Quilter

Stewardship Code Report 2021

We have structured this report to link directly to the relevant principles; therefore, for each section we have identified the principles to which this is linked and listed these accordingly
The Stewardship Code has 12 principles for asset owners and asset managers:

Purpose and governance
1 Purpose, strategy and culture
2 Governance, resources and incentives
3 Conflicts of interest
4 Promoting well-functioning markets
5 Review and assurance

Investment approach
6 Client and beneficiary needs
7 Stewardship, investment and ESG integration
8 Monitoring managers and service providers

Engagement
9 Engagement
10 Collaboration
11 Escalation

Exercising rights and responsibilities
12 Exercising rights and responsibilities

Contents

Introduction from Paul Feeney

Quilter has a clear purpose – to help create prosperity for the generations of today and tomorrow.

The financial services industry is in a unique position to help ensure we address the key issues facing our society today. We have a duty to invest the money we are trusted with responsibly and to ensure we act responsibly as a business.

At Quilter, our purpose is to create prosperity for the generations of today and tomorrow. It's this which drives our ambition to be a responsible wealth manager, an ambition which sits as one of the four pillars of our strategy. Our purpose is a symbol of our commitment to invest in a way that gives the customers we serve peace of mind. Ultimately, we are committed to providing you with the information, choice and confidence to invest for a sustainable future. We believe we are well positioned to do this as a full-service wealth manager which offers investments, advice and platform services.

Quilter advisers integrate Environmental, Social and Governance (ESG) considerations within the advice process they follow, enabling our customers to consider sustainability preferences alongside risk and desired investment returns. Within the universe of funds available to Quilter advisers, each has a rating which assesses the manager's ESG integration and stewardship credentials provided by the specialist research provider, Square Mile, enabling customers to make an informed choice with their adviser.

Within our investment businesses we continue to develop our stewardship approach through engagement, voting and the integration of ESG factors into our investment process, as well as developing solutions and products to meet our customers' requirements.

2021 was the year of COP26 and the world's scrutiny turned to Glasgow. For Quilter, climate action is an integral part of our responsible wealth manager strategy and we have an important role to play in climate transition, not just through our operations, but crucially through our investment and advice processes. We are embarking on our net zero journey so we can continue to create prosperity for both the generations of today and tomorrow.

Paul Feeney,
Chief Executive Officer

Commentary from the executive sponsor for our responsible wealth manager strategy, Dean Bowden

In 2021 we introduced a new governance framework for our stewardship activities in order to reinforce our commitment and delivery across the Group. We simplified the strategic responsible business framework to bring together the various components of work across Quilter that contribute to our responsible business aspirations, which of course include our approach to stewardship.

Our goals for the next planning period to 2024

Becoming a responsible wealth manager means acting and investing responsibly for our customers, colleagues and society. Building on our first responsible business strategy introduced in 2018, we refreshed and evolved our approach in 2021 and introduced our responsible wealth manager framework. As part of this we have introduced a new element which overarches the entire strategy: climate action. This includes our own climate action plan and our journey towards net zero. Stewardship plays a significant role in how we will deliver our plan. We have also set ourselves targets for the coming years to deliver our stewardship agenda.

Our framework outlines four priorities:

1. Enable our customers to experience financial wellbeing
2. Drive inclusive growth for our colleagues
3. Take climate action for our environment
4. Create positive social impact in our communities

In 2022 we will set KPIs and targets for each of these areas, including how we will align our business operations and investments with the Paris Agreement and efforts to reach global net zero greenhouse gas emissions by 2050. Effective stewardship will be critical to achieving climate targets, as well as building responsible investment considerations into our investment platform and financial advice services.

We will continue to pursue our target to increase female representation in our Senior Leadership Community from 32% in 2020 to between 38% and 42% by 2024. We have also set ourselves a target to increase the representation of ethnic minority groups in our Senior Leadership Community from 2% in 2020 to 5% by 2024.

This report was reviewed by internal stakeholders including the Chief Investment Officers of our investment management businesses, our compliance teams and then the Quilter Board (which comprises Executive and Non-executive Directors) reviewed the final document. In this report we have used the term "customer" to describe the end investors of our products and services.

Dean Bowden,
Managing Director/Chief Investment Officer – Quilter Investors

An overview of Quilter and our governance framework

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for customers and beneficiaries leading to sustainable benefits for the economy, the environment and society. From our purpose to our governance framework, we aim to enable comprehensive and effective active ownership practices.

1. Our purpose and beliefs 1

Our business

Quilter is a modern, UK-focused, full-service wealth manager providing advice-led investment solutions and investment platform services.

We provide financial advice, investment solutions and wealth management to customers in the UK and selected international markets. We give customers and financial advisers choice and flexibility over how they access our solutions and services and, most importantly, we put good customer outcomes first. Our fundamental purpose is to help create prosperity for the generations of today and tomorrow. To fully realise our purpose and to help secure a more sustainable future, we are committed to acting and investing responsibly. We recognise the wider impact of our activities on our stakeholders and we are committed to ensuring we remain a responsible business.

Our purpose

Our purpose is to help create prosperity for the generations of today and tomorrow. We strive to do this through supporting long-term advice-based relationships, delivering good investment management performance while maintaining consistently high-quality customer service.

Nearly four years post-listing and after restructuring the business, Quilter is at an inflection point. Quilter is now a simpler, modern, full-service wealth manager. Having built strong foundations, we are well positioned for our next phase, resolutely focused on delivering sustainable growth and driving efficiency.

Our approach to stewardship

Quilter recognises stewardship as a fundamental component of how we manage our customers' assets and we fully support the UK Stewardship Code 2020. We were one of the first wave of signatories to the new 2020 Code. This report sets out how we applied the Code's principles during the financial year ended 31 December 2021.

Stewardship plays an important role in our approach to managing ESG-related risks and opportunities responsibly. As a responsible investor, Quilter is committed to our role as a steward of our customers' assets to protect and enhance long-term returns. This encompasses our engagement with investee companies and funds by considering environmental, social and governance (ESG) factors which could impact investor returns. We believe that for the majority of our strategies an approach of engagement rather than divestment is the most appropriate action to take. As an example, taking an approach of simply divesting from holdings with a higher carbon intensity could result in these subsequently being held by investors who do not place any importance on transitioning to a lower-carbon economy. In such a scenario, those investments will not have an incentive to change their behaviour, and this could impede a transition to a lower-carbon economy. Additionally, there is the paradox that some companies that have high carbon intensity are focused on developing solutions for a lower-carbon world.

Quilter is a leading full-service wealth manager, providing advice-led investment solutions and investment platform services to over 900,000 customers. The Group has the following business units:

Financial Advice

Quilter Financial Advisers helps clients across the UK with all their financial planning needs.

Quilter Private Client Advisers specialises in helping clients with complex financial matters.

Quilter Financial Planning Supports over 1,300 appointed firms in the UK. Advisers partner with us to help them run and grow their business.

Investments

Quilter Cheviot is a discretionary investment manager, offering portfolio management services to just under 40,000 clients.

Quilter Investors Our fund management business provides advisers and their clients with multi-asset investment solutions, including managed portfolio services.

Wealth Platform

Quilter enables financial advisers to deliver the very best service to customers and their families, to help them achieve their financial goals. We offer a comprehensive range of products and investments through our award-winning online investment platform.

Quilter has an overarching responsible investment philosophy which applies across the Group. The Stewardship Code Principles are particularly applicable to our two investment management businesses – Quilter Cheviot and Quilter Investors – as such, the scope of this report primarily relates to the two investment management businesses. Together, Quilter Cheviot and Quilter Investors manage £54.3 billion in assets on behalf of customers (as at 31 December 2021).

Both businesses invest significant assets in funds. For Quilter Investors this represents almost the entirety of assets under management and for Quilter Cheviot this represents around 65% of assets under management. The fund research team works across both businesses and in general there is a high degree of consistency in approach across both. Within this, Quilter Investors runs a significant number of funds for which the day-to-day investment is delegated to sub-advisors. For these strategies, we take a particularly hands-on approach to engagement. Additionally, Quilter Cheviot owns direct holdings in equities and fixed income.

In summary

Funds – Quilter Cheviot and Quilter Investors

Direct equity and fixed income – Quilter Cheviot

We provide a number of strategies for customers who have specific responsible investment requirements and are developing further solutions for launch in 2022. These strategies all build on our foundation of stewardship.

Example

Sustainable investment – the climate assets fund and strategy
Investing in the growth markets of sustainability and environmental technologies, with a strong underpinning of ethical values. The strategy is fossil fuel-free and invests in global equities, fixed interest and alternative investments. Five positive investment themes are at the heart of the stock selection: low carbon energy, food, health, resource management and water.

A funds-based approach – positive change
A pragmatic approach that combines funds that invest with a sustainability focus or for impact, with funds managed by leading ESG practitioners. Meaningful engagement by fund houses with company management is prioritised over formal exclusions on the basis that engagement can encourage change where it is needed most.

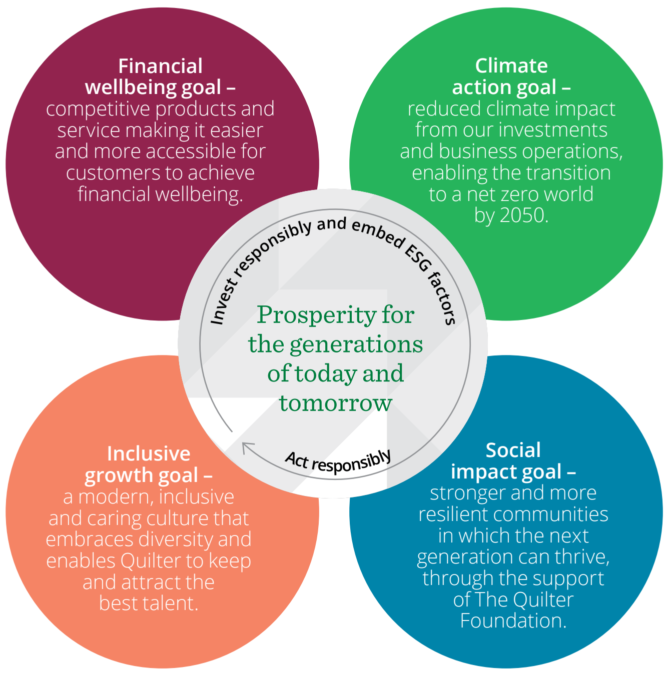
Quilter has identified four Strategic Priorities, one of which is to become a leader in responsible wealth management. This means acting and investing responsibly, for our customers, colleagues, communities and the environment. There are four pillars of activity that align with each of these groups: Financial Wellbeing, Inclusive Growth, Social Impact and Climate Action respectively.

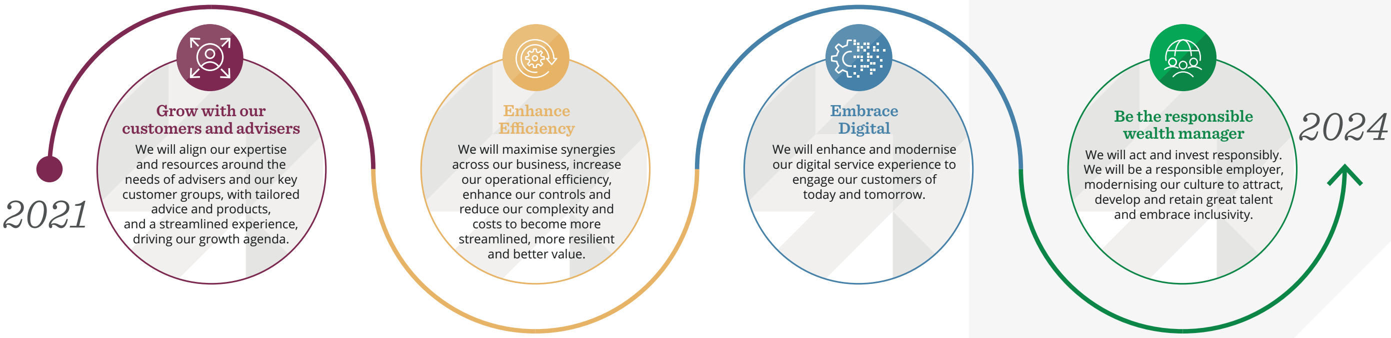
At Quilter, we strive to put the customer at the heart of everything we do, and their Financial Wellbeing is central to that. We want to help customers feel more secure about their future by increasing access to advice and investing, providing straightforward ESG-focused tools and products to support their decision making, while always being transparent. We will continue to campaign for customer protection and consumer rights.

Our Inclusive Growth pillar aims to create an inclusive and caring culture at work, where everyone can thrive and succeed. We have largely agreed the five elements of our strategy, which includes increasing diversity in our advisers as well as employees, and activities will now focus on roll out and implementation.

The Quilter Foundation delivers our Social Impact ambition to invest in the next generation and help build stronger, more resilient communities. The Foundation partners with organisations that support social mobility, providing both financial support the volunteering and engagement opportunities for employees and advisers.

Climate action activities focus on reducing our impact and advancing sustainable investment to support the transition to a low carbon economy. We have partnered with Good Business who are working with us to develop our plans to reach net zero using Scientifically Based Targets (SBTi). In order to do this, they are reviewing our activities to date to identify any gaps; including emissions resulting from both our own corporate activity and from our investment in other organisations. Engagement will be a core part of our strategy to achieving net zero.





Andrew McGlone, Chief Executive

"At Quilter Cheviot, we have a duty to make sure that we are considering environmental, social and governance issues throughout our investment process and through our engagement with the companies we invest in on behalf of our customers. We believe that being responsible investors is the way to safeguard a sustainable future for the next generation. As a business that tailors its service to the specific needs of our customers, we recognise our role in being able to help customers who want to invest knowing that they are generating more than just a financial return on their investments."

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 customers' 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 to 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 including the EU's Action Plan on Sustainable Financing, the Task Force for Climate-related Financial Disclosures (TCFD) and the 2020 UK Stewardship Code.
- **Supporting customer demand:** public awareness of ESG issues and customer demand for responsible investment solutions is growing. We implement a firm-level responsible investment process that covers all discretionary

Steven Levin, Chief Executive

"At Quilter Investors we have always strived to take an innovative and responsible approach to our investments, and we have formalised our processes and principles so that our clients and advisors can be reassured that we are taking ESG factors into consideration when making our investment decisions. We consider this to be a critical part of generating long-term, risk-adjusted and sustainable returns for our investors.

Our approach to responsible investment and engagement is specific to our multi-asset business and plays an important part of our investment approach. We have already taken giant strides towards making our ambitions a reality by incorporating ESG considerations throughout everything we do, embedding a strong foundation that we will be able to build on into the future."

Quilter Investors is a multi-asset investment business; expertly designing and managing multi-asset solutions to help investors prosper for the long term. Additionally, we operate a range of sub-advised single strategy funds where we have outsourced the investment management to specialist third-party Asset Managers, our 'Sub-Advisers'.

Although our investment roots go back much further, Quilter Investors Limited was formed in June 2018, when we separated from the Old Mutual Global Investors group of companies. This was swiftly followed by the listing of Quilter plc on the London and Johannesburg Stock Exchanges. As a young and dynamic business, we are focused on how the solutions we offer best meet the changing needs of investors in a rapidly evolving investment landscape and are well placed to ensure responsible investment principles are fully embedded in our business.

We believe that incorporating environmental, social and governance (ESG) considerations should sit at the heart of the investment process. We have increasingly found that our customers expect us to invest responsibly and, of course, holdings but can take a more targeted approach for customers who want their portfolios to reflect their specific interests or preferences.

Our beliefs

Responsible investment is an umbrella term for different investment approaches: our role is to enable customers 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 so 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 customers (active ownership)
- In our role as a steward of our customers' assets, we protect and enhance long-term returns through responsible investment

In reflecting the importance of this from April 2022 we will be incorporating customers' responsible investment preferences within our suitability process.

our regulators expect us to put ESG considerations into our investment process and the way we operate our business. We also believe putting ESG principles in place is vital to fulfilling our duties as long-term stewards of customer assets and that failing to manage ESG considerations and climate-related issues appropriately could negatively impact on shareholder value over the longer term.

2. What we offer our customers 1

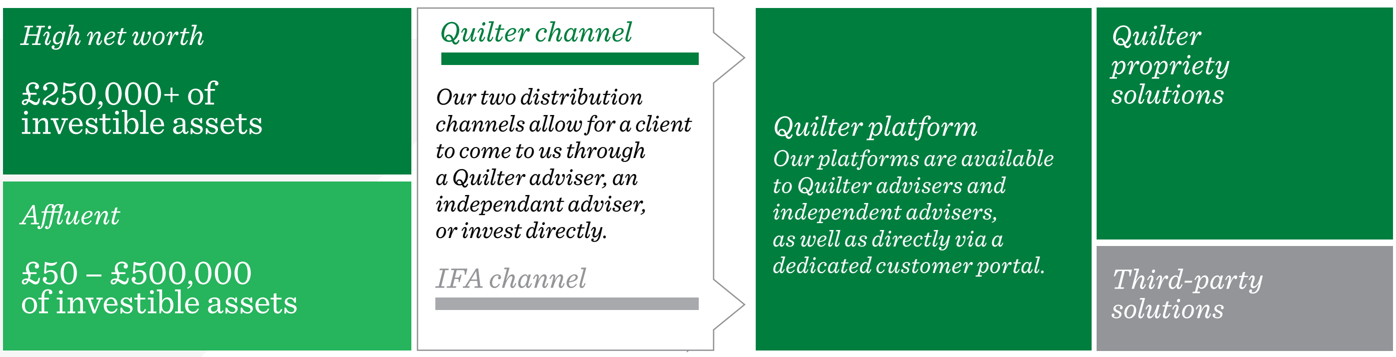
A simpler business, organised around our customers

At our Capital Markets Day in November 2021 we announced a new customer-centric segmentation which reflects the way the business is run and puts the customer at the heart of everything we do.

Our new business segmentation comprises:

- Affluent which encompasses Quilter Financial Planning, the Quilter Platform and our investment solutions business, Quilter Investors, and
- High net worth, which includes Quilter Private Client Advisers and our discretionary fund manager, Quilter Cheviot.

The way we service our customers and the operating model we use is the same for both divisions. We have two segments because the core proposition differs slightly for each. Affluent serves a greater number of customers and is a single-expert proposition: customers have a single point of contact – either one of our advisers or their own – plus a more unitised investment portfolio approach. High net worth customers value a more bespoke discretionary-managed proposition. High net worth has a dual expert approach: an adviser – either one of our private client advisers or a customer's own financial adviser – plus an investment manager.



Our customers use our products and services to meet their long-term financial needs and achieve their aspirations. Ensuring customers are at the heart of everything we do is critical to Quilter's long-term success. Maintaining strong relationships built on the delivery of outstanding service and outcomes, a positive reputation and trust are key to the longevity of Quilter's performance. The significant majority of our customers are classified as individual retail customers and we believe we have a duty to represent their interests, acting as a long-term steward of their assets.

Looking specifically at our two investment businesses, Quilter Cheviot and Quilter Investors.

Quilter Cheviot	Quilter Investors
Quilter Cheviot is a discretionary fund manager with just under 40,000 customers. Quilter Cheviot believes in active investment management and provides bespoke investment solutions, designed to deliver superior risk-adjusted returns for longer-term investors. On behalf of our customers we invest in a wide range of asset classes using a combination of direct investments and third-party managed funds. We believe the best way to meet the challenges of today's dynamic market environment is through a carefully controlled investment framework that combines the skills of a dedicated research team with those of experienced investment managers. Quilter Cheviot's approach can be summarised as follows: ▸ Identify future trends ▸ Adapt style to market cycle ▸ Our global outlook informs asset and sector allocations ▸ Being a responsible investor is part of our process As at 31 December 2021 Quilter Cheviot had 619 employees. Of these over 200 are employed in an investment management role (169 investment managers and 36 trainees), and a further 24 employed within our research team.	Quilter Investors is an investment management business within the Quilter plc group and is the trading name of Quilter Investors Limited and Quilter Investors Portfolio Management Limited. References to 'Quilter Investors' throughout this document can mean either or both of these companies. As at 31 December 2021 Quilter Investors had 115 employees, with 12 investment professionals. We specialise in the creation and management of multi-asset investment portfolios. We understand that customers' investment needs can change and evolve over the course of a lifetime, which is why our experienced team has designed a range of portfolios that offer a choice of investment outcomes at different risk, diversification and price levels, delivering an investment solution our customers can trust.

3. How we have developed our responsible wealth manager approach and stewardship over time 1

Over a number of years, we have focused on being a responsible wealth manager and within that our approach to stewardship and responsible investment.

