



## OUR RESPONSIBLE INVESTMENT PRINCIPLES AND PURPOSE

### Responsible heritage – why invest responsibly?

With a heritage dating back to 1771, we understand the importance of taking a long-term view and investing for future generations. As a responsible investor, Quilter Cheviot is committed to its role as a steward of clients' assets to protect and enhance long-term returns. This encompasses our engagement with investee companies, through proxy voting and face-to-face dialogue, as well as considering environmental, social and governance (ESG) factors which could impact shareholder returns.

We believe incorporating environmental, social and governance considerations into our investment analysis and stewardships is important for the following reasons:

- **A more holistic approach:** Integrating ESG information into the investment process can help mitigate risks and identify opportunities.
- **The double bottom line:** In addition to potentially enhancing long-term returns, we believe taking these factors into account will benefit other stakeholders, creating environmental and societal value, not just economic gains.
- **Policy drivers:** There are multiple regulatory developments progressing the case for implementing responsible investment and requiring immediate action. These include the EU's Action Plan on Sustainable Financing, the Taskforce on Climate-related Financial Disclosures (TCFD) and the 2020 UK Stewardship Code.
- **Supporting client demand:** Public awareness of ESG issues and client demand for responsible investment solutions are growing. We implement a firm-level responsible investment process that covers all discretionary holdings but can take a more targeted approach for clients that want their portfolios to reflect their specific interests or preferences.

Environmental, social and governance drivers are integrated into management remuneration in the following ways:

- In the 2022 long-term incentive plan (LTIP), 10% of the scorecard is based on ESG measures. 7.5% is weighted on responsible investing, based on the UN-backed Principles for Responsible Investment (PRI) Framework, the world's leading independent benchmark for responsible investing. The remaining 2.5% of the award will be based on reducing the carbon intensity of Quilter's own operations.
- The Company's short-term incentive plans include explicit customer outcome measures. In addition, our incentive schemes and outcomes are underpinned by the Company's corporate values, with common goals set for managers and employees to support an inclusive and diverse culture. As part of broader responsible leadership criteria, scheme outcomes also reflect progress in increasing diverse representation in senior and front-office roles, as well as cultural measures such as colleague engagement.

### Our beliefs

- Responsible investment is an umbrella term for different investment approaches. Our role is to enable clients to pick the right approach for them, within the appropriate risk profile.
- There is no such thing as an environmental, social and governance (ESG) fund or an ESG company. All will take different approaches and therefore cannot be directly compared.



- As a responsible investor, the main pillars of our approach are:
  - to analyse ESG data to better inform investment decisions, and
  - to proactively engage with the companies and funds we hold on behalf of our clients (active ownership).
- In our role as a steward of our clients' assets, we protect and enhance long-term returns through responsible investment.

There are two approaches to being a responsible investor:

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

**Definitions**

**ESG (Environmental, Social and Governance) factors**

ESG is the starting point for understanding how the responsible investment process works in practice. ESG issues are data points that can be used as an additional input into the investment analysis process. This information is often qualitative and is not the kind of information that can be discerned from traditional financial statements or earnings forecasts.

We recognise that in some circumstances ESG issues may impact a company's ability to pursue its business strategy and affect its financial performance. Therefore, we expect investee companies to identify and manage ESG risks and opportunities to the extent they affect their business strategy. ESG issues may be broad and varied, but examples might include:



**ENVIRONMENTAL**

**A company's impact on the natural world**

- Climate change
- Biodiversity loss
- Resource scarcity
- Waste and pollution



**SOCIAL**

**The wellbeing and rights of people and communities**

- Human rights
- Modern slavery
- Working conditions
- Employee relations



**GOVERNANCE**

**The standards for running a company**

- Bribery & corruption
- Executive pay (remuneration)
- Board diversity & structure
- Political lobbying & donations

These are examples of a range of issues that may be useful to look at. Materiality is critical and it is important to focus on issues that are material to the relevant industry group or sub-industry group being analysed.

A growing number of companies manage ESG issues as part of their business-as-usual model to mitigate risk and maximise opportunity. Embracing ESG strategies may have direct and indirect positive impacts on the financial performance of a company.






- **Direct impacts** may be seen from the efficient use of material and energy resources, productivity improvements and process changes which can lead to reduced costs.
- **Indirect gains** are more difficult to measure but are important nonetheless. These may include brand and reputational benefits of community engagement, which may in turn attract potential clients and employees, and encourage increased employee and client loyalty.

