement in Q4 2022 alongside our Responsible Investment team and our Alternatives Analyst, and the engagement was concluded in Q1 2023.

We were keen to look under the bonnet and better understand these companies' approach to certain sustainability challenges. This included delving deeper into their supply-chain policies and understanding their use of data and 'Key Performance Indicators'. It was important for us to determine which trusts had a strong approach to mitigating risk in their supply chain – including ensuring solar panels are not built in regions associated with human rights abuses, or wind turbines built using conflict minerals. We also sought to understand whether trusts had a robust approach to defining sustainable end-of-life plans for their assets, focusing on minimising the proportion of solar panels or wind turbines that may be sent to landfill. In many ways, this is an evolving theme and one we expect to receive increased focus in the coming years as a significant wave of renewable energy assets reach the end of their useful life. It is also likely that we will see additional technological advancement that enables the complete recyclability of these assets in a commercially viable way, something that isn't currently the case.

There are different ways that a manager of a renewable energy investment trust can operate their assets and different methods for adding value for shareholders. Some managers buy into existing assets, others take on some construction risk and build the asset themselves, which adds to returns when executed successfully. A fund manager can employ an operations manager that is responsible for managing the power generation across their portfolio. Others may buy an asset with an operations manager in place. While some may just buy minority stakes in projects and leave the management to a controlling partner. There are many roads that lead to Rome and by investing in trusts with a range of approaches the portfolio diversification benefits are enhanced.

We began our engagement project by meeting with a well-established wind turbine manufacturer, whom we consider possesses a credible focus on sustainability, to discuss their approach and research into the recyclability of turbines. It was no surprise to hear that the company's own supply chain management policies and due diligence processes were market leading too. We had a positive conversation with this manufacturer, which provided a benchmark for our later discussions. Hearing the extent to which 'endof-life' was increasingly considered within turbine manufacture was particularly encouraging.

We then initiated conversations with the six renewable energy investment trusts within our investment universe, four of which we currently hold within the Climate Assets Funds. We found our conversations extremely valuable in forming an opinion on how focused management really were on these important sustainability and ESG themes. On supply chain management, all trusts outlined their approach to ensuring they only work with suppliers clearly aligned with their views. Due diligence was taken seriously across the board, and it was pleasing to see that sustainability values and considerations were an important component of such assessments. When it came to end-of-life asset considerations, it was understandable that not all trusts had a formal process in place for defining a sustainable plan for assets. Some would not need to decommission any assets for another decade or more, at which stage technological capability and capacity for recycling assets is likely to have greatly evolved. Instead of only considering formal process, we often focused on management's engagement with the topic, as well as their plans and ideas for building out their framework and reporting in the future.

Our Alternatives Analyst delayed sharing his views on the strength of each trust's management as he did not want to colour our view ahead of the meeting. It was encouraging to see a strong correlation between his pre-existing view of the strength of management overall and our view of management's approach to these specific sustainability topics. This both reinforced that our Analyst's detailed research on the quality of management was likely accurate and reiterated the value that ESG and sustainability related analysis can have when assessing the quality of a company or trust.

Unfortunately, not all the meetings went as we had hoped and for one trust in particular, while they were able to demonstrate they had the bones of a framework in place, it was clear that the manager did not take the sustainability themes as seriously as we would expect. We plan to escalate this matter with the trust's board in conjunction with a separate Quilter Cheviot thematic engagement project on investment trusts (focused on the board and responsible investment activity and disclosure) in the coming months.

At the conclusion of our engagement, we saw news that the wind turbine manufacturer we spoke with back in September 2022 had announced a breakthrough in producing recyclable turbines, its "circularity solution to end landfill for turbine blades". This is a significant step in the right direction and pleasing that renewable infrastructure assets will have a circular ecosystem in the not-too-distant future.

Overall, while there are certain areas for improvement, we found the meetings to be positive. Trusts demonstrated a mature approach to considering sustainability within supply chain management, and most had a proactive approach to asset disposal. In many cases, conversations were collaborative, with trusts eager to benchmark themselves to their peers and obtain our views on best practice and developments in this area. It has been satisfying to see the desire for improvement and we look forward to working closely with the managers to help drive value for our unitholders.

RI REELS

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

DPS Focused strategy

Kirsty Ward, Responsible Investment Analyst; Alan McIntosh, Chief Investment Strategist

Alan discusses our Discretionary Portfolio Services (DPS) Focused strategy, designed for clients who would like a greater emphasis placed on environmental, social and governance factors.

WATCH VLOG

Exploring Diversity beyond the data

Kirsty Ward, Responsible Investment Analyst; Ramón Secades, Senior Responsible Investment Analyst

Kirsty and Ramón discuss our latest thematic engagement which is focused on diversity and inclusion - part of our human rights theme. For further information, you can read our thematic engagement here.

WATCH VLOG

Diversity and inclusion

Kirsty Ward, Responsible Investment Analyst; Tosin James-Odukoya, Head of Diversity and Inclusion

Tosin discusses our approach to diversity and inclusion and shares her thoughts for the future.

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.

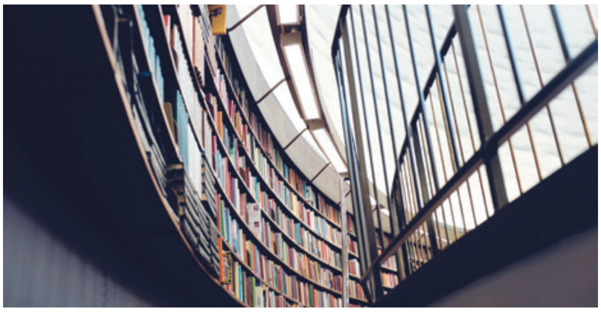
Clawback (and malus): Incentive plans should include provisions that allow the company, in specified circumstances, to ensure that a recipient:

- 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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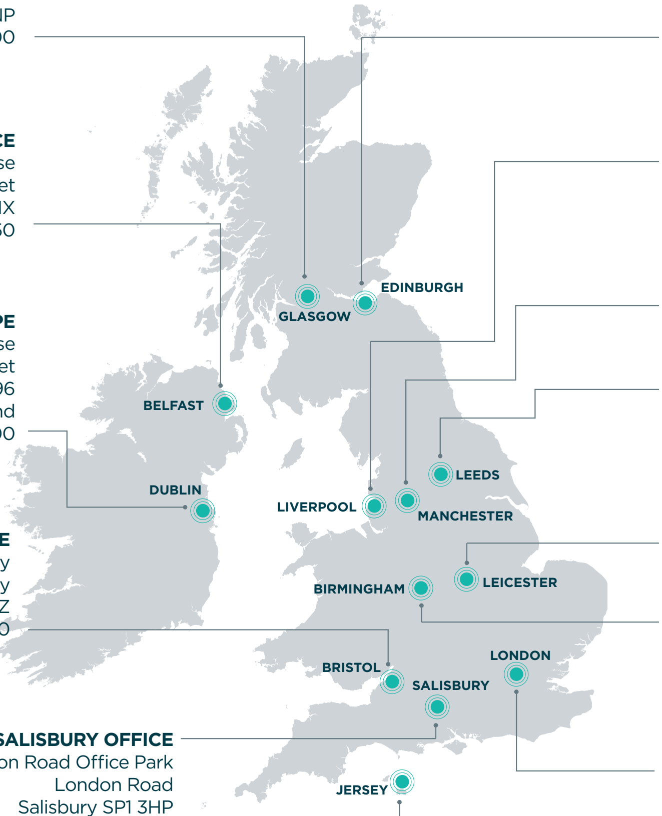

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OS012271 (04/2023)

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