2015

Quilter Cheviot appointed its first Director of Responsible Investment

Quilter appointed its first Director of Responsible Business

2016

2017

Quilter Cheviot became a Tier 1 signatory to the UK Stewardship Code (2012)

First voluntary carbon disclosure submission to CDP (formerly Carbon Disclosure Project)

2018

2019

First submission to the United Nations-backed Principles of Responsible Investment

Responsible investment representation on the Quilter Cheviot Investment Oversight Committee

Quilter Investors appointed its first Head of Responsible Investment

Responsible investment representation on the Quilter Investors' Investment Oversight Committee

2020

2021

Quilter became a signatory to the 2020 UK Stewardship Code

New responsible investment governance structure introduced across Quilter

Climate Action pillar added to the responsible wealth manager framework

Member of the Institutional Investors Group on Climate Change (IIGCC)

Inclusion of climate metrics within the investment research process

Quilter signs the Investor Agenda's Global Investor Statement on the Climate Crisis

Quilter published a statement supporting the goals of the Paris Agreement and stating our intention to make a formal commitment to net zero emissions in early 2022

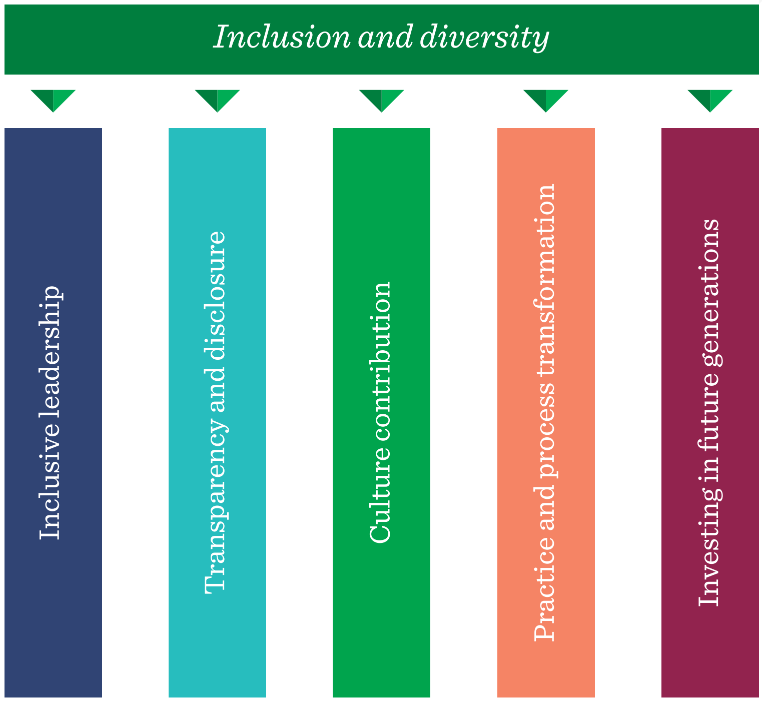
2022

4. Our role in society and inclusion and diversity 1 4

We believe a company's value goes beyond making a profit. By being a responsible wealth manager, we can also play a role in addressing wider societal and environmental issues. This means acting and investing responsibly. In the section below we focus on how Quilter acts responsibly.

Inclusion and diversity

One of the pillars of our responsible wealth manager strategy is 'inclusive growth'. This means creating an inclusive and caring culture, embracing diversity and providing our colleagues with the opportunities to thrive.



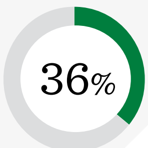
We promote equal opportunities and ensure that no job applicant or colleague is subject to discrimination or less favourable treatment on the grounds of gender, marital status, nationality, ethnicity, age, sexual orientation, responsibilities for dependents, or physical or mental disability.

Paul Matthews and Tazim Essani are the designated Non-executive Directors responsible for employee engagement, which includes inclusion and diversity. At the management level, the Chief Executive Officer is the executive sponsor of inclusion and diversity and chairs the Inclusion and Diversity Steering Committee.

Our inclusion and diversity programme focuses on five key pillars: inclusive leadership; transparency and disclosure; culture contribution; practice and process transformation; and investing in future generations. We focused on improving colleague diversity data to help us better understand our colleague community and the key areas for improvement. Whilst we have 100% response rate for gender, we improved the response rate on ethnicity from 81% to 83%.

We are committed to increase female representation in our Senior Leadership Community, within a range of 38-43% by the end of 2023. As at 31 December 2021, we achieved 36% female representation. We continue to pursue our target to increase ethnic diversity in our Senior Leadership Community to 5% by the end of 2023. As at 31 December 2021, we reached 5% ethnic minority group representation in the Senior Leadership Community, up from 2% in 2020. Our focus on diversity and inclusion has supported a higher completion rate for diversity data which has contributed to the reported increase and we remain committed to increasing representation of ethnically diverse colleagues across all levels of our organisation, particularly within our Senior Leadership Community.

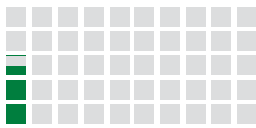
The median gender pay gap in 2021 was 29%, compared with 30% in the previous year. Overall, the slight shift in both the mean and median pay gaps is positive and in keeping with the general trend of recent years. The median ethnicity pay gap remained static year-on-year at 4%. However, our gender and ethnicity bonus gaps worsened in 2021. The median gender bonus gap increased to 53% from 39% in 2020, whilst the median ethnicity bonus gap also increased to 38%, from 15% in the previous year. The worsening of our bonus gaps are mostly influenced by the vesting of long-term incentive awards and deferred incentive awards which vested in March 2021, both of which are linked to legacy bonus pools and the demographics of the organisation in previous years. Inevitably this has increased the gaps given that 2020 incentives paid in March 2021, which are captured in the same reporting period, were significantly lower than prior years due to the impact of the Covid-19 pandemic on the business. Going forward, we will continue to closely monitor our pay gaps and the effect of management action in reducing them over time.



female representation in our senior leadership

1% ↑

median gender pay gap increase



5%

of the Senior Leadership Community were from a minority ethnic group

We remained an active supporter of public initiatives promoting inclusion and diversity, such as LGBT Great, a collaboration aiming to be a catalyst for LGBTQ+ inclusion within the investment industry and championed by our Chief Operating Officer, Karin Cook. In 2021 we also became a signatory of the Halo Code, a commitment to protect colleagues who come to work with natural hair and protective hairstyles associated with their racial, ethnic or cultural identities.

All employees and suppliers providing on site services in the UK are paid no less than the real Living Wage calculated annually by the Living Wage Foundation and is a voluntarily initiative.

Quilter Foundation

The Quilter Foundation

The Quilter Foundation is the focal point of Quilter's community investment agenda and seeks to empower the next generation through financial education, employment skills development, and mental health support. Our current charity partners include MyBnk, the Centre for Financial Capability, Carers Trust, School of Hard Knocks, Safe New Futures and Street League.

Furthermore, we also supported in the Disaster Emergencies Committee Afghanistan Crisis Appeal at the end of 2021.

Since launching in 2018 the foundation has made grants totalling £2.6 million to carefully selected charity reaching over 31,000 young people. On average, 74% people taking part in the programme report an increase in resilience and wellbeing (as measured by the Warwick-Edinburgh Mental Wellbeing Scale).

We also offer two main employee benefits associated with community giving: 1) employee match funding scheme; and 2) one day of paid volunteering leave. These benefits can also be utilised for non-Quilter Foundation activity.

Responsible business practices

Our Code of Conduct

Our Code of Conduct sets out the duties and expectations of all colleagues and includes acting with integrity and respect, treating customers fairly, managing conflicts of interest, good market conduct, information, data and communications, use of Company assets, prevention of financial crime and working with regulators and governments. Colleagues are required to undertake annual mandatory training to ensure they fully understand the requirements of the Code of Conduct.

Financial crime, anti-bribery and corruption

As a financial services company we recognise the potential risk of being a target for financial crime, including money laundering, terrorist financing, tax evasion and fraud. We also acknowledge the potential risk of bribery and corruption which could result in financial loss, regulatory fines and/or censure and damage to reputation. We have zero tolerance for financial crime, bribery or corruption and have a robust control environment in place including the following policies: 1) Anti-Money Laundering and Counter Terrorist Financing Policy, 2) Anti-bribery and Corruption Policy, 3) Fraud Prevention Policy. All colleagues are required to complete mandatory training on these topics annually to ensure that they understand their role in preventing financial crime, bribery and corruption.

Working with suppliers

Our Third-Party Risk Management policy sets out requirements with respect to our procurement, outsourcing and supplier management activities. Our Supplier Code of Conduct applies to all suppliers and their sub-contractors that provide goods and services to Quilter. It sets out the minimum standards we expect our suppliers to adhere to when doing business with Quilter in addition to the contractual terms agreed. The Code covers legal compliance, ethical standards, conflicts of interest, anti-bribery and corruption, brands, trademarks and intellectual property, information and data protection, labour standards, living wage, discrimination, health and safety, and environmental management. We also expect them to promote these standards in their own supply chain where practical.

Human rights

We recognise our responsibility to not only respect the rights and freedoms of those that work for Quilter but also of those in our supply chain. Our human rights policy has been shaped by internationally recognised principles, laws and conventions such as the International Bill of Human Rights, The International Labour Organization conventions, the UN Guiding Principles on Business and Human Rights, the UN Global Compact, The Modern Slavery Act 2015, The Human Rights Act 1998 and the Equality Act 2010. Our human resource and supplier policies and processes prohibit all forms of modern slavery, forced labour, compulsory labour and child labour. These also promote equal opportunity and prohibit any form of discrimination or unfair treatment on the grounds of protected characteristics, or because of any other personal factor. We respect the right of employees to associate for the purposes of collective bargaining and colleagues are free to join a union of their choice.

Tax

We are committed to full compliance with our tax obligations, paying the right amount of tax at the right time. We have zero tolerance for tax evasion, and we do not promote tax avoidance or aggressive tax planning arrangements to our customers or to other parties. Our Tax Risk Policy sets out high-level requirements to ensure that tax calculations and filings comply with all applicable tax law and are prepared on a timely basis.

5. Climate action 1

One of Quilter's four strategic priorities is to become a leader in responsible wealth management, which means acting and investing responsibly, for our customers, colleagues, communities and the environment. This will be delivered through four key pillars of activity, one of which is "Climate Action". This focuses on reducing our impact and advancing sustainable investment to support the transition to a low carbon economy.

Climate change is one of the most pressing challenges facing humanity today. The scientific consensus is clear: human activity is driving unprecedented global warming on a trajectory that will likely cause catastrophic changes in the Earth's climate system. To avoid the worst impacts of climate change, the Intergovernmental Panel on Climate Change (IPCC) has identified the need to keep global temperature increases well below 2˚C above pre-industrial levels, with a focus on 1.5˚C.

In 2021 the COP26 climate conference 'kept 1.5˚C alive' through the Glasgow Climate Pact, which includes unprecedented global agreement to 'phase down' unabated coal and 'phase out' fossil fuel subsidies. Although this progress is hopeful, the world is still on a perilous path to warming that will exceed 1.5˚C and the window of opportunity we have to take action is rapidly closing.

The need for urgent action prompted a refresh of our responsible wealth manager strategy in 2021, with 'Climate Action' becoming an integral part of our approach. We have partnered with Good Business who are working with us to develop our plans to reach net zero using Scientifically Based Targets (SBTi). In order to do this, they are reviewing our activities to date to identify any gaps, including emissions resulting from both our own corporate activity and from our investment in other organisations.

Our commitment to net zero is a starting point. As Quilter seeks to deliver long-term returns for customers, often over decades, one of the first steps we took in 2021 was to improve our understanding and management of climate-related risks and opportunities which could impact our business and ultimately investment returns for our customers.

We have identified climate change as a systemic risk to our business and more detail on our approach to mitigation with partners is within the collaborative engagement and systemic risks sections of this document.

Example

Shell

Objective: In the final quarter of 2021, we launched a proactive engagement on climate change commitments and disclosures. We are using various metrics to identify the companies that we invest in directly, that present the most significant carbon risk, including net zero commitments, interim targets and carbon intensity. Success will be tracked over time and for those companies where we feel sufficient progress is not being made – we will push for change, through our engagement and voting processes. Shell has a detailed plan for reducing scope 1 and 2 emissions. The company reports scope 3 emissions and the transparency on disclosures and difficulties faced is good. There are concerns that scope 1 and 2 emissions only represent 10% of overall emissions. While scope 3 emissions are included in 2050 net zero targets, it is not clear how these will be achieved. Shell is placing significant emphasis on carbon abatements as a means to allow customers to choose to offset scope 3 emissions. Although this discussion provided greater detail in the scope of carbon capture projects, questions remain over CCS (Carbon Capture and Storage) technology developments needed to meet targets. Shell is walking the middle path. The company does not want to move ahead of society in terms of demands for products but there are questions over whether this prepares Shell for any acceleration of transition.

Outcome: This was a useful conversation to further establish opinion on transition risk. Ongoing dialogue will be required, and we will continue to monitor interim targets, CCS development and development of more concrete plans on scope 3.

6. The continued impact of Covid-19 1 2 6

Like many businesses we spent much of 2021 operating remotely and have adopted a hybrid working approach across the business. The continued impact of Covid-19 has been felt in a number of ways:

- Ensuring our customers are still able to interact with us in the same way
- A focus on the mental health of our employees
- Our voting and engagement reflected the concerns related to companies' use of furlough and the impact of Covid-19 on the workforce

Example

Customer interaction

In order to support our advisers and customers in maintaining their service during lockdowns the advice process was adjusted to allow video conversations instead of "face-to-face" reviews; and we simplified our sign off process by reducing the number of signatures required to complete a piece of business.

One of our advisers even hand-delivered all relevant post to customers during the lockdown period.

The Quilter Financial Adviser School migrated to 100% online tuition so that trainee financial planners could continue their education even while classrooms were unavailable.

Example

Thrive

In 2019 we developed a Thrive hub to support and enhance our employees' wellbeing. The Hub offers a wide range of resources, tools and information covering emotional and mental wellbeing, financial wellbeing, physical wellbeing and social wellbeing. When the pandemic began, we believed it was important to support our financial advisers in the same way and the 'There for You' site was launched for advisers, providing information on business support, responsible investment as well as wellbeing. There is also a page for customers which offers information on investments and wellbeing.

Example

National Express

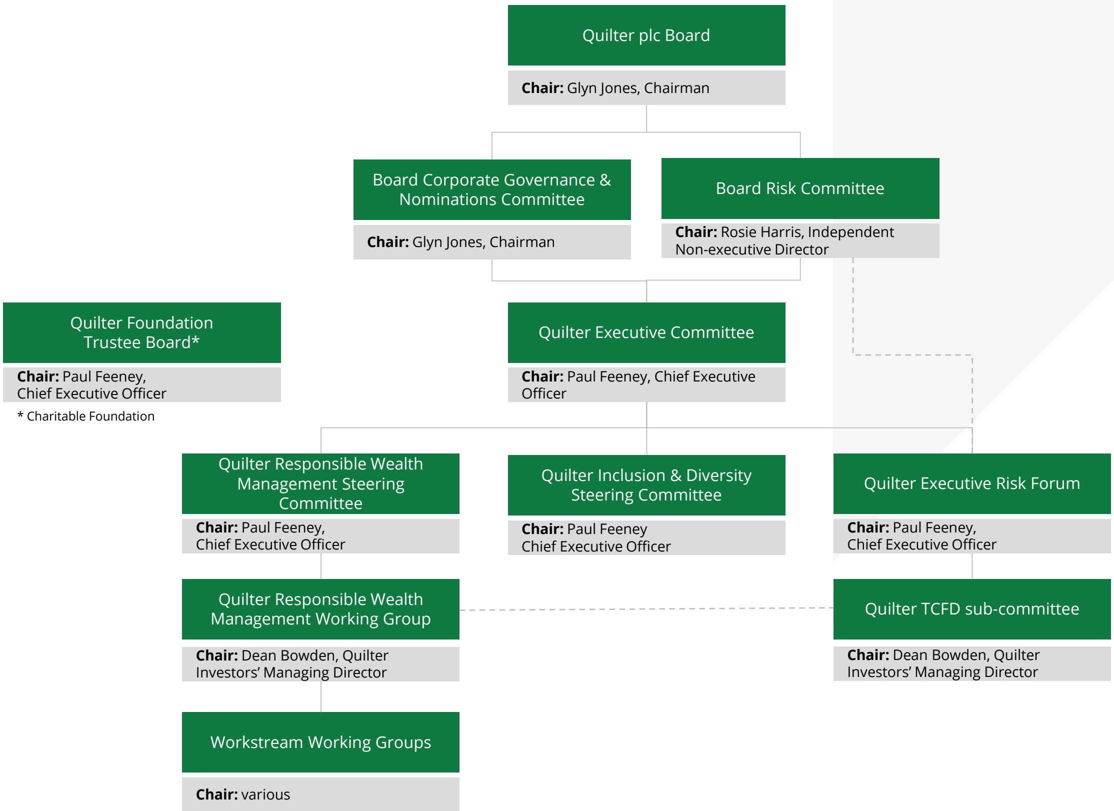
Objective: To understand the proposed salary increase for the CFO at the 2021 AGM.

Our concern was that such an increase did not reflect the business performance and stakeholder experience recorded during the year. Furthermore, within the new remuneration policy the maximum long-term incentive plan opportunity for executive directors would increase from 150% of salary to 200% of salary. Over the past 12 months, the company furloughed or temporarily laid off 80% of its workforce and took £54.9 million Covid-19 related government assistance funds. The rationale given was around the retention of the CFO.

Outcome: While we recognise efforts to retain executive talent, we did not feel we can support the increase in remuneration in the current environment where government support or furloughing schemes have been utilised. We voted against the remuneration report and the policy.

7. Our governance framework 2

Our governance structure is in place to facilitate our approach to responsible investment and stewardship across the business. The Quilter plc Chief Executive Officer, Paul Feeney, is ultimately accountable for Quilter's Responsible Investment strategy.



Committee	Responsible Wealth Management Responsibility	2021 activity
Quilter Board Risk Committee	Assists the Board in its oversight of risks, by reviewing management's recommendations on risk, in particular in relation to the structure and implementation of Quilter's risk framework.	– Met nine times in 2021 to monitor and review the Group's risk profile and the effectiveness of the Group's risk management systems. – Reviewed and approved Quilter's climate change risk appetite statement and underlying measures. – Reviewed and discussed Quilter's first climate-related scenario analysis exercise.
Quilter Corporate Governance & Nominations Committee	Ensures the Board has strong and responsible leadership and an appropriate range of skills, knowledge and experience. Oversees the responsible wealth manager strategy.	– Approved Quilter's responsible wealth manager strategy . – Provided guidance on Quilter's evolving responsible business performance metrics.
Quilter plc Board	The Quilter Board is accountable for the long-term success of the Group. The Board sets the Group's strategic priorities, including those in relation to responsible wealth management.	– Approved Quilter's strategy, including the strategic objective to 'be the responsible wealth manager'. – Held two deep dive discussions on responsible investment. – Received a briefing on climate change and the recommendations of the Task Force on Climate-related Financial Disclosures – Tazim Essani was appointed to act as the second Quilter Non-executive Director designated for engagement, with a particular focus on the further promotion of diversity and inclusion at Quilter.
Quilter Executive Committee	Supports the Chief Executive Officer in discharging his responsibilities for the management of the Group, including the management of climate-related risks and opportunities. Facilitates the execution of our responsible wealth manager strategy.	– Receives regular briefings on the progress of the responsible wealth manager strategy. – Approved the climate action strategy within the wider responsible wealth manager strategy.

Committee	Responsible Wealth Management Responsibility	2021 activity
Quilter Executive Risk Forum	Assists the Chief Executive Officer in the oversight, challenge and monitoring of material risks.	– Met eight times in 2021 to review, manage and monitor all aspects of risk management. – Approved the climate-related scenario analysis exercise and risk appetite statement to the BRC.
Quilter Task Force on Climate-related Financial Disclosures (TCFD) sub-committee	A cross-functional management group, established by the Executive Risk Forum, with responsibility for Quilter's alignment with the recommendations of the Task Force on Climate-related Financial Disclosures and the PRA's Supervisory Statement on managing the financial risks from climate change (SS3/19).	– Identified and assessed Quilter's exposure to climate-related risks and embedded material climate-related risks into Quilter's risk categorisation model. – Engaged with multiple functions to develop and strengthen the management of climate-related risks and opportunities in a number of key processes, and to develop metrics and measures to monitor exposure to these risks. – Conducted Quilter's first climate-related scenario analysis exercise and developed a climate-related risk appetite statement. – Co-ordinated Quilter's first disclosures aligned to the TCFD recommendations.
Quilter Foundation Trustee Board	Legal responsibility for the Quilter Foundation and accountable to the charity regulatory (the Charity Commission for England and Wales). Trustees oversee the management of the Foundation's assets (including appointment of investment manager), financial management, grant-making, fundraising and engagement and partnership/impact monitoring.	Four meetings in 2021. Key activities and decisions include: – Reviewed and approved Foundation's Grant Making Policy, Reserves Policy and Conflicts of Interest Policy. – Approved ongoing relaxation of grant agreement objectives in light of Covid-19 pandemic and monitored charities to provide extra support when needed. – Approved grants to Carers Trust, MyBnk, the Centre for Financial Capability and the Disasters Emergency Committee Afghanistan Appeal. – Approved appointment of Managing Director – Advice Network, Quilter Financial Planning to the Trustee Board.
Quilter Inclusion & Diversity Steering Committee	The committee is tasked with the successful delivery of the Diversity and Inclusion Strategy for Quilter; including the identification of tangible ways in which Quilter can become a more inclusive and diverse organisation, as well as targets by which to measure this change and hold the organisation to account for delivery.	– New Head of Inclusion and Diversity, Tosin appointed in June 2021. – Agreed targets for gender and ethnicity representation at senior management level. – Approved Quilter's Inclusion and Diversity strategy built on five strategic pillars: inclusive leadership; transparency and disclosure; culture contribution; practice and process transformation; investing in future generations.
Quilter Responsible Investment Steering Committee	Provides executive oversight and direction on our Responsible Investment strategy.	– Approved the approach and investment required to develop Quilter's plan to become a responsible wealth manager.
Quilter Responsible Wealth Management Working Group	A cross-functional group focused on development and delivery of our responsible wealth manager strategy.	– A newly created group, which meets monthly and includes representatives from all business areas. – Developing Quilter's plan to become a responsible wealth manager, including the net zero commitment, and the communication of this internally and externally. – Oversees and supports the ESG Regulations working group and supports the Enterprise Risk Forum TCFD sub-committee.