Integrating ESG considerations into our investment process helps us identify and understand potential risks and opportunities, and ultimately protect, and possibly enhance, long-term investment outcomes for our clients. When we meet company management and boards, we discuss a number of issues, and as appropriate, those relating to ESG issues.

**Responsible Investment**










Across Quilter, we have adopted the Investment Association’s and UN-backed PRI’s responsible investment framework. Both organisations define responsible investment as:

*‘A strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.’*

|  <b>STEWARDSHIP</b>   |  <b>ESG INTEGRATION</b>   |  <b>EXCLUSIONS</b>   |  <b>SUSTAINABILITY FOCUS</b>  |  <b>IMPACT INVESTING</b>  |
|--|--|---|---|--|
| <p>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.<br/>(Financial Reporting Council)</p>   | <p>The systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions.<br/>(UN Principles for Responsible Investment)</p>   | <p>Excluding entire sectors, activities, companies or countries from a fund or portfolio based on ESG criteria, moral or ethical views, or religious beliefs</p>  | <p>Investment approaches that select and include investments on the basis of their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcome(s). Investments are chosen on the basis of their economic activity (what they produce/ what services they deliver) and on their business conduct (how they deliver their products and services).<br/>(Investment Association)</p> | <p>Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.<br/>(Global Impact Investing Network)</p>   |
| <p><b>What does this mean?</b></p> <ul style="list-style-type: none"> <li>• Ongoing engagement with the companies and funds we invest in to discuss their handling and disclosure of ESG related issues</li> <li>• Engagement may be undertaken individually or in collaboration with other investors</li> <li>• Using voting rights where applicable to further our engagement</li> </ul> | <p><b>What does this mean?</b></p> <ul style="list-style-type: none"> <li>• It is not about excluding certain activities but understanding the ESG related challenges and opportunities</li> <li>• It is about risk mitigation</li> <li>• The approach depending on the asset class</li> </ul> | <p><b>What does this mean?</b></p> <ul style="list-style-type: none"> <li>• Across Quilter we have a firm-wide restriction on investing in controversial weapons directly or indirectly through actively managed funds</li> <li>• Some of the strategies or products we offer have specific exclusions as part of the investment mandate</li> <li>• Within our DPS offering clients can set their own exclusions</li> </ul> | <p><b>What does this mean?</b></p> <ul style="list-style-type: none"> <li>• Different strategies will set different sustainability outcomes</li> <li>• For many strategies, this will be linked to supporting the UN Sustainable Development Goals</li> </ul>   | <p><b>What does this mean?</b></p> <ul style="list-style-type: none"> <li>• Investing in different asset classes to intentionally achieve positive social and environmental outcomes</li> <li>• Lower financial returns may be accepted to achieve social/environmental returns</li> </ul> |

Based on the Investment Association’s Responsible Investment Framework November 2019

The graphic below summarises the three main approaches to responsible investment that we undertake across discretionary portfolios managed at Quilter Cheviot.

| STEWARDSHIP   | ESG INTEGRATION  | ESG SCREENING  |
|---|--|--|
| <p>Active ownership agenda</p>  <p>Signatory of:</p>         | <p>Focus on core list of equities, funds and fixed income holdings</p> <p>Part of the investment process - research analysts working alongside RI team</p> <p>Multiple data providers including ISS, Sustainalytics, Ethical Screening, CDP and other NGO data providers</p> | <p>At a firm level we exclude direct investment in controversial weapons and have undertaken an attestation process for our third-party actively managed funds.</p> <p>Additionally, clients may set their own screens</p> |

Stewardship involves engaging with companies to discuss ESG issues to improve their handling and disclosure of such issues. This may be carried out individually or in collaboration with other investors. It includes voting, either in person or by proxy, which involves formally expressing approval or disapproval through voting on resolutions. Additionally, we facilitate client-instructed voting, therefore our clients have the ability to exercise their own stewardship.

- It is not about excluding certain activities but it is understanding the ESG related challenges and opportunities
- It is about risk mitigation
- The approach depending on the asset class

ESG is a component within the investment process – it is not the overriding consideration.

At Quilter Cheviot this is integrated into the investment process and our research teams are responsible for incorporating this into their ongoing analysis of investments.

At Quilter Cheviot we have a firm-wide restriction on investing directly in cluster munitions and anti-personnel landmines. We also monitor any potential indirect exposure to this on an ongoing basis.

Clients can also express their own preferences through screening on a bespoke basis.

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