This structure was introduced in the second half of 2021, and as a result we have:

- Reinforced our commitment and delivery across the Group by simplifying the strategic responsible business framework and bringing together the various components of work across Quilter that contribute to our responsible business aspirations
- Brought together expertise from across the Group to initiate post 2022 planning and to consider the future organisational design that will support our longer-term Responsible Business ambitions
- Ensured that the Quilter approach to TCFD incorporates all aspects of the business including our risk appetite, operations and investment activity
- Started our journey to net zero with the appointment of an external consultant as well as a working group incorporating different functions and business units

Our investment management businesses' governance framework links directly into Quilter with the Chief Executives being ultimately responsible for the delivery of our responsible investment activity and both are members of the Responsible Investment Steering Committee. In each business an Investment Oversight Committee oversees the responsible investment activity.

In addition, within our Quilter Cheviot business, the responsible investment team meets regularly with the research teams and from 2022 will have representation within the UK and International Stock Selection Committees. In addition, we have established a Responsible Investment Working Group that meets weekly to cover the operational elements of embedding responsible investment within the customer suitability process which is due to go live in April 2022. In 2020 we created an internal forum of Responsible Investment Champions across Quilter Cheviot; these are members of staff (across different functions) with an interest in responsible investment. The forum has two main purposes:

- to create experts across the business in responsible investment from both an internal and an external perspective
- to generate discussion and ideas about how we best serve our customers' interests in responsible investment

Within our Quilter Investors business, we have also continued to incorporate and embed ESG considerations and responsible investment throughout the existing governance structure. The responsible investment team is formally represented on the two main investment forums: Management Investment Forum (MIF) and Sub-advised Funds Forum (SAFF). In addition, we have established a number of cross-functional working groups to tackle priority areas such as monitoring and responding to evolving responsible investment regulation and ESG data integration. The Head of Responsible Investment reports directly into the MD and interim CIO at Quilter Investors, who has executive oversight for responsible investment.

Our customers

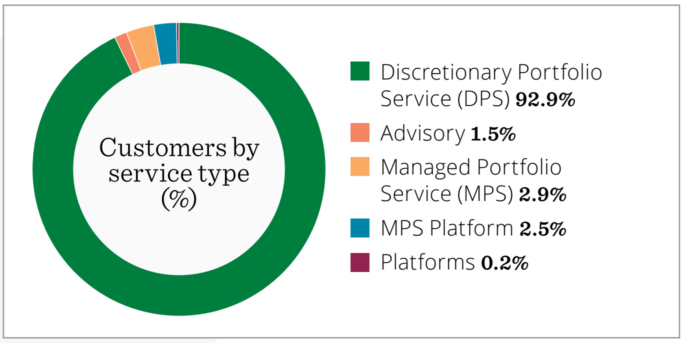
Our role is to act as the steward of our customers' assets. Our customers use our products and services to meet their long-term financial needs and achieve their aspirations. Ensuring customers are at the heart of everything we do is critical to Quilter's long-term success and our strategy is focused on delivering good customer outcomes through whatever channel customers choose to access our services, growing our business segments, and improving efficiency to make Quilter the best version of ourselves that we can be.

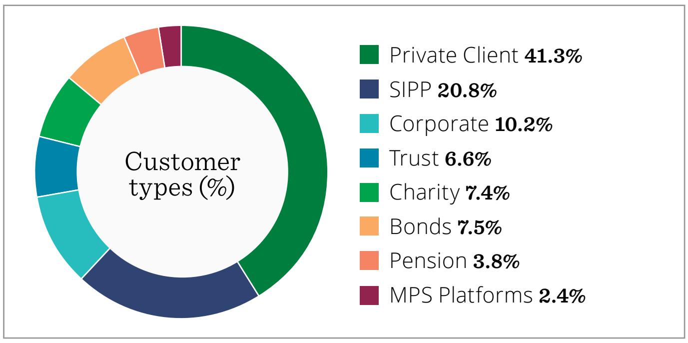
8. Our customer base 1 6

Quilter aims to be the best place to obtain trusted financial advice in the UK. We offer customers trusted financial advice and quality-assured investment choice, through an open and transparent model, with competitive pricing at every part of the value chain. We are committed to operating and investing responsibly, for the long-term benefit of all our stakeholders.

We are long-term investors on behalf of our customers. Our investment teams' focus is on long-term investment ideas rather than adopting a trading mentality. Our customers will have their own specific time horizon for their investments; however, we do not invest in short-term strategies which for this purpose we define as less than three years. The majority of our customers invest on a five year plus time horizon.

Within our investment businesses, as at the end of December 2021, Quilter Cheviot had nearly 40,000 customers and £28.7 billion in assets under management. The split by service and customer type are shown below.



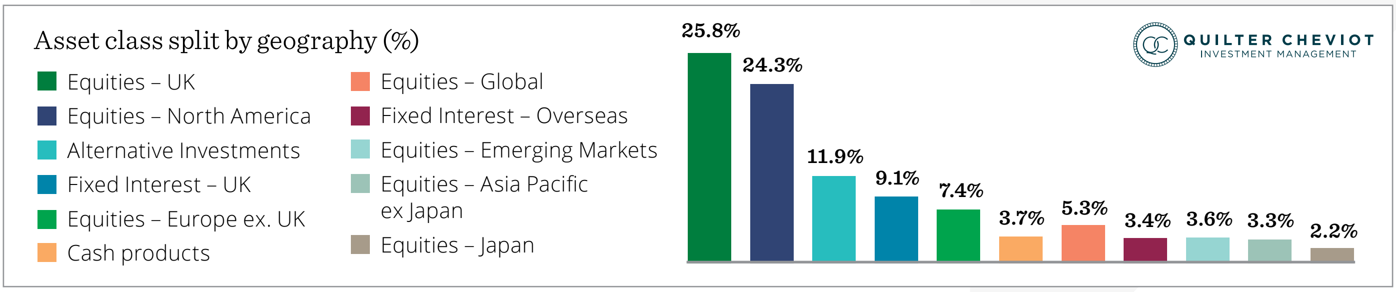


Private clients make up the largest customer type grouping, with the vast majority of customers (just under 93%) taking our Discretionary Portfolio Service. 53% of our customers are advised, with the remainder being direct customers of Quilter Cheviot. We have offices across the UK, Dublin and Jersey.

We undertake stewardship on behalf of our discretionary customers through our discretionary and managed portfolio services. Within all service types customers are able to instruct us to vote on their holdings. We also have a further £2.4 billion in assets under administration within our execution only and advice & dealing services. These customers are also able to instruct their voting.

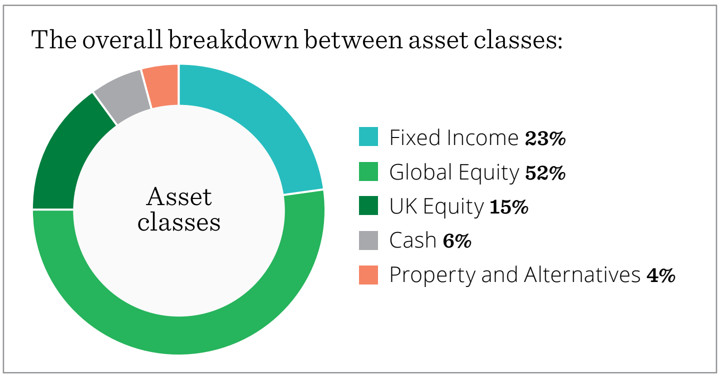
Our Quilter Investors business manages £25.6 billion on behalf of our customers as at end December 2021. Quilter Investors' products are available to customers via their financial adviser and across a number of platforms. 60% of the assets managed are held on the Quilter Platform. Quilter Investors does not have a direct relationship with its customers therefore we do not have specific detail on the underlying customers. Our customer base for these solutions can be mostly classified as individual retail customers, serviced via platforms, with long-term investment outlook.

9. Geographic split of our customers' assets 6



At Quilter Cheviot just under 72% of assets are in equity holdings – this is via direct holdings as well as through third-party funds. As at 31 December 2021 our fund holdings within our centrally monitored universe amounted to £16.1 billion.

Quilter Investors AUM for different asset classes and geographies is broken down below (as at 31 December 2021):



10. Customer, adviser and consumer feedback 1 6

We receive feedback from our customers on an ongoing basis. However, we also use formalised frameworks to ask for their views to help inform our strategic decision making.

Quilter participates in the annual Investment Trend survey. Although this is a syndicated survey, we are able to influence the question set and usually around 200 of our advisers complete the survey. Surveys such as this are used for internal education. For example, a combination of the Investment Trend survey, another from Boring Money, plus some research we conducted ourselves was used to develop adviser training for our new range of responsibly invested products. We also worked closely with Dynamic Planner last year to develop the question set that will be used to support advisers to determine which product best suits a customer's preferred risk level and management style, their investment needs and their responsible investment priorities.

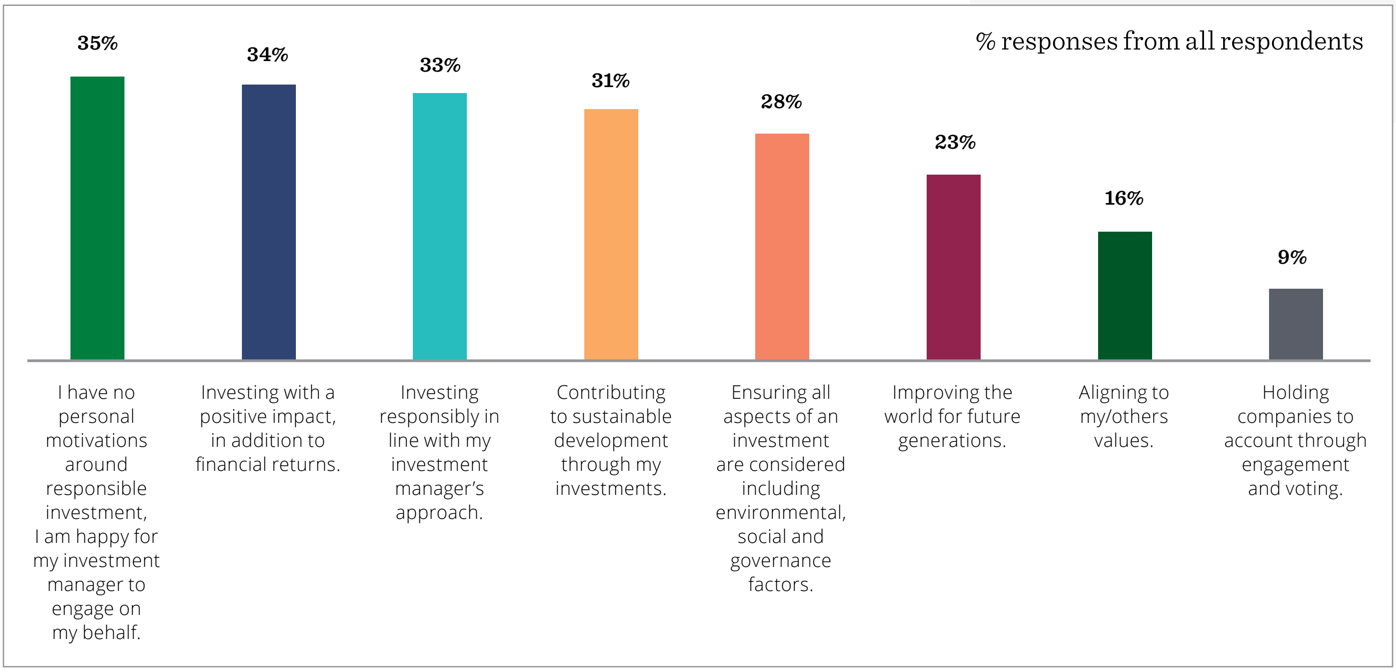
Additionally, as Quilter Cheviot has a direct relationship with its customers either directly or via an adviser, we now include questions about responsible investment to seek customer feedback in a more structured format as part of Quilter Cheviot's customer survey (undertaken every two years). This is in addition to the ad hoc feedback we receive on a regular basis. The survey's main focus is customer satisfaction; and enables us to understand how we are perceived in representing and acting in a customer's best interests.

In regards to the responsible investment element we asked three questions:

- To what extent has your view on responsible investment changed in the past 18 months?
  "Compared to January 2020, I am..."
- What personal motivations drive you to consider responsible investment?
- Which of the following factors are most important to you when considering responsible investment?

In response to the first question about how a customer's view might have changed, 61% of customers feel their view on responsible investment is unchanged over the past 18 months. However, 26% are more willing to consider and 11% are much more willing. Consideration is highest among younger and wealthier customers.

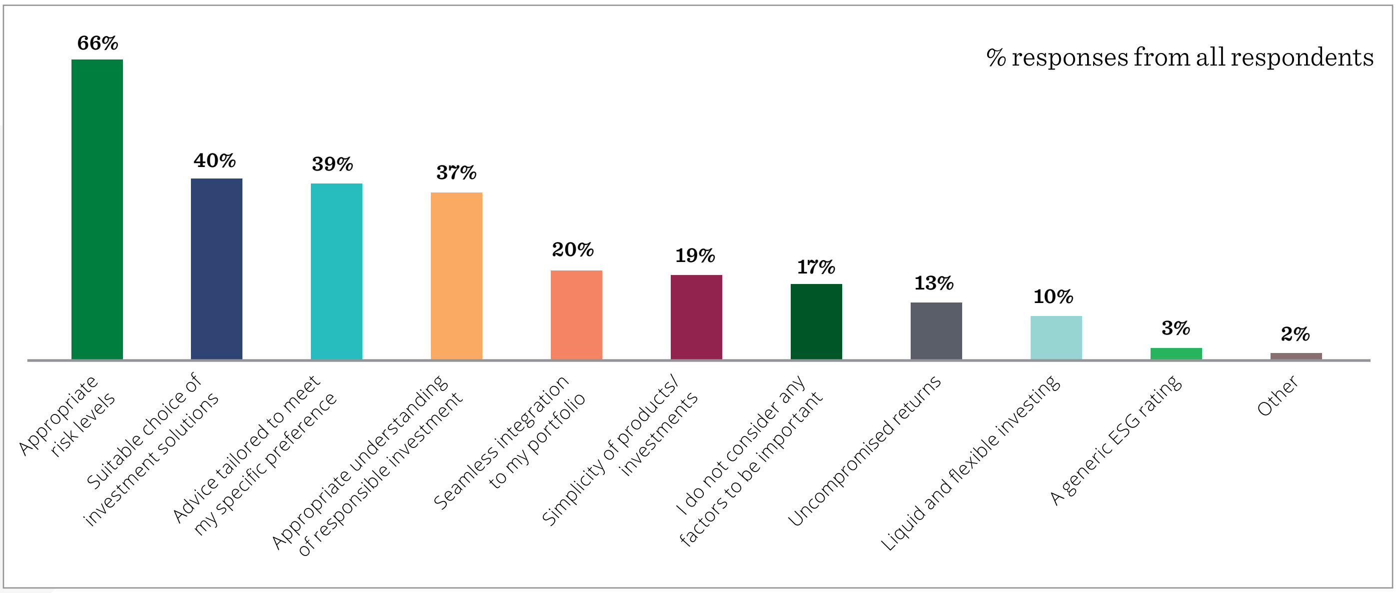
In considering their personal motivations around responsible investment, 35% of customers have none and older customers are most likely to hold this view. However, a similar number are motivated to create positive impact in addition to return, increasing among younger customers. The customers were asked to select from several options and were able to pick up to three of these (unless of course they stated that they had no motivation).



On one hand the strong response to the statement that the customer has no specific personal motivations but is happy for Quilter Cheviot to engage on its behalf (35%) and a further 33% supporting the statement that they wish to invest responsibly in line with Quilter Cheviot's approach may be an endorsement of our responsible investment endeavours. On the other hand, the lower score for voting and engagement activity (only 9% considered this a motivation) is interesting given the extensive work we undertake within this area.

The final question focused on the most important factors for customers when considering responsible investment. Again, up to three responses could be selected. Two-thirds of customers selected appropriate risk levels as a most important factor when considering responsible investment.

The other key areas identified were the availability of suitable investment choices, advice tailored to meet specific requirements and an appropriate understanding of responsible investment. We have continued to develop our range of investment options and we will be incorporating responsible investment preferences within our suitability (advice) process in early 2022. Finally, we continue to work on educating our customers on responsible investment and the approaches taken within this.



Pleasingly, very few customers (3%) were focused on generic ESG ratings as we do not use external data providers to rate a fund or a portfolio as this does not take account any of the work undertaken by Quilter Cheviot's analysts, our voting and engagement activity and can be subjective in nature. By this we mean the use of external ESG ratings agency scoring systems which provide a score based solely on the underlying analysis they have undertaken of the holdings within a fund or portfolio. We do use data from multiple ESG ratings and data services; however, we incorporate this within our own stewardship activity.

We will continue to seek customer feedback both formally and informally on our responsible investment approach.

11. External ratings 1 5

External, independent ratings are another way of assessing how effective we are in serving the best interests of our customers.

In November we were awarded Five Star Service Awards in the following categories at the FT Financial Adviser Service Awards:

- 5 Stars in Investments
- 5 Stars in Protection and Pensions
- 5 Stars in Platforms
- 5 Stars in Discretionary Investment Managers

Defaqto independently rates both Quilter Cheviot and Quilter Investors:

- Quilter Cheviot achieved a 5-star rating for our bespoke portfolio service as well as our managed portfolio service
- Quilter Investors' three Cirilium ranges, Monthly Income and Creation ranges were rated as 5-star. The Creation range and Ethical fund were rated by RSMR (independent fund ratings agency)

12. Our external education and training programme 1 6

Quilter's 'There for You' website continues to be developed and includes a large section on Responsible Investment, which provides information on topics such as Sustainability trends and Common Myths; and links to support further learning. Given we cater for both advisers and customers, our approach to education and training reflects this.

In 2021, responsible investment experts from around the business participated in and hosted a number of external webinars and events.

Examples include:

- Several webinars around COP 26
- Video on integration of responsible investment and ESG considerations
- Webinar for paraplanners on including responsible investment preferences within the suitability process
- Webinar focused on female customers as part of our advising female customers series
- Event focused on charity trustees and navigating the Charity Commission consultations on responsible investment
- Interviews with third-party Fund Managers such as Regnan on their approach to sustainable investment (as part of the Quilter Investors Market Outlook)

We have also developed an array of materials on our websites, which provide educational content to our various customer bases. This includes videos and information on subjects such as Climate Change, Fund Governance and ESG opportunities for Income investing for example, as well as providing easy access to documents such as our annual reporting on stewardship and other responsible investment activity, responsible investment guide and policies.

Other industry events:

We contributed to a number of different panels and discussions hosted by numerous organisations including UKSIF (UK Sustainable Investment and Finance Association) and TISA (The Investing and Saving Alliance) to exchange views and debate. The focus of a number of these events has been on how we make stewardship activity and responsible investment accessible and understandable to customers.

Investment

Stewardship at Quilter is the central pillar of our responsible investment approach which sits alongside the integration of ESG factors and screening within our investment process.

In this section we have provided specific examples of engagement. In the majority of cases we have included the name of the company or fund. In certain cases, if we deem that it would be unhelpful in the long term to the ongoing engagement process, we have anonymised the example.

In order to aid the reader in distinguishing Quilter as an investment manager and those firms who manage funds on our behalf, we refer to the latter as Managers.

13. Our philosophy 7 9

Across Quilter, we have adopted the Investment Association's and UN-backed PRI's responsible investment framework which defines responsible investment as:

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

Stewardship at Quilter involves engaging with companies and funds 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, within Quilter Cheviot we facilitate customer instructed voting, therefore our customers have the ability to exercise their own stewardship.

In our capacity as an investment manager, we act as steward for our customers' assets. Company shares usually carry voting rights and exercising these enables shareholders to express their view and engage with companies to support the creation of wealth, benefitting shareholders, the wider economy other stakeholders. As a responsible investor we will use voting rights (where appropriate) to further the long-term best interests of our customers and we have established a set of voting principles which guide how we vote. Discretionary customers' holdings held in our nominee name will be voted in accordance with Quilter Cheviot's decision, as the voting of holdings reflects our investment thesis. For Quilter Investors all holdings are voted in accordance with the house decision.

ESG integration at Quilter is the explicit and systematic inclusion of ESG issues in investment analysis and decisions – to better manage risks and improve returns. This is integrated into the investment process and our research teams are responsible for incorporating this into their ongoing analysis of investments.

Embedding ESG factors within our investment decision making is integral to our responsible investment approach. This is not about excluding companies or funds but evaluating their approach to ESG – there are different approaches depending on whether we are investing directly or via funds. ESG is a component within the investment process – it is not the overriding consideration – all factors must be considered and evaluated. ESG is another factor which is considered.

ESG screening: across Quilter we have a firm-wide restriction on any direct investment into cluster munitions and anti-personnel landmines including within our sub-advised funds, as well as any indirect exposure within active funds that we may hold.

14. Our responsible investment activity across Quilter Cheviot and Quilter Investors 7 9

The investment management businesses work collaboratively to implement and enhance our stewardship and responsible investment processes. There are nuances in how this is delivered given the different end customers and underlying investments.

Quilter Cheviot, as a discretionary fund manager, has nearly 6,000 lines of stock which we hold on behalf of our customers, of which a significant portion by number, but not by value, are cherished or legacy holdings which our customers wish to retain. Therefore, the focus of our stewardship activity is on material positions. As an example, our voting universe represents c.95% of the assets where there are voting rights.

Within our equity monitored list we have c.350 companies and within our fund monitored list we have c.300 funds. This represents a significant proportion of our overall assets under management and our focus for voting and engagement is on these holdings as well as companies held within our AIM Portfolio Service as well as those listed in the UK where we hold 0.2% of the market cap or £2 million.

Quilter Investors mainly invests via funds and, the major focus of our direct voting activity is through closed ended funds such as investment trusts. In addition, our Managers are expected to exercise voting rights to vote on our behalf, particularly our sub-advised funds, where we ask for quarterly reporting on how these voting rights have been exercised. Opportunities for engagement are considered across our funds universe (currently around 180 funds) and particularly within our sub-advised funds range.

Quilter's Approach to Stewardship and Responsible Investment

<table>
<tr><th>Activity</th><th>Quilter Cheviot</th><th>Quilter Investors</th></tr>
<tr><td>Voting</td><td>Discretionary holdings within the UK, US and European equity monitored lists where we have voting rights including:
- MPS (Managed Portfolio Service) Building Blocks
- Climate Assets Fund
- Quilter Cheviot Global Income and Growth Fund for Charities
- Quilter Investors Ethical Fund
- AIM Portfolio Service
This includes our UK, US and European equity and investment trust monitored lists; as well as holdings in the AIM Portfolio Service and UK holdings where we own more than 0.2% or £2 million of the market cap.
Additionally, customers are able to instruct voting on their behalf.</td><td>All holdings with voting rights including open and closed ended funds and investment trusts. There are also a minority of listed equity holdings.</td></tr>
<tr><td>Engagement universe</td><td>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.</td><td>All funds and holdings in the investment universe are considered within our engagement work. Particular area of focus is our sub-advised funds.</td></tr>
<tr><td>ESG integration</td><td>All holdings within the centrally monitored universe of equities, funds and fixed income.</td><td>All holdings across our solutions are incorporated.</td></tr>
<tr><td rowspan="2">Screening</td><td>Ethical and values-oriented investment based on customer requirements is incorporated on an individual customer basis, informed by their specific ethical preferences and values within Quilter Cheviot's discretionary portfolio service. These will vary from customer to customer and will focus on sectors, industries or individual companies.</td><td></td></tr>
<tr><td colspan="2">Specific negative screens may also be applied for funds that have clear ESG objectives, for example the Quilter Investors Ethical Equity Fund and the Quilter Cheviot Climate Assets Fund. Typically, these could relate to activities that we feel are of concern, such as tobacco production, and which may either be excluded completely or subject to tolerance bands, such as revenue contribution, depending on the strategy. We also monitor all our strategies for exposure to controversial activities including, but not limited to: thermal coal; oil sands; military contracting and armaments; gambling; palm oil production and tobacco production.</td></tr>
</table>

15. Our thematic priorities 4 7 9

Our thematic priorities across Quilter are shown below. There are key megatrends that we believe are material to longer-term sustainable investment returns for our customers and have the potential to have a significant impact on other stakeholders and the planet as a whole. As such, these are increasingly considered as part of the ESG Integration and stewardship work undertaken by Quilter Cheviot and Quilter Investors.

Climate Change – This includes clean energy and technology (and conversely thermal coal and fossil fuels) as well as reforestation/deforestation (palm oil and palm plantations) and emerging natural climate solutions. This includes understanding companies' net zero ambitions as well as decarbonisation plans.

UN Sustainable Development Goal (SDG) Alignment

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

15 LIFE ON LAND

People & Human Rights – Human rights in employment in areas such as decent work and pay, human rights in the supply chain, and health and safety. This also encompasses diversity and inclusion – incorporating issues such as gender equality but also broader diversity themes.

SDG Alignment

Water – This incorporates such areas as access to clean water for communities, clean oceans and water pollution (recycling). In addition, this also encompasses water stress and intensity (particularly caused or impacted by corporates), water usage and responsible consumption/ production.

SDG Alignment

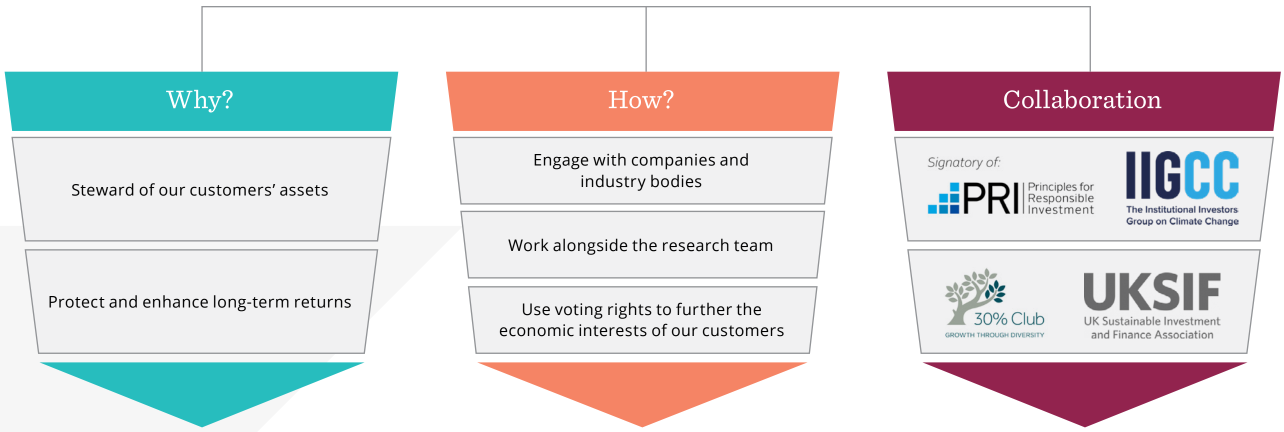
Example

These themes influence the work we undertake within our investment management businesses as well as our priorities as Quilter. For example, for our direct equity holdings in 2021 we began a thematic engagement with our largest carbon emitters (climate change) as well as leading a collaborative engagement with two other investors focused on diversity on UK boards (people and human rights).

Both Quilter Cheviot and Quilter Investors joined a collaborative engagement on incorporating climate concerns within voting (climate change) and conflict minerals (people and human rights).

With respect to climate change specifically, this is a particularly important area of focus for us. In 2021, we publicly stated our commitment to the goals of the Paris Agreement, which include securing global net zero carbon emissions by 2050. Climate Action is a key pillar of activity within our ambition to become a leader in responsible wealth management, which means acting and investing responsibly for our customers, colleagues, communities and the environment. In early 2022, we will supplement our existing activity with our formal climate action plan, that will outline how we align our operations and investments across Quilter with these targets. We are following guidance for financial institutions from SBTi published in April 2021 and the Investor Agenda to shape our strategy, as well as identifying other opportunities where we can influence positive change.

16. Stewardship and direct equities 7 9



Direct equity engagement is undertaken primarily by our Quilter Cheviot business. Here, engagement is the key component of our stewardship activity and is our primary focus; it informs our voting decisions and feeds into our investment research process. By engagement, we mean speaking directly to boards of companies and about the issues that concern us and understanding their general approach to material ESG issues.

Any engagement includes the relevant research analyst. Our central teams of analysts provide a dedicated investment research resource with no conflicting commitments; the research teams monitor investee companies and funds on an ongoing basis and regularly meet company management. It is imperative that ESG considerations sit within the investment decision-making process and are not outside it and therefore engagement is always undertaken in conjunction with the relevant analyst.

Our engagement activity for direct equities falls into three buckets:

- Reactive
- Proactive
- Monitoring

Reactive – to an AGM/SGM resolution or controversial event.

Example

Compass

Objective: To gain further information regarding the food parcels Compass had supplied to school children.

Compass' Chartwells subsidiary was implicated in a controversy relating to supplying inadequate food parcels to school children. We engaged with the company to understand what happened. We were reassured by their quick actions and believe they are behaving in the right way. Compass' shortcomings (2% of all parcels) came from limited time to prepare (less than 12 hours' notice of school closures), supply chain shortages and lack of quality checks. They have resolved the supply chain issues and seem to have the right quality controls in place. They have committed that they will not charge the schools affected by any shortage and created extra quality assurance checks at the supplier level and within each individual school – including photographing every batch of parcels when it goes out. In addition to this, they have set up a free helpline for concerned schools and parents. This was a difficult time for households, particularly those on free school meals and we believe the measures the company has now put in place will work well to resolve current shortcomings and mitigate future ones.

Outcome: We gained a greater understanding of the challenges facing the company as well as the remedial action.

Example

Kingspan

Objective: We engaged with the company specifically on its involvement in the Grenfell Tower fire.

There is an ongoing inquiry which inhibits Kingspan's ability to speak publicly about specific areas. There are management changes in train which we are supportive of and which we believe will strengthen the company over time.

Outcome: We discussed the corporate culture at some length and we are monitoring the overall situation, which is complex and we await further clarity. The analyst downgraded from a buy to a neutral recommendation as a result of these ongoing issues.

Proactive – may include thematic engagement; where we have conducted research on a specific topic and look to engage with the most material actors.

Example

Objective: In the final quarter of 2021, we launched a proactive engagement on climate change commitments and disclosures. We are using various metrics to identify the companies that we invest in directly, that present the most significant carbon risk, including net zero commitments, interim targets and carbon intensity. Success will be tracked over time and for those companies where we feel sufficient progress is not being made – we will push for change, through our engagement and voting processes. The first phase is very much engagement for information to get a better understanding of the quality of transition plans and whether they are taking (or not taking) appropriate measures to align with a future lower carbon economy. We undertook the following initial engagements in 2021:

CRH

CRH has set ambitious, detailed plans for reducing scope 1 and 2 emissions within cementitious products. The plan does not include reduction plans for scope 3 emissions, but the company has headline ambitions to be a net zero emissions company by 2050. The lack of detail on scope 3 is disappointing but understandable given the majority of emissions sit in the scope 1 and 2 categories – and most of these emissions are related to the manufacture of cement. If the company can significantly reduce emissions from cement (which it is currently ahead of schedule to do) it will be a much lower carbon company. Overall CRH has outlined robust targets and engagement in environmental risk mitigation outside of climate change (biodiversity).

Outcome: Ongoing dialogue will be required to monitor progress towards interim targets and more detail on scope 3 plans.

Example

Rio Tinto

Rio Tinto has set ambitious, detailed plans for reducing scope 1 and 2 emissions. The company reports scope 3 emissions and the transparency on disclosures and difficulties faced on setting meaningful reductions targets in this area is noted. Much of the scope 3 emissions comes from steelmaking practices, particularly in China. The company has relatively little control over the practices of these clients or the energy mix in the grid providing power to these sites. Even with these limitations, it is encouraging to see the efforts the company is putting into working with clients to optimise processes and introducing new technology to bring scope 3 emissions down. It is difficult to assess the impact of such projects at this stage, but relative to other high emitting companies it shows action can be taken on scope 3 if there is willingness. That said, we encouraged formal target setting to be put in place for scope 3 emissions.

Outcome: This was an initial engagement to establish an opinion on transition plans. We would like to see further information on how these targets will be integrated in executive remuneration and believe there could be a case to further integrate metrics into the longer-term incentive, not just the annual bonus. Ongoing dialogue will be required.

Monitoring – where no immediate concerns are identified but as part of maintaining communication.

Example

Assura

Objective: To evaluate the sustainability strategy. Assura has a 'SixBySix' sustainability strategy which focuses on six million people benefitting from improvements to and from its healthcare buildings. Additionally, it is looking to minimise its impact on the environment.

We were keen to understand how their goals (attached to the UN Sustainable Development Goals) were being measured and progressed. This was a positive conversation, and the company is clearly very thoughtful about executing net zero targets and progressing social impact measurements. Given the nature of activities (funding primary healthcare centres), alignment with positive social outcomes is perhaps more straightforward, but measurement of impact is still a nascent area. The company has made more progress on setting and achieving specific measures related to environmental targets. These include aiming to achieve an EPC rating of B across the portfolio in the next five years and recently completing a switch to 100% renewable energy sources, as well as finalising plans for a net zero carbon pilot project building. One of the key barriers to monitoring of environmental and social impact is the reliance on tenants providing data, something Assura is looking to improve with increased engagement.

Outcome: Engagement for information. We are encouraged with the developments and the formalisation of an ambitious strategy and will monitor progress made towards these targets moving forward.

The role of engagement within our ESG integration process for direct equities

Our engagement activity also forms part of our overall approach to integrating ESG factors within our direct equity holdings.

There are three key elements to integrating ESG factors into equity research:

1. Qualitative analysis identifying challenges and opportunities
2. Quantitative data overlay using multiple ESG data sources to create proprietary sectoral, fund and model dashboards
3. Active ownership through voting and engagement

As well as the work carried out by the responsible investment team to engage for change, key parts of our work are carried out alongside the equity research analyst to engage for information. This information is collected and fed into the analysts' investment thesis.

Example

Alstom

Objective: to discuss ESG factors and to get an update after the Bombardier Transportation (BT) deal closed.

Alstom's (ALO) participation in a light railway tender in Jerusalem that was routed through occupied territories in 2008 has caused some ethically-based investors to exclude it from investment. Although the rolling stock has been delivered, there is a continued maintenance relationship. This contract could be terminated early this year by the client even though it runs to 2027 as there is now another supplier providing maintenance. This would then end their relationship and if confirmed, could drive investors to look at ALO given its strong green mobility credentials and progress on a number of ESG risks since the power business was divested.

Continued

New risk-based order procurement: ALO has been managed by a new team since 2015, after the sale of the power business to GE. They have formulated a more detailed risk mapping for new orders that has been tightened since 2017 by a French corporate duty of vigilance law which asks companies to make assessments on the adverse impact of their activities on people and the planet. This was backed up by ALO signing the UN Global Compact in 2018, a voluntary sustainability initiative to align corporate policies with universal principles of human rights, labour, environment and anti-corruption. We feel adequate risk controls are now in place for orders, especially if there are human rights concerns.

Outcome: in conclusion, we believe that risk controls and processes have improved around new order acceptance and the supply chain.

Example

Tesla

Objective: To raise concerns related to board remuneration and a number of shareholder resolutions being opposed by management, as well as climate-related disclosure.

We spoke to the company surrounding the 2021 AGM. There was a long list of items to cover including four shareholder resolutions. Our discussion focused on shareholder efforts to declassify the board, significant discretionary remuneration for board members, emissions reporting and conflict mineral sourcing audit and verification. Tesla also does not currently report company level scope 1, 2 and 3 emissions – something we raised. The company reports several product-based carbon emissions statistics; however, a commitment has been given to disclose company level emissions in the next 12 months. This was a constructive conversation with further detailed provided on cobalt sourcing audits and initiatives to improve diversity and inclusion. The company is relatively unusual in that directors are paid solely in equity grants – given share price performance over the past few years, remuneration has been significant. We registered this concern and encouraged the implementation of a structured performance-based policy to add transparency to the equity grant process.

Outcome: We voted to support all shareholder resolutions on diversity and inclusion efforts, employee arbitration and creating an independent board level committee to oversee human capital management. We also voted against two directors on the board mainly in relation to remuneration concerns.

Example

Xylem

Objective: This was general update on the company's sustainability strategy and an opportunity to discuss proxy access rights, climate transition strategy and board succession planning.

Over the past few years Xylem's climate strategy has pivoted from just foot-printing operational emissions to incorporating a new set of goals that focuses on the impact of the company's suppliers (including scope 3 emissions) as well as the impact upon the local communities in which they operate. The company does have a 2050 net zero plan in place and is currently working with the 'Science Based Targets Initiative' (SBTi) to get this externally verified.

Outcome: Positive catch-up conversation with a company that inherently has a sustainable focus given the nature of its products/services but encouraging to see that various sustainability criteria are being progressed internally – including the net zero plan. We encouraged the proxy right aggregation limit to be removed and do not find the rationale for the limit compelling. We will monitor progress moving forward.

17. Stewardship and direct fixed income 7

For fixed income holdings, we invest through funds and directly.

The direct holdings are predominantly in UK, EU and US government bonds as well as supra-national issuance. Integrating ESG factors into the selection of sovereign debt issued by developed countries is likely to increasingly incorporate issues such as climate risk over time and best approached by seeking to influence government policy where appropriate.

Within our centrally monitored universe we have very limited exposure to corporate bonds on a direct basis and therefore are unable to influence the funding structure of issuers as larger holders are sometimes able to do so. The primary consideration is whether these issuers are senior and BBB rated, and whether the bonds will maintain that BBB rating over the period to maturity. We believe identifying the ESG challenges and opportunities that impact the debt issuer are an important factor in evaluating the likelihood of the bond retaining the BBB rating over its lifetime.

18. Stewardship and funds 7 8 9

We invest in multiple asset classes via funds – these include equities, fixed income, infrastructure, property, hedge funds, private equity, commodities, multi-asset, amongst others. We manage in total c.£43 billion in funds as at 31 December 2021. These include both external funds as well as our own sub-advised fund range.

We engage closely with our Managers to determine how effectively they engage on our behalf and see engagement as an ongoing conversation. This collaborative approach allows us to build rapport and develop mutual respect. It enables us to better understand the Managers we are investing with and their approach. It's also through this direct dialogue that we believe we can exert influence and make a difference. When concerns or material issues arise, we engage directly with our Managers as our first and preferred course of action. We believe it is equally as valid to address ESG-related issues as an engaged investor as it is to take a divestment or exclusionary approach.

In addition, we believe in the positive impact that collaborative engagement can potentially have, and thus have begun to participate more frequently in such engagements. The Managers of our sub-advised mandates are appointed to run funds on our behalf. Our focus is on deepening our collaboration with these Managers in particular, taking a more proactive approach to working with them to help effect positive change where possible.

Our stewardship approach for funds fits into five broad categories. These can take the form of being part of our broader investment due diligence, or as standalone engagements. These engagements may be reactive or proactive. The categories are:

- ESG integration
- ESG risk and exposure
- Voting-related engagement
- Transparency and disclosure
- Thematic

Engagement on ESG integration

When we invest via funds, one of our considerations is how the Manager integrates environmental, social and governance (ESG) factors into their investment process, alongside traditional financial metrics. For us, taking environmental, social and governance issues into account is about ensuring all potential risks to an investment are considered. At worst, not considering ESG factors might lead to reputational and financial damage for companies that are not managing these issues effectively. As such, we will engage with our Managers on their approach to ESG integration and stewardship both as part of our due diligence process as well as on an ongoing basis. We believe that challenging our Managers on their approach to ESG integration and stewardship and encouraging them to adopt robust practices is an important part of our stewardship role as fund-based investors.

As part of this active stewardship with our Managers, we will look at whether a firm is signed up to the United Nations' backed Principles for Responsible Investment (PRI) and UK Stewardship Code, where appropriate.

From 1 June 2021 any new funds are expected to have PRI signatory status through their investment manager/adviser. If this is a fund that is managed by a recently established firm, we would agree a timeline for the firm to sign up to the United Nations-backed PRI. In exceptional circumstances new funds may be added to our investment universe which are not, and do not have an intention to become a signatory. However, this would be extremely rare and the rationale for not being a signatory would have to be linked explicitly to the specific strategy that the fund was invested in. Any fund being added to coverage in this instance requires senior approval.

We have identified a small proportion which are not signatories of the PRI. We expect a number of these will attain signatory status in the near term; for those who remain we will continue to engage with them on this subject to continually evaluate the rationale for not becoming a signatory. We accept that for a very limited number of specific strategies there is no tangible benefit in attaining signatory status at this stage given the nature of the underlying investments.

We are also firmly of the view that different asset classes and strategies may require prioritisation of different ESG considerations and that different approaches to ESG integration may be equally valid. This is also very applicable in the case of stewardship as shown below:

Stewardship in different asset classes

Asset class	Engagement and voting
Equities	Ability to use voting rights and engage with the board as well as company management.
Fixed Income	While they do not have voting rights like shareholders have, large fixed income houses can influence the funding structure of issuers. They can also engage on similar matters to equity investors and reconsider their funding if no progress is made.
Property	Incorporation of ESG issues into ownership policies and practices including measurement of sustainability performance of assets.
Infrastructure	Incorporation of ESG issues into ownership policies and practices including measurement of sustainability performance of assets.
Absolute Return / Hedge Funds	Depends on the strategy and asset classes invested in, whether investments are physical or via derivatives, and the degree of turnover.
Private Equity	Incorporation of ESG issues into ownership policies and practices.

Strategy approaches:

Asset class	ESG integration	Engagement and voting
Active	Consider the extent to which ESG factors are embedded within the analysts' and fund manager's investment decision making.	Engagement on ESG issues at firm level and fund manager level. Does the fund manager leave it to others to engage on ESG issues?
Passive	Consider the approach taken if ESG tilts are applied, including the source of ESG data. Any exclusions applied?	How extensive is engagement with companies and is meaningful voting action taken? What do they do where the exposure is synthetic?
Quant/Systematic	Consider sources and quality of ESG data and the approach taken. Are ESG risks integrated into the systematic process or is ESG considered as an additional factor to add alpha?	Are the shares held long enough to vote?
Ethical/Exclusions	Consider the exclusions chosen (e.g. traditional values/ unsustainable/a reflection of engagement), exact definitions (e.g. % revenues) and impact (on breadth of investment universe and tracking error) of the negative criteria applied.	Engagement on ESG issues at firm level and fund manager level.
Sustainable	Consider whether the emphasis is on best in class, sustainable themes, ESG improvers etc. Consider whether the fund has a focus on companies making a positive contribution or a focus on sustainable revenues in more of a financial sense. Consider the degree of positive bias in the portfolio and what exclusions are applied.	Engagement on ESG issues at firm level and fund manager level.
Impact	Understand how positive impact is defined, assessed and measured, including how any negative impacts are considered.	Engagement on any negative impacts as well as maximising the positive impacts.

Example

BioPharma Credit plc

Objective: To ensure ESG risks and good stewardship are properly implemented with policy and process.

When we first met with BioPharma Credit's management team at Pharmakon regarding ESG last year, a new ESG policy had been developed in response to investor request. Over the course of this year, we have continued engagement with the company regarding the implementation of policy, and to discuss our developing expectations of Managers. The company is now committed to becoming a signatory to the PRI and is preparing to respond to learning outcomes from this process, including possibly increasing ESG resource at the company.

Outcome: We continue to follow Biopharma's progress and expect to speak with them again as they complete the PRI membership.

Example

Quilter Investors Asia ex-Japan

Objective: Establish and encourage high level of ESG integration approach with the Manager.

Over a series of meetings with the Head of ESG, and the Manager of this fund, we discussed the level of ESG integration demonstrated in the investment process. With some variability across the firm, we established that, even in this challenging asset class, the Asia ex-Japan fund is managed at an advanced level of integration. Over the following six months, detailed discussions focused on specific names held in the portfolio, such as Larsen & Toubro and Posco. We were comfortable with the analysis of the team for including these and the positive trajectory of the ESG profile.

Outcome: As this will continue to be a challenging and evolving asset class, we will continue to monitor the portfolio and engage with the Manager as necessary.

Example

Pacific Asset Management: North of South

Objective: To continue to understand developments in the formalisation of the Manager's approach to ESG integration.

This boutique Manager considers ESG factors with their analysis and valuation of companies and is genuinely committed to sustainability. When speaking with the team last year, however, they were still formalising policies and procedures for their approach. This year, the Manager has continued to develop processes and is expecting their first PRI rating this year. They have committed to going Carbon Neutral as a business, are assessing suitability of external data sources for EM small and mid cap, and are actively engaging with clients to properly understand their priorities regarding sustainable investing. They are also actively planning to upgrade to FRC Stewardship Code 2020 (they were signatories to the previous 2012 code).

Outcome: continue to monitor and encourage progress.

Example

Fidelity Asia

Objective: follow up on feedback given at a previous meeting.

We had given feedback previously that we want to see the Manager build up his ESG expertise and consider environmental and social issues within his own investment decision making, even if the firm's research analysts integrate ESG factors within their analysis. There are some enhancements being made to the firm's analyst ratings which may help to communicate environmental and social risks and opportunities alongside governance factors. It was also noted that the Manager will be participating in training on ESG integration. Nonetheless we still see the Manager's consideration of environmental and social factors to be lacking and have again given feedback on this.

Outcome: We have a follow up meeting scheduled with the firm's Head of Sustainability and will meet again with the Manager in 3 to 6 months' time to assess progress made.

Example

Prusik Asian Income

Objective: ESG integration progress update.

We met with an equity Manager where ESG factors are not yet formally considered across the investment process. The fund has a high carbon footprint and there is no apparent consideration of the impact of a higher carbon price on its exposures or climate risks in the portfolio more generally. We were told about progress made to date on ESG at the firm and also about the new sustainable investment hire who will be managing their own fund but will also bring ESG expertise to what is a small investment team.

Outcome: We asked for another meeting in six months to follow up on further progress made.

Example

Artemis UK Income

Objective: Formalisation of enhanced ESG approach to be considered for inclusion in Quilter's Responsible Funds Lists.

As Quilter Investors considered the Artemis UK Income fund for inclusion in the Responsible portfolio, meetings with the Manager in 2021 and an internal review revealed that the Manager was integrating ESG sufficiently in line with the requirement of a Responsible categorisation. However, there were no formal policies around this. We engaged with the Manager on this and emphasised the preference for exclusionary criteria on specific unsustainable activities to formalise their ESG process.

Outcome: In response to this, the Manager has launched a 'responsible' version of the fund whereby formal exclusionary criteria are implemented.

Example

Liontrust UK

Objective: ESG integration progress update.

We had a follow up meeting with the Managers of this UK equity fund where significant progress has been made over the past 12 months after our initial ESG focused meeting in December 2020 when we gave feedback as to steps we would like to see taken. The Managers have gone from having very limited consideration of ESG factors to them being included as an additional formal risk consideration as part of the portfolio construction scoring process. Engagement on ESG issues has also increased, with the team working alongside one of the firm's sustainability specialists.

Outcome: There is still a reliance on third-party ESG data and further improvements to be made but we have been pleased to see the progress made to date.

Example

Investment Trust

Objective: For the Manager to become a PRI signatory.

As a long-standing investor within the trust, we believe that a Manager of their size – operating within the public equity, private equity and private credit/royalty markets – should be able to evidence its responsible investment credentials through the PRI signatory status. Furthermore, as the Manager of an investment trust listed on the London Stock Exchange we believe that not having PRI signatory status is likely in the long term to be detrimental to the trust given that investors in the UK are becoming increasingly focused on investing in funds which clearly disclose their approach to responsible investment. As investors in the trust, we expect a responsible investing policy as well as a voting policy and outcomes to be publicly disclosed.

As a first step we have communicated this to the board and the broker. We followed this up with a discussion with the Manager to talk about why they have not yet signed up to the PRI and to make clear the growing importance of ESG integration and engagement in our fund selection process. The reasons given by the Manager for not signing up to the PRI may be valid for a small, boutique investment firm, but we feel not in the case of this Manager.

Outcome: We agreed to continue the conversation by providing feedback on the ESG policies they are currently working on and will continue to press the matter.

Engagement on ESG risk and exposure

We use engagement with our Managers as a tool to understand and monitor our exposure to particular ESG risks as well as look specifically at how these Managers are managing specific risks. In many cases, this dialogue takes the form of a more in-depth discussion on specific exposures and companies held by the Manager. Examples include looking at exposure to controversial areas such as thermal coal or controversial weapons or where there is exposure to high or severe ESG risks or significant controversies. This can also be where there is a suspected breach of international standards. We use internally developed dashboards and external data sources to help identify these sources of risk and exposures. These tools help us identify priority areas for engagement with our Managers.

Example

Quilter Investors Emerging Markets Equity Growth

Objective: To address a holding in Tata & Sons, which was flagging as non-compliant to UNGC principles through our monitoring process.

This sub-advised strategy, managed by JP Morgan, flagged exposure to Tata & Sons which is considered as non-compliant to UNGC principles by our third-party research provider, Sustainalytics. As the Manager's position in Tata Consulting Services is 72% owned by Tata & Sons, who also own Tata Advanced Systems Limited, which is involved in the nuclear weapons programme in India, Sustainalytics have assigned non-compliance to all companies, since India is not a signatory of the Nuclear Non-Proliferation Treaty. On addressing this with JP Morgan, they took active steps to engage with both the company, Tata Consulting Services, to confirm that there was no involvement in this programme and no cross shareholding or material revenue from Tata Advanced Systems. Further, the Manager engaged with Sustainalytics to better understand the rationale for including the company as non-compliant. Sustainalytics have acknowledged that this results from their framework for linking company structures rather than a true representation of Tata Consultancy Services' own UNGC compliance.

Outcome: We are now taking the outcomes of this engagement into account in our own monitoring processes, and will continue discuss with Sustainalytics their UNGC framework.

Example

Quilter Investors Equity 1 (Jupiter)

Objective: Continuation of engagement with Jupiter & Boohoo to ensure continuous reform and policy implementation to meet acceptable standards for human and labour rights through the supply chain.

We have exposure to Boohoo through a significant holding in the Quilter Investors Equity 1 Fund, managed by Jupiter Asset Management. As a result, last year we worked with Jupiter on an extensive engagement programme with the company following allegations around poor working practices. These issues led to an outbreak of coronavirus and resulted in significant press attention and further evidence of poor practice in the company's supply chain and disclosures. We worked with the team at Jupiter to agree and plan priorities for engagement, and have found meaningful progress has been made in these areas, including setting aside funding to implement expediated improvements recommended by the independent review by QC Alison Levitt. This year, we have continued to monitor that these improvements are on track and work with Jupiter to further turn attention to pay reforms within the company, including the addition of ESG metrics within management pay structures, which are centred on the company's Agenda for Change.

Outcome: ongoing monitoring with Jupiter.

Voting-related engagement

As mentioned elsewhere in this report, we take our voting responsibilities seriously and this extends to our closed ended funds such as investment trusts. Here we actively participate as shareholders, effectively using our vote to be responsible stewards of our customers' capital. As part of this, we engage with Managers in advance of votes to lobby for change where required. This allows us to use the opportunity to support responsible investment practices.

In addition, we expect our Managers to vote on our behalf where appropriate, and where we feel enhancements to voting arrangements at our Managers should be made, we will actively engage with them to encourage improvement – in line with our voting policies.

Example

Geode (via Fidelity)

Objective: To open discussions with passive product providers to ensure all possible active ownership activities, such as voting, are being implemented.

Meetings with Fidelity's passive product provider, Geode, last year indicated plans for improvement with respect to voting policy, process and resource. In ongoing discussion this year, we consider Geode to have made significant progress towards improving their stewardship approach and activities. The company has hired several individuals, particularly Voting Analysts, and has added organisational structures to incorporate governance and to organise around initiatives and partnerships. Where voting is such an important area for a passive provider, we were encouraged to see some development in voting policies and pooled engagements. Direct company engagements have also increased and tracking and rating methods are being developed.

Outcome: We expect to see further development of specific voting and engagement policies for environmental and social matters, and further recruitment of individuals with ESG credentials into the business to develop the ESG Committee.

Example

BlackRock

Objective: Update on BlackRock's firm-wide stewardship approach.

From a fund research perspective, we had a call with BlackRock's Head of Global Stewardship who joined in May 2020. BlackRock have taken several steps this year to improve their transparency and provide more clarity about their priorities and how they will be acting against those who do not make the improvements requested of them. They have taken voting action against companies that in their view have not met TCFD standards asked of them in 2018. We discussed the criticisms outlined in a recent Majority Action report regarding BlackRock's lack of support for climate-related shareholder resolutions as well as lack of support for many of the Climate Action 100+ shareholder votes.

Outcome: We felt the reasons given as to why we can expect them to vote on more resolutions and receive less criticism going forward, sounded reasonable and we will be looking for this to be evident in their voting in the year ahead.

Example

Ediston Property

Objective: To discuss the proposed remuneration restructure presented at the 2021 AGM and recommended to vote against by our proxy voting service.

We engaged with Ediston ahead of their AGM. One non-executive director will receive an additional salary per quarter. At the same time, the AMC paid to Ediston will reduce by the same amount per quarter. Furthermore, 20% of Edison's AMC will be used to buy shares in the market (each quarter). While the increase in fee does complicate NED fee structures, we believe this is intended to recognise an increased contribution from one board member. On the basis that there is no financial impact for shareholders following the increase in director's fee we regarded an increase in remuneration to have a sound rationale and were comfortable to vote in support of this, against the recommendation of our proxy voting service.

Outcome: Through our early involvement in the consultation period of the executive remuneration policy we were able to encourage adjustments to the originally proposed changes, including better pension contribution alignment and removal of a proposed increase to the long-term variable pay.

Example

Raven Russia

Objective: To continue monitoring of steps towards improved board diversity and transparency.

Over the course of our engagement with Raven Russia Property Group, we have seen improved board independence. We have undergone extensive discussions with the company on governance matters and continued to engage with the company ahead of the 2021 AGM specifically relating to the remuneration policy. This year we were comfortable with the rationale to align C-level management salaries and in recognition of this we voted in favour of accepting the accounts, along with election of an additional independent board member. However, we do consider that the board continues not to be diverse, with no female members. We abstained from support of other director elections in view of this and continue to engage with the company on this point.

Outcome: This is an ongoing engagement as improvements are still needed to get to best practice regarding remuneration and board composition for this company. Currently, we are consulting with the company, as major shareholders, to review the proposed remuneration policy for the coming year.

Transparency and disclosure

As well as encouraging Managers to explain how they approach ESG integration, in line with best practice we expect Managers to regularly publish details of their voting and engagement and to disclose examples to us on a regular basis for ongoing discussion. In terms of the latter we look for quality not quantity; voting on thousands of resolutions at AGMs may be laudable but we are more interested in the thought process that goes into making these decisions. Often this quantum of voting may simply be the result of an automated voting system which does not lead to engagement with companies on key topics.

In addition, since the start of 2021, a formal quarterly reporting process has been established for our sub-advised mandates. We expect our sub-advisors to report on a quarterly basis across a number of responsible investment and ESG topics, including climate-related information and data, engagement and voting.

Example

Sub-advisors and strategic partners

Objective: To promote transparency in stewardship of assets through regular systematic reporting.

Since the beginning of this year we have been requesting more detailed quarterly reporting from partners managing assets on our behalf through a sub-advised strategy. This has allowed us to get a better understanding of the general approach to responsible investment for each strategy and any restrictions or ESG performance metrics applied, but in particular the voting, engagement and stewardship activities undertaken. Our partners have been very responsive to these requests and we have seen a high level of transparency in the reporting. Through this we are able to see, for example, that a number of companies are actively engaged with by several firms at once on our behalf, such as Rio Tinto relating to their management of the Juukan damn controversies, YumChina in relation to food safety and packaging, as well as emerging themes, such as tailings management in the mining industry and strengthening governance in pharmaceuticals. We are also able to understand our partners priorities and collective initiatives, allowing us to identify appropriate areas of collaboration.

Outcome: We are developing a more thorough understanding of how our sub-advised assets are being managed, thematic priorities that are emerging and opportunities for improvement or collaboration.

We track our Managers' progress and outcomes on engagements on an ongoing basis. Here are some examples of the engagements that our Managers have carried out over the past year.

Example

Healthy Markets Initiative

The team engaged with Tesco to discuss the Healthy Markets initiative. The team co-filed a resolution with the Healthy Markets initiative for Tesco's AGM in 2021. The resolution asked Tesco to introduce targets and disclosures on its total sales of unhealthy foods.

In February 2021, Tesco announced new market-leading targets for the sales of healthy foods in its UK stores and increased disclosures.

Diversity and inclusion

The team had written dialogue with Taiwan Semiconductor Manufacturing (TSMC) about material ESG issues. The company provided them with up-to-date information about its approach to managing climate-related risks – focusing on water – and initiatives to address issues related to data security and human capital management. Overall, the team was encouraged by the progress which the company is making, and think that the company's 2020 CSR Report is outstanding. The quality of this report reflects the willingness of the company's Board and management team to be progressive on ESG issues. One area where there is scope for improvement is diversity and inclusion. The team encouraged Taiwan Semiconductor Manufacturing to improve gender diversity by: involving Managers and other leaders in the design, roll out and implementation of diversity and inclusion programmes; reducing gender bias in hiring; sponsoring professional networks for women; and taking additional measures to close wage gaps across all levels of the organisation.

Just Transition

As part of a collaborative engagement on net zero and the Just Transition, the team met with a number of electric utility companies at the start of 2020, including SSE. During their engagement meeting with SSE in the summer of 2020, the responsible investment analysts scrutinised the company's targets and alignment to the UK's 'Net Zero by 2050' commitments. They questioned its assumptions on the role of natural gas, carbon capture, use and storage, hydrogen and energy demand. They also requested details about its contributions to flexibility, storage and demand side response. They discussed the company's strategies to influence public policy, and its views on Ofgem's recent regulatory consultation. They also proposed that SSE develop a Just Transition strategy and embed it into its decarbonisation plans. SSE welcomed these suggestions and requested they submit a question to the board at the company's upcoming AGM. During the AGM, SSE committed to publishing its strategy by November 2020, alongside mid-year reports, and a statement outlining the company's principles and plans to support a Just Transition. Now released, SSE's pioneering Just Transition Strategy is the first of its kind in the sector. The team is committed to taking lessons from this engagement and applying it in other contexts. For example, they have leveraged their role as coordinator of the IIGCC Power and Heat Utilities engagement group to produce an investor expectations paper on the utility sector's path to net zero.

Thematic engagements

As flagged elsewhere in this report, we have a number of thematic priorities, Climate Change, People & Human Rights and Water. As such, our investment businesses have begun to undertake more proactive thematic engagements underpinning these themes. This is particularly an area of priority for our sub-advised mandates. This is an area we have started to build out on the funds side and see these as longer-term engagements where we work with our Managers to collaboratively engage on key thematic issues that are a priority for us. We intend to develop this further in 2022 and beyond.

Example

Quilter Investors Natural Resources & QI Large Cap Equity value on Anglo American/Thungela

Objective: To understand the Manager's views and actions relating to the demerger of thermal coal assets from their Anglo American holdings.

When Anglo American announced its intention to demerger thermal coal assets to Thungela, we felt it important to understand the views of our sub-advisors with holdings in the company. Both Managers, Janus Henderson and BNY Mellon, considered the positive ESG perspective to be beneficial for long-term shareholder value and in line with the company's aspirations to be a leader for sustainability in the mining sector. Both retained Anglo American and sold off the demerged thermal coal interest.

Outcome: This has resulted in a significant reduction in exposure to thermal coal assets across several Quilter Investors portfolios.

Example

Emerging markets fund: engagement on high carbon intensity holdings

Objective: To understand the Manager's view of the highest carbon emitter and carbon intensity holdings, and what engagements have been undertaken with these companies.

This emerging markets small and mid cap equity strategy flagged for having high carbon emission and intensity companies in our monitoring process. We engaged with the Manager to better understand their view and any engagement activities they have, in particular with Gazprom as a larger holding with high overall emissions and two smaller holdings of cement producers (Asia Cement and Anhui Conch Cement) with high carbon intensity and no disclosed carbon reduction targets.

Continued

The Manager acknowledged the high emissions and transition risk of Gazprom, but also the importance of natural gas as a transition fuel, the phasing out of which they consider to be reflected in the company's valuation. They have discussed the feasibility of reducing methane emissions. Regarding the cement companies, the Manager has found Asia Cement to have a comprehensive programme of improvement by the Transition Pathway Initiative by which they can monitor progress. They do acknowledge that Anhui Conch, although operating the world's largest carbon capture facility, does pose higher ESG risk due to some disclosure of only vague emissions and reduction targets.

Outcome: We will look to work with the Manager to agree specific engagement plans for more proactive engagements this year with Gazprom and Anhui Conch.

Example

HICL Infrastructure

Objective: understanding the disclosure and sustainability approach.

This was an initial meeting with the Chair of HICL Infrastructure. Topics discussed included board succession, along with the fund's net zero carbon aspirations. Plans are by no means concrete but it is a topic they are exploring – the main hurdle will be working out how to decarbonise assets where they do not hold a majority stake and are largely reliant on operators and clients to reduce the carbon footprint. They have embedded ESG criteria into the incentives of staff members at the underlying investment firm. We have requested more information to better understand specific performance criteria and thresholds. Sustainability issues and how these can be embedded into board processes are on the radar, but it will be helpful to hear more on specific developments moving forward. Given the board rotation taking place, improving the ESG skillset on the board should be an area of focus for future engagement.

Outcome: continue to monitor the developments regarding disclosure and sustainability.

Example

Collaborative Engagement on Conflict Minerals

Objective: Via the PRI collaboration platform we joined an engagement regarding conflict minerals within the semi-conductor supply chain to improve best practice on sourcing.

We supported a collaborative engagement, led by Stewart Investors, when they sought investor signatories to a letter to semiconductor companies to take leadership roles in improving best practice for sourcing of conflict minerals. Addressing this issue is well aligned with Quilter's thematic priorities on human rights. As such, we also engaged with our strategic partners to encourage further investor support for this letter to 26 companies calling for specific actions including innovating solutions for improved traceability, to take a firmer stance on non-compliance and improve recycling and transparency in the supply chain. This engagement opened discussions for further collaboration on this important topic, and resulted in four more firms signing the letter for engagement, including JP Morgan, RWC, Fidelity and Jupiter representing substantial AUM as signatory to this letter. The letter, representing a collective total of $6.59 trillion in AUM, was sent in November 2021.

Outcome: We expect to hear collated company responses, and participate – with our strategic partners – in evolving this engagement in Q1 2022. In the meantime, we are developing a better understanding of the position of each of our sub-advisers on this topic and insights as to how we can inform development of this engagement over the next year.

Example

Quilter Investors Global Equity Value Fund (RWC)

Objective: To better understand consideration of climate, carbon and transition risk and any action taken.

We requested more detail as to what extent the Manager considers the overall carbon risk profile of the fund and whether/how company carbon emissions influence their investment decision making. Additionally, we asked for information on how the climate scenario alignment for the portfolio is considered and how climate transition risks are managed, particularly in relation to the fund's oil and gas holdings. We also requested further detail on how they consider holdings that are contributors to carbon emissions, thermal coal, and stranded asset risk. Exposures within the portfolio were discussed, along with associated level of revenue risk and stranded asset risk. Holdings contribution to overall portfolio emissions was outlined and rationale provided in relation to the role they play in being part of the solution rather than a permanent disruptor.

Outcome: We monitor exposures and engagement activities on this fund through RWC's quarterly reporting. In November 2021, RWC became a support investor in the engagement initiative with Shell coordinated by Climate Action 100+ for which the Managers of this fund have led the firm's efforts. We will continue to engage with regard to other exposures where actions have not been reported.

19. Managers: expectations and monitoring across asset classes 8 9 12

Our fund analysts assess the approach taken to stewardship and all of the various engagements that we undertake throughout the year and use this as part of the process to assign an ESG rating to the fund that reflects the degree to which they believe ESG risks and opportunities are embedded in investment analysis and decision making within the Manager's investment process. We believe that making sure that due consideration is given to ESG factors as part of the investment process contributes towards markets properly pricing ESG risks and opportunities and over time should steer portfolios towards more sustainable companies.

The ESG fund rating is an internal measure to enable comparison of Managers across sectors and asset classes. Given the fast pace of change being seen across the investment fund industry to integrate ESG factors within the investment process, as well as the fast-evolving nature of ESG data, metrics, regulations and risks like climate risk, the Fund Research team see their ESG assessment of Fund Managers as an iterative process that will adapt over time. The analysts look to build an understanding of not just how ESG is incorporated into investment processes and engagement today but also the direction of travel, with further meetings over time to update and engage on progress made.

The ratings used by the fund research team are given below. A + rating is also given to funds that have a bias to sustainability themes or target positive outcomes. We seek to apply the ratings consistently across regions and asset classes. The ratings are intended to be dynamic as part of an iterative assessment of Fund Managers as they continue to make progress on investing responsibly.

Level D ESG difficult to apply → **Level 0** No consideration of ESG factors → **Level 1** Some consideration of ESG factors → Level 2 Building process to formally consider ESG factors → Level 3 Framework for formally considering ESG factors is in place → Level 4 ESG is fully embedded within investment analysis and management of the strategy

The fund research team's engagements are currently focused on process, where the analysts seek to identify Managers that are laggards in terms of their progress to integrate ESG factors and encourage them to take steps to improve. To do this the team uses their discussions with Managers on investment process and stock examples to assess a Manager's analysis and understanding of the company's sustainability as well as broader ESG issues. In addition to this the team regularly meets sustainability and corporate governance teams to discuss their approach to engagement and their involvement in industry groups as well as PRI signatory status where applicable.

Additionally, in terms of monitoring the only blanket exclusion we seek to employ for all investments relates to cluster bombs and anti-personnel land mines, as these are subject to international conventions and law. Where we invest directly, we do not knowingly invest in securities (equity or debt) of listed companies involved in the manufacture, development or trade of anti-personnel mines or cluster munitions. We also undertake regular checks to monitor any exposure through third-party funds to controversial weapons and other potential areas of concern.

Example

For indirect holdings via funds, we have undertaken an engagement process with the relevant Manager to determine exposure and asked Managers to sign an attestation letter to confirm avoidance of cluster munitions and anti-personnel landmines. Our focus has been on the active funds that we hold. With some Managers, where data or definitions were not absolutely aligned, this led to a more detailed review of their approach to ensuring this exclusion.

Example

RWC

Objective: Enhancement to processes relating to controversial weapons exposure.

In ensuring that we have no exposure to specific controversial weapons (namely cluster munitions and anti-personnel mines) through our third-party Managers, we asked Managers to sign an attestation letter to confirm avoidance of cluster munitions and anti-personnel landmines. With some Managers, where data or definitions were not absolutely aligned, this led to a more detailed review of their approach to ensuring this exclusion. In the case of RWC, for example, the firm has now upgraded their provider of data to monitor this, to a more robust and frequently updated source to meet our exclusion standards.

Outcome: we have comfort that, even where an investment process is with another Manager, there are appropriate controls in place to meet our exclusion standard.

20. Systemic risk and collaborative engagement 1 4 9 10

As part of our overall approach to stewardship and investment, we work to identify systemic risks that we feel may have a material impact on our portfolios and customers in the future. Examples of areas that we have identified these as systemic risks are shown below. These inform our collaborative engagements as well as our three thematic priorities.

Greenwashing

One of the issues that investors face increasingly is the concern that greenwashing (where products or services are made out to be more sustainable and for example environmentally friendly than they really are). We have undertaken work in creating customer categories within our approach to defining customers' responsible investment preferences and are now working at mapping our solutions and services to these categories as well as establishing a pan-Quilter forum to ensure that we have a consistent approach across the business. We have contributed to the work that TISA has undertaken in this area through our representation on the Responsible and Sustainable Investment Committee.

Climate Change

As a result of the systemic risk of climate change we have:

- Reviewed and enhanced our governance framework
- Identified climate change as one of our thematic priorities
- Begun a thematic engagement process with our largest emitters within portfolios
- Sought specific climate-related data from our funds
- Integrated climate metrics within our ESG dashboards
- Begun our net zero planning journey with the appointment of an external consultant
- Signed a public statement requesting international governments to act on climate change ahead of COP26

Example

Investor letter to Governments to call for action on climate change ahead of COP26

Quilter has supported collaborative action on climate change by signing a public statement, drafted by seven leading and respected responsible investor organisations (including PRI, CDP, IIGCC of which we are members). This statement addressed to governments calls for commitment to domestic mid-century, net-zero emissions target with interim targets and roadmaps, implementation of domestic policies and incentives to deliver these targets, and making climate risk disclosures mandatory. The letter was published in June ahead of the G7 summit and used as a basis for engagement with governments at key policy moments in the lead up to COP26.

Collective engagement on ISS climate-related recommendations

We have participated in a collaborative request for ISS to strengthen its climate assessment and climate-related recommendations in its proxy voting guidelines where a number of investors (representing over $2.13 trillion AUM) have signed a letter to ISS (Institutional Shareholder Services) requesting more comprehensive climate assessments on companies to include climate performance rather than limited to disclosure, to allow investors to make informed decisions on voting in accordance with their own policies. The letter also urges ISS to standardise voting recommendations and rationale in such a way that will facilitate accountability on climate action and that is closer to evidence-based targets such as 1.5˚C temperature alignment.

Led collectively and coordinated by Majority Action, initial discussions have not yet led to a clear commitment from ISS to action specific requests, and further engagement for focused minimum expectations will continue.

Diversity and inclusion

The social and economic impacts of inequality on company operations and performance as well as the destabilising impacts on society in general are a concern, therefore we have been engaging with the wider eco-system beyond the investee companies e.g. executive search firms.

Example

30% Club Investor Group

As a lead engager, and as part of the 30% Club investor group, we launched a collaboration to open discussions with leading executive search firms to assess their hiring practices when making women appointments to executive and board positions. This is still ongoing, but learnings will be aggregated and used in future company engagements.

We have also trialled diversity data for the 30% Club Race Equity workstream and collect data from Managers on diversity metrics.

Example

Governance-focused engagement with Managers considered for inclusion in new ESG badged products

We reviewed over 40 prospectuses as part of the due diligence process for the investable universe for our Responsible and Sustainable range. These ESG products, to be launched this year, provided an opportunity to speak with firms regarding fund board independence as part of good corporate governance and protecting investors' best interests. Where we have seen a lack of gender diversity, for example, as we did at Mirova, we have engaged to further understand plans to improve, and related policies. In the case of Mirova, recent changes in the composition of the board have increased representation by women to 33%.

Example

Modern Slavery

Within our direct holdings, we utilised the UN-backed PRI's collaborative engagement platform to join a group of UK investors engaging with companies would have not met reporting requirements under the 2015 Modern Slavery Act. The outcome of this collaboration led to all but one of the 50 companies engaged sufficiently reporting under the act as of the end of 2021.

21. Our voting principles and how we vote 12

As responsible investors we use our voting activities to fulfil our role as a steward of our customers' assets, working to protect and enhance long-term returns. Voting and engagement is part of our investment process, therefore all decisions are made in conjunction with the relevant research analyst.

We have developed a set of voting principles, that reflect guidance from the Financial Reporting Council in the UK Corporate Governance Code, AIC Corporate Governance Code for Investment Companies and from the Pension and Lifetime Savings Association, as well as good practice within the market.

We use the services of Institutional Shareholder Services (ISS), a third-party proxy voting service provider to facilitate the fulfilment of voting. We consider the recommendations of ISS in our engagement and voting decisions, but we apply our own views to the voting policy and will not always follow the recommendations of ISS if we feel it is in the best interests of our customers to take a different course of action. There are minor differences in how we execute our voting in terms of universe and process.

We act independently in regards the execution of our voting, hence we have separated the two business units' reporting as this reflects the activity of each of them.

22. Quilter Cheviot voting activity 9 12

Within Quilter Cheviot we vote on our UK, European and US equity and investment trust positions; this includes the monitored equity lists, the monitored investment trust lists, the AIM portfolio service, MPS (Managed Portfolio Service) and where we own more than 0.2% or £2 million of a holding in the UK. We have a long tail of holdings which is unsurprising given the nature of our customer base; we do not intend at this stage to vote on every single position we have. The reasoning for this is simple: voting should happen alongside engagement and therefore, whilst we could easily vote on every single holding globally, we would not engage on that scale in a meaningful way, and in some cases the position will only be held by one customer. Voting decisions are a reflection of our investment thesis, and we have dedicated equity and fund research teams who meet with the companies we invest in on a regular basis; as well as monitoring them on an ongoing basis.

Customers are also able to instruct voting on their holdings.

For assurance regarding the voting process on holdings within Quilter Cheviot all contentious voting issues i.e. where we are voting differently to our proxy service provider's recommendations (ISS) or where we are voting against/abstaining management are referred to the Voting Panel for review. The Panel consists of the Chief Investment Officer, Chief Investment Strategist, Director of Responsible Investment and the relevant Head of Research (equities or funds).

Voting principles for direct equities

We have principles in place which guide how we vote, however we will deviate from these on occasion following engagement with the investment. Below are some of the principles we have adopted as well as examples of how these have informed our voting decision making:

Environment

Climate shareholders resolutions: We will generally support shareholder resolutions for better company-level disclosure and more detailed interim target reporting on climate metrics, especially if in line with the Paris Climate Agreement.

Example

Barclays

Objective: To understand the company's position against a shareholder climate change resolution.

The resolution required the company to improve climate commitments and reporting. This would also require the company to set more detailed interim targets to phase out financing of fossil fuels in line with the Paris Climate Agreement (by 2050). It also directed the company to report annually on progress and the methodology used to measure this. Barclays has set out a high-level strategy to be a net zero company (including scope 3, which in the case of a bank is primarily focused on its what it is financing) by 2050 and has ambitions to bring that strategy in line with the Paris Agreement as soon as possible. Barclays has established several positive mechanisms, including a climate committee that reviews all fossil fuel financing deals. However, Barclays is still the biggest financer of fossil fuels in Europe and the fifth largest lender in the world to the coal industry over the past two years.

Outcome: We believe Barclays needs to accelerate its progress and therefore supported the shareholder resolution to encourage stronger commitments. 14% of shareholders agreed with our position, with a further 12% abstaining. We will continue to monitor Barclays' progress.

ESG metrics in executive remuneration: We strongly support remuneration policies with to inclusion of relevant ESG metrics linked to variable pay (most notably carbon reduction targets). We may not support remuneration policies that have made sufficient progress in this area.

Example

Halma

Objective: discuss proposed changes to the remuneration policy.

We spoke to the Remuneration Committee Chair to discuss the proposed changes to the remuneration policy being presented at the 2021 AGM. They are aware that there is a sensitivity around proposed executive pay increases and see this as a resetting of compensation away from FTSE 250 levels towards FTSE 100, of which the company is now a constituent member. No government funded furlough schemes have been used during the Covid-19 crisis. Company performance has been strong, and we understand the retention/succession planning concerns.

We are supportive of the changes but would like to see more information on how future remuneration could be better benchmarked against a more specific peer group as the FTSE is relatively diverse. More information on how Halma benchmarks ESG performance versus peers has also been requested. We will monitor progress on inclusion of ESG metrics in executive pay and have encouraged an acceleration of this process. We discussed efforts to improve diversity with the organisation. Halma has been relatively successful in achieving 60% of women holding leadership positions within the organisation. They put this down to a top-level focus on working closely with recruiters to produce balanced shortlists and an enhanced parental leave policy.

Outcome: further evaluation of benchmarking around ESG performance as well as the development of ESG metrics.

Social

Covid-19: Generally speaking, we will not support remuneration policies that propose pay increases for a company that has utilised significant government support or furloughing/redundancy schemes. We believe companies should endeavour to align the experience of the executive with the wider workforce during this time.

Example

Whitbread plc

Objective: To understand the bonus deferral for 2020/21.

Our proxy voting adviser recommended voting to abstain at the upcoming AGM on the remuneration report as there are concerns over a potentially deferred annual bonus to be awarded for FY2020/21 in the following financial year. We engaged to better understand the issue. There are questions over the appropriateness of bonus payments to executives where Covid-19 related government support has been used and redundancy schemes implemented.

The abstention vote recommendation acknowledged that no bonus payments have been made in FY2020/21, as the company has carried over the achieved bonus awards until FY2021/22, which may pay out subject to the achievement of additional performance metrics. We understand the concern regarding the concept of the deferred annual bonus, but we do not agree with the rationale of abstaining at this point as this is a forward-looking issue and, therefore, we will have the opportunity to vote against the remuneration report next year if we are not happy with the outcome of the deferral and achievement of any performance targets.

Outcome: We spoke with the company and voted to support management on the remuneration report and reassess the outcome at next year's AGM. Over 35% of votes were placed against the resolution. We will review our position next year based on concrete information and metrics.

Example

Astrazeneca

Objective: We initiated an engagement with the company on executive remuneration levels in the context of Covid-19.

For the second consecutive year, variable pay is being significantly increased. While the company's recent strong run of performance is acknowledged, it is highlighted that the CEO's total variable pay opportunity will have increased from 650% of salary to 900% of salary over the course of two years. Specific to the 2021 AGM, a policy vote to increase the annual LTIP opportunity from 550% of salary to 650% of salary was proposed; the remuneration committee (RemCo) also determined to increase his bonus maximum from 200% of salary to 250% (this is possible within the current policy). The company explained the new policy was driven by the incoming chair of the RemCo. Despite a policy being presented at the last AGM, it was felt that total compensation needed to be brought in line with leading European peers and take into account the expanded scope of the role resulting from Covid-19 vaccination production and the Alexion acquisition.

Outcome: While we recognise that the scope of the role has expanded over the past two years, the rationale is not sufficiently compelling, and we are not comfortable with a new Remuneration Chair changing a three-year policy we voted to support last year. If a gap in pay needs to be closed, we would expect to see a managed, well communicated pathway. We voted against the remuneration policy.

Diversity

The Parker Review, which is focused on ethnic minority representation on boards, has set a target of 'one by 2021' for FTSE 100 companies and 'one by 2024' for FTSE 250 companies. We monitor and engage with companies in this area, and are firmly of the view that 'one and done' is not an acceptable approach to this. If the company is a constituent of the FTSE 350 and the board does not have at least 30% women on the board (in line with recommendation of the Hampton-Alexander review), this is a red flag, and we may vote against the chair of the remuneration committee. We will also review this for all other markets and smaller companies.

Example

Ocado Group plc

Objective: To better understand their approach to diversity at board and company level.

We held some concerns over the level of women on the board which was only 17% prior to the 2021 AGM (the lowest percentage in the FTSE 100). The company provided some context on this figure, which was heavily influenced by the recent resignation of a female NED from the board. The process to find her successor was already in place with a commitment to all short-listed candidates being women. On a firm-wide level, Ocado's approach to diversity includes an internal bespoke mentoring programme, participation in the 30% club for diversity and graduate hiring with a focus on diversity and inclusion. To contribute to a more diverse talent pool, Ocado has created a coding tool called 'code for life', which is geared towards teaching children and particularly girls. This is important because 80% of graduate engineers are male, which limits the talent pool for the sector.

Outcome: We recognised the unfortunate timing which has led to the sudden fall in the percentage of women on the board and felt reassured that there will be a new appointment to improve gender diversity. We will continue to monitor the situation moving forward.

Example

LondonMetric Property plc

Objective: engagement in 2017 regarding diversity.

We began an engagement with the company in 2017 regarding the composition of the board – as a collaborative engagement organised by the 30% Investor Club. The company had no women on the executive committee and only one woman on its board (9% representation).

Outcome: as of 29 January 2021, representation of women on board has now reached 33%.

Shareholder resolutions: We will generally support shareholder resolutions for better company-level disclosure on diversity matters.

Example

Microsoft Inc.

Objective: To raise concerns related to several shareholder resolutions being opposed by management at the 2021 AGM.

The company opposed shareholder resolutions related to further reporting on gender/race pay gap, effectiveness of sexual harassment policies and lobbying activities. The second resolution was prompted by a series of recent sexual harassment allegations. We reached out to the company expressing our concerns at management opposition to further transparency on these topics. The company registered these concerns but declined to provide further information.

Outcome: Generally speaking, these measures increase transparency and are aligned with ESG reporting best practice. We therefore supported the above shareholder resolutions.

Example

Cisco Inc.

Objective: To raise concerns over management opposition to a shareholder resolution on 'Amending Proxy Right Access'. The proponent seeks to remove the current 20-shareholder aggregation limit.

We spoke to the company who are one of the few US names to provide proxy access rights for shareholders to directly nominate board directors (albeit with the above limit). The main concern which the company had, in relation to this shareholder resolution, was the resource and administration that would be needed for a large number of shareholders to have holdings verified as part of a director nomination proposal. We recognise this as a challenge and that Cisco has better proxy right access relative to many other US companies – but we agree with the above rationale that removing the limit on the number of shareholders that can aggregate holdings does represent best practice and enhances the shareholder voice. The company still has reasonable limits in place related to minimum combined shareholding and three-year minimum holding period prior to aggregation.

Outcome: We voted to support the shareholder resolution.

Social licence to operate: We may vote against the report and accounts or individual director elections where concerns related to stakeholder management, cultural heritage or community issues have been identified.

Example

Rio Tinto

Objective: To discuss executive remuneration and the Juukan Gorge incident.

We spoke with the Chair of the board to discuss how the company was improving procedures and managing the negative impacts of the recent destruction of two culturally significant sites at the Juukan Gorge mine. We raised concerns around an appropriate level of malus and clawback being applied to the previous CEO's remuneration in the wake of the Juukan Gorge incident. From the perspective of the board, Juukan Gorge reflected inadequate risk management, which is why all three executives responsible for implementing the company's risk framework had their employment terminated. Prior to the Juukan Gorge event there was clearly a gap in policy and implementation. To close this gap, the firm introduced an integrated heritage management plan and has systematically worked to increase all front-line Managers' cultural awareness of aboriginal sites.

Outcome: Based on our conversation, we were comforted by the comprehensiveness of the review into the incident and the processes being established to mitigate the risk of future controversies. However, we did not believe there was an appropriate adjustment to the outgoing CEO's 2020 remuneration and voted against the remuneration report in 2021 as well as the re-election of the non-executive director (NED) who chairs the sustainability committee. Less than 40% of voting shareholders supported the report and over 25% voted against the re-election of the NED.

Governance

The board is collectively responsible for the long-term success of the company. The board has to have sufficient independence as non-executive directors (NEDs) should constructively challenge management and no one individual should have unfettered powers of decision making. In order to ensure that the composition of the board is appropriate there are a number of factors that we assess. These include (but are not limited to) independence, effectiveness and diversity.

Example

Ares Management Corporation

Objective: To evaluate and understand the structure of a US company.

Ares Management Corporation qualifies as a controlled company within the rules of the NYSE because Ares Partners Holdco LLC beneficially owns more than 50% of the company's voting stock. The company has elected to be exempt from having a majority independent board and fully independent compensation, as well as nominating and governance committees pursuant to the exemptions afforded to controlled companies under these rules. We discussed this with the company and although the governance structure is not in line with publicly listed best practice, it is permitted under the rules of NYSE and is broadly in line with peers including KKR, Blackstone and other private equity Managers. The company is relatively young and, in many ways, comparable to the dual listed share class structure at some tech companies. The founder controls 53% of the company and although listed, Ares shares many of the characteristics of a private company and we do not see that this structure will change for some time. There is not a formal remuneration committee as compensation is not structured through a salary/bonus type arrangement but through carried interest which is set by the Conflicts Committee (made up of independent board members). Additional independent board members have been added in recent years.

Outcome: This is an ongoing engagement. We believe our proxy adviser's concerns stem from applying a public listed governance framework without considering the underlying structure. We will encourage further governance improvements (such as improving the board's diversity) and will monitor developments moving forward. We also strongly encouraged further engagement with proxy advisers to better explain how the company's governance framework operates. We supported management.

Example

ImageScan

Objective: board composition on a UK smaller company.

We have held multiple conversations with the company relating to concerns around the combined CEO and Chair position as well as the general independent representation on the board. We held a catch-up discussion with the Chair/ CEO in the run up to the 2021 AGM and are comfortable that progress is being made on the above issues so will vote to support management at the upcoming AGM. The Chair has outlined plans to split the CEO/Chair role and is looking to improve independent board composition as well as bring committee independence membership in line with the UK Corporate Governance Code standards. Both these measures will improve independence criteria.

Outcome: we will continue to monitor the situation but if these changes are made, they will represent good engagement outcomes.

The other significant area of focus is remuneration. There are many facets to this and the inclusion of ESG metrics within the incentive structure is one aspect.

Example

Ashtead

Objective: Open engagement to discuss concerns related to the proposed remuneration policy put forward at the 2021 AGM, as well as proposed executive salary rises in the remuneration report.

Our conversation with the company focused on majority US presence in terms of activities, retention efforts and peers. The company has grown significantly and performed well over the past five years, and we understood the rationale for bringing salary and LTIP in line with peers (particularly US ones) – as there has not been a significant re-assessment of pay since 2016.

We are willing to support the CFO pay rise on these grounds and would be willing to support management on the remuneration report. In principle, we did not have concerns with the initial proposal to increase LTIP on the basis of the above rationale. However, a strategic equity award was proposed as part of the LTIP increase. This was a significant increase from the base level – with insufficient staging from our perspective. Separately, from concerns around total compensation, the complexity of splitting the LTIP into the two structures is also not considered best practice.

Outcome: We supported management on the remuneration report but voted against the proposed remuneration policy.

Example

Associated British Foods plc

Objective: To raise concerns related to the use of board discretion to override performance targets under the LTIP (Long-term Incentive Plan), prior to the 2021 AGM.

We engaged with the company as the remuneration committee had exercised discretion to override the anticipated formulaic outcomes of performance targets applicable to in-flight awards made under the LTIP (an upward revision). At the same time, the company has applied downward discretion to the STIP (Short-term Incentive Plan) and, following a reduction in the LTIP maximum, has exercised discretion within a framework, and allowed a portion of the LTIP to vest. This has resulted in a reduction in total pay for the executive directors.

Outcome: Based on the reduction in total pay we voted to support management.

Example

B&M

Objective: To discuss the proposed increase to executive remuneration presented at the 2021 AGM.

We engaged with B&M during the consultation phase of the remuneration policy and have reviewed and encouraged multiple changes from the one originally proposed. The policy has accelerated the pathway for executive pension contribution alignment with the wider workforce and scrapped a proposed rise in the long-term incentive plan. The rise in remuneration is driven by retention efforts and is an overall rebalancing of compensation – where the company has lagged peers for a number of years. This positions the CEO's remuneration slightly below the median of the retail comparator group and companies of a similar size in the broader market. We are comfortable supporting management on these items.

Outcome: Through our early involvement in the consultation period of the executive remuneration policy we were able to encourage adjustments to the originally proposed changes, including better pension contribution alignment and removal of a proposed increase to the long-term variable pay.

Example

Electronic Arts

Objective: To raise concerns over several agenda items at the 2021 AGM, including the proposed remuneration package.

We held dialogue with the company regarding the proposed executive remuneration package, specifically the measures to award special grants as part of the long-term incentive plan. Our proxy advisor also recommended voting against members of the board involved in the formulation of the package. Based on the information provided by the company we were pleased with how they had addressed shareholder concerns. They had made a number of changes including putting in place a new Remuneration Committee chair and replacing their compensation consultants. They have also committed to forgoing the award of any special grants until 2026.

Outcome: The company has listened to the concerns raised by shareholders, demonstrated in the above changes. This is the first time we have spoken to the company and have supported management on items related to remuneration. We will monitor the situation moving forward.

Other areas of concern include capital structure changes that impact shareholders' long-term interests as well as the role of the auditor.

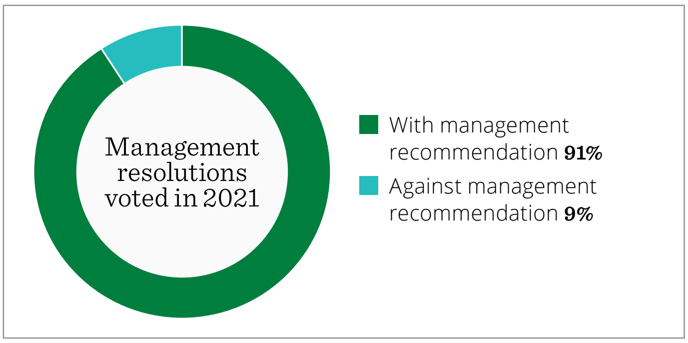
There are also different considerations to be taken for investment trusts and smaller companies and we incorporate these within our voting principles and activity.

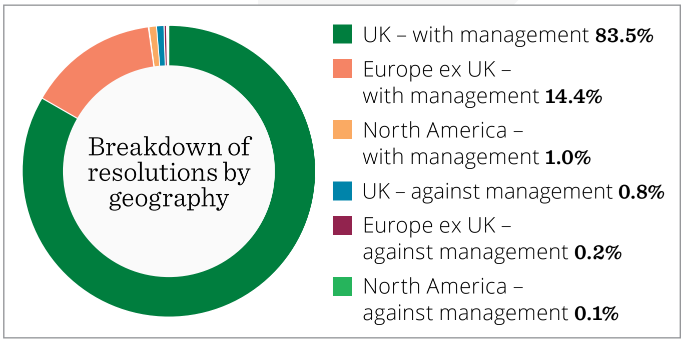
A significant proportion of the assets we invest in on behalf of our customers are funds managed by third-party Asset Managers. Where these funds invest in UK equities, in general and where relevant, we expect Asset Managers to adhere to the Code and we expect them to apply their own voting and engagement policies. In certain situations, for example specific strategies or investment structures, the above requirements may not be relevant or appropriate. Where this is the case, we expect the Manager to articulate a meaningful rationale as to why it may not be relevant or appropriate.

Within Quilter Cheviot in 2021 we voted at 323 company meetings and on over 4,500 resolutions; 127 customers also instructed voting on specific holdings.

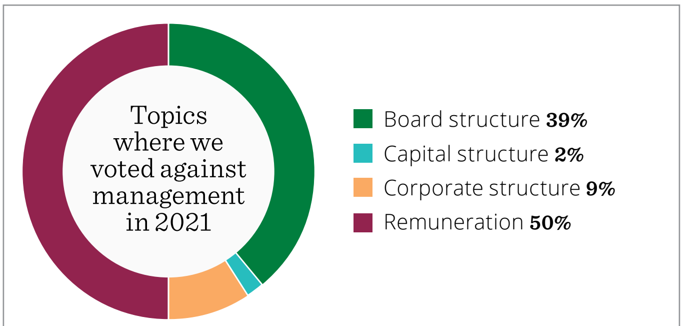
We will vote differently to our proxy voting service provider on occasion where we feel that is appropriate to do so – this is usually as a result of engagement with the underlying company.

We began voting on non-UK holdings in July 2021, hence the bias remains towards the UK market in terms of voting for the full year.

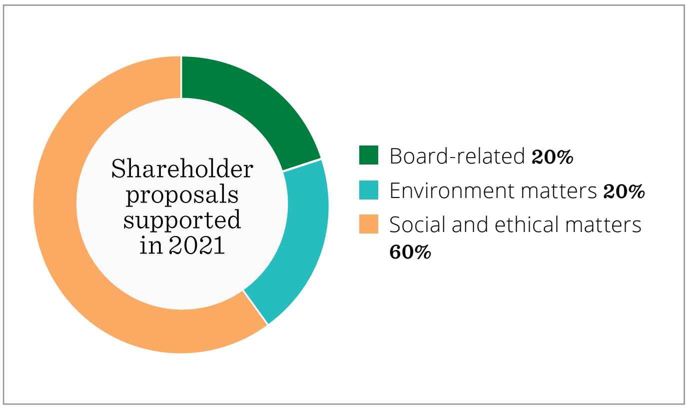




Notably a significant number of the votes in North America versus management related to shareholder proposals which we supported.



This excludes shareholder resolutions which we supported against the recommendation of management.



23. Quilter Investors voting activity 9 12

Within Quilter Investors we vote on all resolutions at all annual general meetings (AGMs) and extraordinary general meetings (EGMs) globally (unless we are restricted from doing so, for example in share-blocked jurisdictions).

Our investment team reviews all resolutions ahead of shareholder meetings and we only decide how to vote after due consideration and discussion. As a rule, we aim to discuss and resolve any concerns with management before deciding to abstain or vote against a resolution. We review all resolutions that are tabled and take an active involvement where necessary. For example, we may disagree with the recommendations of directors and/or third-party proxy advisers/administrators, and when appropriate we will amend our voting attentions accordingly and provide a rationale for why we have done so in our voting reports. We wholeheartedly recognise the importance of voting, especially given that we are a significant investor in the closed-end fund sector.

Where Quilter Investors delegates the investment management of a fund to another Manager (via a sub-advised arrangement), it is important for the Manager to align engagement and voting with the investment strategy. Due diligence is undertaken on these asset management firms by our independent fund research team in order to assess their approach to stewardship and responsible investment.

We expect our Managers to vote at shareholder meetings on our behalf. As with investment decisions, our Managers have complete discretion on how to vote. As a minimum standard, we expect our Managers to execute proxy votes where practicable.

We aim to use voting as a means of engagement and escalation in relation to climate-related topics and will exercise our proxy voting powers on climate-related resolutions to support the key areas of climate change transparency, reporting and disclosures, climate strategy and climate-related governance.

Example

Eurazeo

Objective: To understand proposals to changes in the remuneration policy, which our proxy voting partner recommended against.

Based on our policy, our proxy voting service provider ISS recommended voting against multiple items at the 2021 AGM. The remuneration policy and reports of management board members raised several concerns including that: executives may retain full rights to unvested awards upon departure; two-thirds of the severance payments are guaranteed, raising the risk of payment in case of failure; it is impossible to ascertain whether the Long Term Incentive Plan structure is sufficiently challenging; both Short Term and Long Term Incentives proposed were thought to have compensatory effects that could create misalignments between remuneration and performance; and there is no cap on the relocation indemnity, while in practice it leads to significant payments. We sought further information from the broker to gain a management perspective on recommendations but ultimately shared ISS's concerns and voted against the related ballots.

Outcome: Despite nearly 20% of votes being cast against the remuneration policy, the ballot was approved at the AGM.

Example

Berkshire Hathaway

Objective: Using our vote to further climate action.

A shareholder proposal was presented at Berkshire Hathaway AGM 2021 requesting that the company publish an annual statement on how physical and transitional climate-related risks and opportunities are managed. The proposal called for the report to include summaries of risks and opportunities the board believe to be materially impacted by climate change and the energy transition, an explanation of the board's oversight of these and a study of feasibility for setting science based GHG reduction targets consistent with limiting climate change to well-below 2˚C. The board responded that the request is unnecessary and that they receive reporting from its operating businesses on major risks and opportunities which include those relating to climate and that these businesses are managed in a decentralised manner. ISS research stated that of the 63 subsidiary companies, only 15 report on sustainability objectives publicly through Berkshire Hathaway, and only 5 disclose emissions information.

We also voted to support a second shareholder proposal requesting the company report any efforts on diversity and inclusion. This is warranted given the absence of information regarding comprehensive company diversity-related policies, programmes or metrics; and the potential benefits for shareholders of increased reporting of diversity-related efforts and programme effectiveness.

Outcome: We voted in favour of these proposals, which gained support of 27% of shareholders, and will continue to support similar shareholder proposals brought by others that would result in better disclosure of policy and allow shareholders to better understand how Berkshire Hathaway is managing systemic risks posed by climate change and the transition to a low carbon economy.

Example

APQ Global

Objective: To achieve transparency on the breakdown of fees paid to directors, and rationale for board composition.

We continued engagement with APQ Global this year after voting against approval of directors remuneration last year, as concerns continue around the lack of clarity on calculations of for remuneration, which do not seem aligned with performance. In addition, the board structure continues to provide insufficient independence, and executive directors also sit on the audit and remuneration committees. As we have received adequate responses to these concerns, we voted against the re-election of non-independent directors, and against approval of the proposed remuneration at this year's AGM.

Outcome: Although our exposure to this company is now reduced, we continue to advocate best practice and improved transparency with company management.

Example

Cambria Automobiles

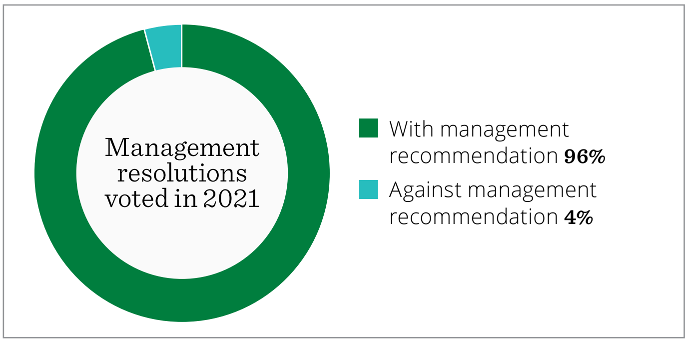
Objective: To fully understand the objectives for taking the company private with respect to shareholder outcomes.

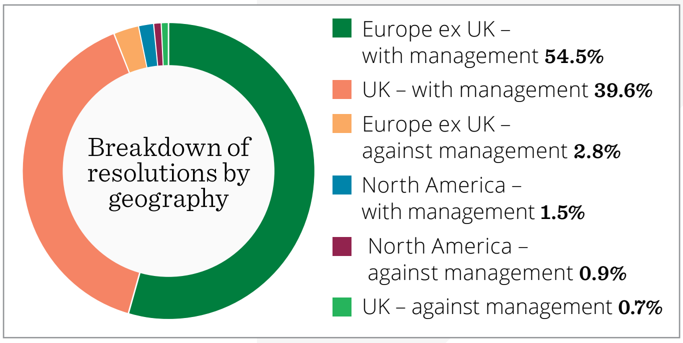
Cambria Automobiles has been a long-term holding for the Cirilium Active portfolios, with a strong ongoing relationship. When the cash offer for the company was put to shareholders, ISS viewed the valuation as underwhelming and recommended a vote against the action. In discussion with the company, and in light of the significant changes anticipated in the auto industry, we recognise the subjectivity of the valuation. The cash offer represented a good outcome for our clients and allows the benefits of private ownership for the significant decisions ahead. We therefore voted in support of this offer, which was accepted at the AGM.

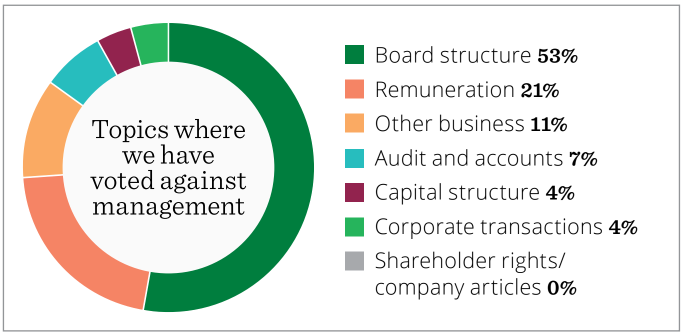
Outcome: The transaction is now complete and position closed having realised a significant profit.

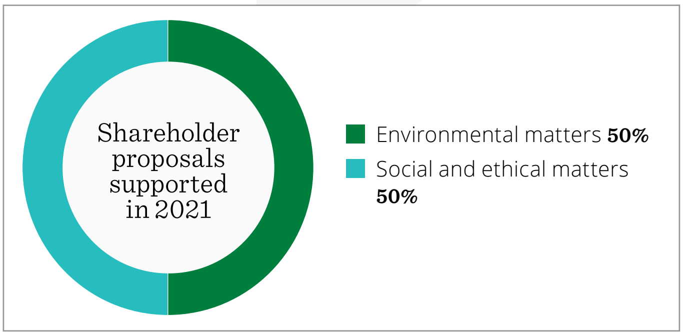
Within Quilter Investors during 2021 we voted at 137 company meetings across 684 resolutions.

We consider the recommendations of our proxy service provider in our voting decisions, but we apply our own views to the voting policy and will not always follow recommendations if we feel it is in the best interests of our customers to take a different course of action.









24. Our responsibilities and rights 12

We use the ISS Proxy Exchange as a platform for all our voting and we review the voting universe which we have defined within ISS on a regular basis. Therefore we are able to monitor our holdings and the relevant voting rights on an ongoing basis across the different custodians that we use. Direct communications between custodians and ISS are set up where possible to ensure we are acting on all voting rights. Within ISS Proxy Exchange we have set up different account groupings with different access; we cannot see each others' ballots or voting records. For Quilter Cheviot there is one account grouping for the discretionary holdings, whilst funds and the Managed Portfolio Service managed by Quilter Cheviot will each have their own accounts. For Quilter Investors the holdings are all within one account grouping where we are able to monitor upcoming meetings and ballots on an ongoing basis.

As a signatory to the UN-backed Principles for Responsible Investment, we have made a commitment to transparency and recognise its importance in creating higher standards not only for responsible investment practices but also for the wider financial market.

- Within our regular voting and engagement report we provide detail on how we have voted in relation to engagements we have undertaken.
- From June 2020 in line with the Shareholder Rights' Directive II (SRDII) we disclose all the votes within our voting universe cast on behalf of customers. We have classified all votes that are enacted within our voting universe to be significant. We do not disclose customer-instructed voting publicly.
- We disclose engagements with all companies and funds on a regular basis. In some (rare) cases we may choose not to name the company or the fund in question if we believe publicity is likely to prove counterproductive to our engagement process. Undertaking potentially sensitive engagement in public may lead to a defensive reaction and entrench views of company management or destabilise relationship with a Manager.
- Voting reports are available on our website and also on request.

We do not enter into any activity related to stock lending or borrowing.

In line with the Shareholder Rights Directive II (SRDII), we are fully transparent on our voting activity and publicly disclose our voting activities on our website on a quarterly basis, in addition to producing an annual voting report. Where we consider a vote to be significant, additional disclosure related to the voting rationale will be provided.

25. Escalation 11

Where possible it is our preference to support the management of companies in which we have holdings. We will therefore evaluate the actions and strategies of companies constructively, particularly through meetings and other engagement with executive and non-executive directors of the board. However, where there is a threat to the value of the company, we will take steps to protect the value of our customers' investments. We may consider taking one or more of the following actions:

- Engaging with members of the company board
- Discussing or working with other shareholders on matters of mutual interest
- Voting contrary to the management proposals at general meetings
- Selling the holding where we evaluate it is in the interests of our customers to do so
- In extreme circumstances, we could request a general meeting

In regards to engagement with the board, we often meet with the chair or chair of remuneration committee in the normal course of our stewardship activity. On occasion we have also spoken to the senior independent director where there has been a particularly sensitive and difficult topic. We have found that multiple engagements are often required, and that patience and perseverance are helpful attributes.

For direct equity investments, we have outlined within a publicly available voting policy our approach to specific voting escalation across common environmental social and governance topics. For example:

Climate Capability: We expect boards to be able to demonstrate capability in communications with investors and executive oversight. Where we feel the skill-set is lacking we may vote against the Chair of the Nominations Committee. We support the FSB Task Force on Climate-related Financial Disclosures (TCFD) and see climate risk as an important consideration in our long-term valuation of a company.

Climate Change Disclosures: We may not support the report and accounts of companies or election of directors with sustainability responsibilities (Chair of board or Chair of Sustainability Committee or equivalent) which operate in highly carbon emitting sectors that have not made sufficient progress in providing investors with relevant climate disclosures (including publishing net zero commitments and interim reduction targets).

Human rights standards: We support the upholding of human rights global standards – including the UN Global Compact on Human Rights, Labour Standards, Environment and Business Malpractice. We may vote against the report and accounts or individual director elections where concerns have been identified.

Executive Pensions: We tend to vote against remuneration policies that do not follow UK Corporate Governance Code best practice when it comes to pension contributions. The Code states that the pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce.

With respect to our funds, we consider our engagement a success when we see positive change, but we acknowledge that these issues are often complex, can involve longer time horizons and, therefore, patience is nearly always required. Ultimately, however, if we felt our Managers were not responding appropriately or insufficient progress is made and our engagement has led us to conclude that the longer-term suitability of the investment (and/or investment process) had been irreparably impaired, we could redeem our holding or utilise our proxy voting powers to vote against the board or management on the matter of concern. This is particularly relevant for us on climate-related issues as we recognise the importance of a transition to a lower carbon economy and the role the investment industry needs to play here. We also recognise the risks that climate-related issues can cause to a long-term investment case, should these issues not be appropriately recognised and managed. Engagement is thus a particularly important tool here.

26. Embedding stewardship within our objectives 7

Our Executive Committee are assessed against various responsible business measures, including diversity, inclusion and culture measures, as part of their annual incentive scorecard. These measures are being strengthened in the coming year to reinforce the link between performance and reward; and cascaded more widely to around 100 or so of our most senior managers and leaders.

Within Quilter Cheviot the responsible investment team has specific metrics linked to performance and pay outcomes. The delivery of responsible investment integration across our holdings lies with our research teams as well as the responsible investment team. Therefore, within the annual appraisal process key performance objectives are set for the research analysts on an individual basis with specific metrics and goals being set annually. This then leads through into remuneration outcomes.

Within Quilter Investors, in addition to the formal responsibilities that our senior executives have on responsible investment, both the responsible investment team and the senior portfolio managers have explicit formal objectives on progressing responsible investment. This forms the core part of the responsible investment team's performance and remuneration reviews. With respect to the senior portfolio managers, progressing and supporting the embedding of responsible investment forms part of their 'balanced scorecards' which are used to assess overall performance each year which, in turn, translates to how our portfolio managers are compensated.

Resources

In order to deliver effective stewardship for our customer we need to have in place the right resources and skillsets for our people and the appropriate systems and data. Data increasingly plays an important part in our stewardship activity with the development of proprietary dashboards focused on ESG metrics.

27. Our people 2

Dean Bowden, Managing Director/Chief Investment Officer – Quilter Investors
Dean took on responsibility for the responsible wealth management activities across the Group in September 2021. Dean is Managing Director and interim Chief Investment Officer (CIO) of Quilter Investors. He joined Skandia Investment Group in 2007 and held several senior management positions as the business transformed to become Old Mutual Global Investors (OMGI). Dean has been a member of the Responsible Business forum since it was created in 2015 and has owned the development of the responsible investment proposition since he became Chief Commercial Officer of the newly formed Quilter Investors in 2018. He created the responsible investment team in early 2020 and has been the lead sponsor of embedding ESG considerations into the investment process in Quilter Investors. Dean is a founding member of the Quilter Responsible Wealth Management Steering Committee, which was formed in November 2020. During H1 2022 Dean will, as Managing Director for QI, have oversight of the investment team until the new CIO is in place, and as part of this is facilitating and sponsoring the deeper integration of responsible investment methodologies across the investment team. He is a fellow of the Chartered Institute for Securities and Investment (CISI).

QUILTER CHEVIOT
INVESTMENT MANAGEMENT

Gemma Woodward, Director of Responsible Investment – Quilter Cheviot
Gemma joined Quilter Cheviot in 2015 to develop its approach to responsible investment and lead the strategic direction across the business. She is a member of the Investment Oversight Committee within Quilter Cheviot and is a member of TISA's Responsible & Sustainable Investment Committee, as well as the Impact Investing Institute's Learning Panel.

She has over 25 years of investment experience and has spent the majority of that time focused on the charity sector, and specifically customers with complex responsible investment requirements.

She is a trustee of two charities and sits as an independent investment advisor on two further charity investment committees. She is a Chartered Wealth Manager and has a degree in history from Durham University.

Gemma's experience of being an investment practitioner is helpful in understanding the real-life issues of incorporating ESG factors within the investment process and for customer portfolios and strategies.

Quilter
Investors

Eimear Toomey, Head of Responsible Investment – Quilter Investors
One of Eimear's key focuses is integration of ESG factors and engagement throughout the investment process, as well as implementing ESG considerations throughout the QI business more generally. Eimear serves as a key subject matter expert across Quilter, helping to drive our approach to sustainability and being a responsible wealth manager more broadly, as well as serving as a thought leader in responsible investment and Climate Change. She joined in April 2020 from Sustainalytics, a leading ESG research and data provider, where she headed up the EMEA customer relations team. Eimear has more than 15 years of experience in the investment industry, and previously led the research and development of Merrill Lynch's sustainable and impact-focused investment solutions. While at Rothschild Wealth Management she worked closely with charity clients, and was heavily involved in leading the business unit's involvement in Rothschild's corporate sustainability programme. She joined Sustainalytics following her participation in the On-Purpose leadership programme in sustainable enterprise and social impact investing. Eimear is currently studying for a Postgraduate Certificate in Climate Change at Birkbeck, University of London.

Key responsible and sustainable investment professionals:

Greg Kearney, Senior Responsible Investment Analyst – Quilter Cheviot

Greg joined in 2019 and his role is focused on voting and engagement as well as leading thematic and collaborative engagements. Greg is a member of the PRI Wealth Management working group and represents Quilter at the 30% Club.

Previously Greg worked at the United Nations supported Principles for Responsible Investment (UNPRI) and he holds an MA in International Political Economy from the University of York. He has also completed the Chartered Alternative Investment Analyst (CAIA) qualification.

Greg's experience working at the UNPRI has informed Quilter Cheviot's approach to responsible investment and understanding what best practice looks like.

Nicholas Omale, Responsible Investment Analyst – Quilter Cheviot

Nicholas joined in 2021.The primary focus of his role has been to develop data dashboards for the equity analysts.

He completed the Investment Trainee programme at BNP Paribas Asset Management; he has an MSc, International Financial Management from Queen Mary University of London and a Business and Economics degree from University of Roehampton and has completed the CFA ESG qualification.

Nicholas' quantitative approach to responsible investment brings a new skillset to the team and has enabled the building of new data tools for the equity research team as well as for our model portfolios and funds.

Claudia Quiroz, Team Leader, Sustainable Investment – Quilter Cheviot

Claudia joined in 2009 to develop our approach to sustainable investment and to launch the award-winning Climate Assets Fund, Quilter Cheviot's flagship fund for sustainable investment. She is a member of the International Stock Selection Committee within Quilter Cheviot and is a Chartered member of the CISI.

She holds an MBA from Cass Business School in London and a Chemical Engineering degree from the University of La Plata in Argentina. She has been short-listed for several industry awards over the years and most recently was the winner of the Wealth Manager of the Year at the City of London Wealth Management Awards 2021.

Claudia decided early in her investment career to specialise in sustainable investment and is passionate about helping customers to invest in companies offering solutions to the economic and environmental challenges of climate change and resource scarcity.

Nikki Williamson, Responsible Investment Analyst – Quilter Investors

Nikki has extensive experience in financial services and joined Quilter Investors in April 2019 to support the integration of ESG throughout the business. Previously she led operations for retail platform customer research at Boring Money. Prior to this, Nikki spent several years working with UNICEF in Afghanistan, South Sudan and globally, and the British Red Cross on psychosocial support research.

Nikki holds the Certificate in ESG Investing and the Investment Management Certificate, an MSc in Development and Urbanisation from London South Bank University and a degree in Mathematics and Philosophy from the University of Manchester.

Nikki's wide range of experience includes working with NGOs provides a different perspective within our responsible investment team.

Kelly Ritchie, Responsible Investment Project Manager – Quilter Investors

As an experienced project manager Kelly joined Quilter Investors in July 2019. Whilst managing the embedding of ESG within the business, Kelly has gained experience in ESG investment, ESG data and research, industry body requirements/ commitments (PRI, FRC), stewardship and engagement and ESG regulations, in addition to climate action and alignment with net zero goals.

Kelly holds a BSc (Hon) degree in Mathematics and French from the University of Keele, and the Investment Management Certificate and the CFA Certificate in ESG Investing.

Kelly's project management skills are invaluable in delivering our responsible investment strategy.

Stuart Clark, CFA, Manager - Quilter Investors

Stuart has been instrumental in the expansion of our WealthSelect range to include responsible and sustainable portfolios. He and his team have researched over 90 funds to identify those that meet the criteria for the funds.

Stuart has been the portfolio manager of the Quilter WealthSelect Managed Portfolio Service since its launch in February 2014. In March of 2020, He also became the lead portfolio manager of the QIPML Caerus Select Portfolios; and is now responsible for managing £9.6 billion of client money (as at 31 December 2021).

Stuart joined Quilter Investors in 2013 and has more than 20 years' experience in fund research and portfolio management at organisations including UBS Wealth Management and Julius Baer.

Stuart is a Chartered Financial Analyst (CFA) and has a degree in Accounting and Finance from the University of Kent.

Caroline Langley, Deputy Fund Manager for the Climate Assets Fund and Investment Director – Quilter Cheviot

Caroline joined us 15 years ago and is the Deputy Fund Manager for the Climate Assets Fund. She also manages private client portfolios, working with customers directly or alongside advisers.

Caroline is a Fellow of CISI and holds an MA (Hons) in Human Sciences from St. Hilda's College, Oxford University, as well as a MSc (distinction) in Environmental Technology from Imperial College, specialising in Global Environmental Change and Policy.

Managing the Climate Assets Fund brings together all Caroline's academic and professional training and experience. The Fund enables retail investors to 'make a difference' through investing in positive solutions to the major challenges for humanity: climate change and resource scarcity.

Bethan Dixon, CFA, ESG Analyst/Portfolio Manager - Quilter Investors

Bethan's works with the multi-asset investment team across the portfolio ranges. She joined Quilter Investors in June 2019 from Pyrford International, where she worked as an equity analyst on the Asia Pacific desk where she was involved in integrating ESG factors within the investment process. Bethan is a CFA Charterholder and holds a degree in Natural Science, with a major in Physics, from the University of Bath.

Bethan's experience is instrumental in supporting the Investment Team with the integration of ESG into the investment process.

Marcus Cave, ESG Fund Research Analyst – Quilter Investors

Marcus is an investment analyst and supports the portfolio managers across all asset classes, with a specific focus on ESG and sustainable investment strategies. Marcus joined Quilter Investors in March 2021 from PwC where he helped private and institutional asset owners with fund selection, asset allocation and ESG integration.

Marcus is a CFA Charterholder and has a degree in Economics from the University of Exeter.

Marcus's skills are invaluable in providing ESG focused fund research and due diligence to the Investment Team.

Will Miller, ESG Quant Analyst – Quilter Investors

Will joined Quilter Investors in July 2021, previously working as a Business Analyst in the wider Old Mutual Wealth group since 2016; prior to that he has worked in delivering change projects across a variety of Pensions and Wealth Management organisations (Cornhill Life, AXA Wealth, Winterthur Life, Friends Life and HSBC Security Services). Will is studying for the CFA ESG certificate. He also holds a BSc (Hons) in Aquatic Biology from the University of Wales, Aberystwyth.

Will's data analytical skills help in understanding and aggregating ESG data within the investment process.

Across Quilter Cheviot and Quilter Investors

Melissa Scaramellini CFA 	**ESG Fund Research Lead** Melissa has over 20 years of investment experience and has been a fund research analyst since 2006. She works alongside the investment team to evaluate how ESG issues are integrated into the investment processes of our third-party Managers and is responsible for fund selection in the Positive Change strategies. She holds a degree in Economics and Politics from the University of Bristol and is a Chartered Financial Analyst (CFA) Charterholder and has completed the CFA ESG qualification. Melissa is passionate about climate change, which helps drive her assessment of whether our third-party Managers are doing enough to consider environmental issues within their investment process and engagements with companies.
Yusuf Durmaz 	**ESG Fund Research Analyst** Yusuf joined in 2021, with over 11 years of fund research experience, as an ESG fund research analyst. His responsibilities include sustainable and ESG integrated fund selection. Prior to joining Quilter Cheviot, Yusuf worked at Allfunds; building up the ESG fund recommendation list for institutional investors, improving investment processes to include ESG factors and selecting external ESG data providers, both for firm level partnerships as well as for research purposes. Yusuf has a degree in Economics from City, University of London, along with a master's degree in Finance from Bayes Business School and the CFA ESG qualification. He is passionate about ESG investing and 'right to repair'.

Across Quilter

Tosin James-Odukoya 	**Group Head of Inclusion, Diversity and Talent Acquisition** Tosin joined Quilter as the Head of Inclusion, Diversity and Talent Acquisition in June 2021. Prior to this, Tosin was the diversity, inclusion and recruitment business partnering lead at GSMA, where she led the drive for greater equality and inclusion by designing recruitment practices to improve diversity across gender, race and other demographics. Tosin holds a degree in Technology and Enterprise Management from Aston University; and was shortlisted for Advocate of the year at the Women in IT awards in 2020.
Stewart Perry 	**Group Head of Responsible Business** Stewart joined Quilter in 2017 and is responsible for the effective delivery of the Group's responsible business strategy and overseeing employee wellbeing programme, and Quilter's UK registered charitable foundation (The Quilter Foundation). Prior to joining Quilter, Stewart worked in the charity sector developing and delivering partnerships with companies to address pressing social issues and create lasting change. Stewart holds an MA in Sociology from the University of Warwick. Stewart's experience in sustainability and social impact enables him to integrate responsible business practices across the Group.
Zoe Griffith 	**Group Strategic and Business Risk Specialist** Zoe is a Fellow of the Institute and Faculty of Actuaries and oversees Quilter's management of sustainability risks, including those related to climate and manages a range of financial (including actuarial) processes and models, including those used for financial reporting, business planning, and scenario analysis purposes. Zoe holds a PhD in Mathematics from the University of Southampton. Zoe's actuarial and risk knowledge is key in quantifying the impact of climate risks and opportunities.

28. Training our people 2

Foundation responsible investment training for the whole of Quilter was launched on our learning platform in 2021. Content includes both internally created material and externally available articles and videos, allowing employees to easily find information in an engaging format, including a series of Climate Change related training which started in Q4 2021 and which will continue into 2022. The information has proven to be very popular, with over 170 staff from across the business attending the latest session; and there were almost 9,000 views of the top 10 ESG/responsible investment items from employees choosing to read/watch in their own time (this excludes those who watched the webinars live).

Quilter Cheviot has developed the Responsible Investment Champions forum, and this is a regular session to deliver (amongst other outcomes) enhanced and more detailed training. This is in addition to regular firm-wide updates on responsible investment including: ESG integration frameworks, voting & engagement activity, incorporating responsible investment preferences within the suitability process, climate change, responsible investment strategies such as Climate Assets and Positive Change. The sessions are recorded so that people are able to watch this later if they are unable to attend the live event. These events usually see attendance of 150+.

Investment professionals within the business also attend the external educational and training events we hold for advisers and customers.

Within the responsible investment team, Greg Kearney completed the IGCN Governance, Stewardship & Sustainability course whilst Nicholas Omale achieved the CFA ESG qualification as has the majority of our wider research team (as well as a number of investment managers). Our equity analysts have undertaken the PRI Advanced ESG integration course whilst other members of staff are completing the PIMFA ESG Academy course.

The Quilter Investors team has also been focused on developing their own skills. All (but one) of the Investment Team, plus several others across a number of different business units now hold the CFA ESG Certificate. Our Head of Responsible Investment is taking Birkbeck's Climate Change (post graduate certificate); and the Legal team all passed the PRI's Foundations in Responsible Investment exam.

Throughout 2021, the Quilter Investors' Head of Responsible Investment ran a number of internal ESG Education webinars. These covered specific topics identified as important for our business across a range of responsible investment areas. This included sessions on Climate Change and The Energy Transition and, due to their importance and relevance to all, these were also opened up to the wider business units of Quilter to attend. All sessions were recorded and have been made available through our central training system for all to access and the ESG Education webinars are set to continue throughout 2022.

29. Data providers 2 7

We use multiple data providers in order to reduce the risk of bias or skew in our data analysis.

External data provider	Purpose
ISS	**To assist with our active ownership agenda as well as an additional ESG data source** **Voting platform –** we use ISS to inform our decision making. Recommendations are made based on the agreed voting policy. We do not always vote in line with ISS's recommendations Governance risk-oriented data–focused on board structure, compensation, shareholder rights and audit & risk oversight. Informs decision making for governance engagements and is an input into the equity ESG dashboard. **To provide data for ESG integration** **Climate data and SDG alignment –** these two data sets are focused on climate-related data and alignment to the UN Sustainable Development Goals. These are data inputs into our ESG dashboards (for equities, models, funds) and for our third-party fund research.
Sustainalytics	**To provide data for ESG integration** **Equities:** we use the ESG data as an input into the ESG dashboards, as well as the high-level information provided in the company reports, as well as the carbon risk rating. This also includes exposure to specific product involvement areas and controversies, as well as sustainable product areas. Companies that breach the UN Global Compact are also highlighted. **Funds:** this data feeds into other systems and tools such as Style Analytics and FactSet to provide our teams with more granular detail regarding ESG factors and underlying holdings across our funds.
Morningstar	**To provide data for ESG integration** Used for underlying fund data provided for fund research and analysis and also provides Sustainalytics carbon emissions and risk ratings at fund and portfolio level.
Ethical screening	**To screen on a negative and positive basis in line with the customer policy as well an additional ESG data source within Quilter Cheviot** Employed at a portfolio level as well as an additional data source for the research teams to identify areas of exclusion as well as positive screening.
Other publicly available data	**To provide data for ESG integration** The equity ESG dashboards use data from multiple sources including publicly available data from NGOs and other entities.

Assurance and outcomes: our internal frameworks

We are focused on ensuring that we deliver the right stewardship outcomes for our customers within a framework that is subject to scrutiny and challenge where appropriate.

30. Steps forward in 2021 2

During 2021 we have been evolving our Responsible Wealth strategy and approach. To date this has involved streamlining the governance framework, removing jargon and significantly increasing delivery focus in relation to climate change and advancing responsible investing. We are now developing the future organisational design and three-year plan to support our longer-term Responsible Wealth ambitions.

2021 has been an important year for the development of our overall responsible investment approach.

- **Resource:** we have added to the teams through the appointment of a further analyst and are seeking to add a further two positions in 2022. Within the fund research team we have added a further dedicated ESG fund analyst.
- **Data:** we have significantly increased the volume and types of data, such as climate and impact data sets, that we use in considering ESG factors. We have developed quantitative data dashboards for our holdings through proprietary data dashboards which take data from multiple sources and which we use to inform thematic engagements as well as the ongoing due diligence on existing holdings as well as using the data to inform decisions regarding new holdings, including business-wide exclusions determined (cluster munitions and anti-personnel mines).

- **Governance:** we formed an Engagement Panel within Quilter Cheviot consider thematic engagement priorities and frameworks. The membership (in addition to the responsible investment team) includes the Chief Investment Officer, Chief Investment Strategist, Head of Equity Research. Quilter Investors also focused on improving the reporting of ESG factors and considerations to our investment management forums.
- **Fixed income:** we have formalised the approach that we take to integrating ESG factors within the fixed income research process in response to the internal audit of our research process which took place in 2021.
- **Suitability:** we will be incorporating our customers' responsible investment preferences within our ongoing advice process from April 2022. Every customer has their own requirements around risk appetite, ability to bear loss, income requirements as well as the investment time horizon. These are the key areas that will determine what is the right investment approach for the customer. There is a now a further area that we are including within the regular process of ensuring that investments meet customers' requirements, through the suitability cycle. We will now be asking customers about their responsible investment preferences.
- **Sub-advisors:** Quilter Investors increased oversight of stewardship activities undertaken by our sub-advisors through implementing systematic regular reporting on integration approach and engagement and voting reports.
- **Voting universe:** within Quilter Cheviot we expanded the voting universe: at a headline level we now vote and engage on 350% more holdings that we did in 2017 when we began doing so on a formalised basis, c.95% of the holdings where we have voting rights are now within our voting universe. There are challenges voting in overseas markets (access to companies has not yet been an issue) for a discretionary fund manager owing to custodial arrangements and the fact that we only vote on discretionary holdings, however we continually work to overcome these.

31. Internal assurance 2 5

During 2022 we will publish our first corporate report for the Task Force on Climate-related Financial Disclosures. As with all publicly available reports the document review process includes approval from senior governance meetings. As the report includes some types of data that are new to us, such as weighted average carbon intensity (WACI) ratings there is an added level of scrutiny from our compliance teams to ensure the data have been applied and reported accurately.

We place reliance on our first- and second-line control functions to provide input and oversight of the clarity and accessibility of our stewardship reporting. All external reporting on stewardship is reviewed by our Chief Investment Officers and Quilter Cheviot's Chief Investment Strategist, as well as the compliance and marketing teams.

This Stewardship Code Report was reviewed by the Quilter plc Board as well as internal stakeholders and compliance.

ESG considerations were included in Group Internal Audit's (GIA) 2021 Plan and associated risk assessment. Assurance activity included the assessment of the effectiveness of the Quilter-wide ESG regulatory programme in delivering on its commitments, audits of two product-focused areas in Quilter Investors and a review of Quilter's Investment Research process, observations arising from this activity were reported to Executive Management and the respective Quilter Board governance fora. Following conclusion of those audits, Management have implemented a number of enhancements intended to improve ESG-related processes and controls. Looking ahead, the 2022 Quilter GIA Plan includes a number of audits that will provide further assurance over the integration of ESG considerations across Quilter, including a dedicated ESG review which will focus on pertinent risk themes across Quilter's businesses.

32.Annual attestation process 2 5

The Quilter Policy Suite forms an integral part of our governance and risk management framework, ensuring an appropriate system of internal control. Together with the Group Governance Manual, they form the basis of clear delegated authorities and accountabilities, ensuring there is appropriate Board oversight and control of important decisions, and efficient and effective management of day-to-day business. The Group Governance Manual and policies are approved and adopted by the Board at least annually to ensure they remain fit for purpose. Quilter policies are reviewed to ensure they are aligned to Quilter's strategic and operational needs, the wider external and legal/regulatory environment and that their scope, application and content remain correct with appropriate management actions in place. The policies are subject to an annual policy compliance review, with results provided to the Board.

33. Ongoing review of documents and changes to policies 5

During 2021 we have reviewed our entire responsible wealth management approach as we seek to become a leader in this space.

Assurance is undertaken through a combination of independent external assurance, compliance monitoring and Internal Audit assurance following a risk-based approach.

To reflect the substantial progress that has been made both in embedding ESG factors into our investment approach, and the development of other areas across the firm such as Responsible Business and Inclusion and Diversity, during 2022 we will broaden the previous Quilter plc Statement, reflecting the wider business maturity.

We review our responsible investment policies on a regular basis. In 2021 we undertook a deep dive into the policies and made significant changes reflecting best practice and the evolution of our responsible investment approach. This led us to increase the scope of our engagement and voting policies. In the latter case this was to incorporate climate considerations within our voting decision making.

34. Conflicts of interest 3

Quilter plc has a Conflicts of Interest Policy that sets out how we manage conflicts of interest in our day-to-day business. The Policy is applicable across Group and sets out the necessary principles to manage and mitigate key risks and safeguard the independence of our business. Our culture is what we stand for and our values of pioneering, dependable and stronger together, are critical considerations in the development of all Group-wide policies. The Policy is designed to meet these aims to manage our risks and by adhering to this policy reflect and support our Culture and Values. Full details are available on request.

The business unit Chief Executive Officers are responsible for setting the overall strategy and framework in relation to the Policy applicable to their business.

All employees undertake regular training. Conflicts management forms a core part of the annual Computer Based Training. Identifying and managing conflicts and mitigating the risk of potential damage to our customers' interests have always been, and remain, an important part of our culture. Employees (including senior management) of the firm, play an essential role in the firm's approach to identify and manage any conflicts. Therefore it is important that employees understand the firm's approach to conflicts and take responsibility for identifying and managing conflicts seriously.

The Register contains the overview of all conflicts of interest. Additional associated registers are maintained to capture specific personal conflicts of interest including gifts and entertainment and personal account dealing. The location and purpose of all associated registers is recorded on the annex to the Register.

The Register contains:

- The nature of the conflict, including details of its impact and any damage that may arise to the interests of customers or Quilter.
- Risk assessment of the identified conflict.
- The owner, parties involved and the date it was added to the register.
- How the conflict was identified. In a well embedded framework, conflicts of interest would primarily be identified by the first line and documented as such on the conflicts of interest register.
- Whether the conflict is potential or actual.
- Whether the objective to is to prevent or accept and manage the conflict.
- Business unit controls to prevent or manage the conflict including actions taken to avoid the conflict.
- Effectiveness assessment of the documented controls and when their effectiveness was last tested.
- Any disclosure of the conflict to be made to customers.

It is possible that actual or perceived conflicts of interest may arise in relation to the execution of our stewardship activity. Should a conflict of interest arise which may influence us to not act fairly, independently, or objectively in the interests of our customers we will follow the voting recommendations of our third-party proxy voting service provider.

Example

Examples of possible conflicts include:

- There may be a situation where we are a shareholder in a company and also in a commercial relationship with that same company as a result of investing in one of their funds. As we have a separation between our equity and our fund research teams, which are also both independent functions, we believe that we are able to manage this conflict effectively given this separation.
- With respect to stewardship, it is possible that actual or perceived conflicts of interest may arise through the normal course of business in relation to the execution of our stewardship activity. For example, should a potential conflict of interest be identified when exercising proxy votes, which may influence us to not act fairly, independently or objectively in the interests of our customers, we will follow the voting recommendations of ISS, our third-party proxy voting service provider.
- There may be occasions where we have a shareholding in Quilter plc with voting rights. In this case, unless specifically directed by a customer, we will follow the guidance given by our external proxy voting service provider with respect to voting.
- Conflicts could occur between customers and where this is the case we will continue to act in the best interests of each customer. Thus, for example, the equity share interests of different customers may be voted differently at the same meeting where it is in the interests of each to do so.
- Where an employee, any member of senior management or non-executive director of a business unit is also a non-executive director of a company within our voting universe we will apply the guidance of our external proxy voting service provider.

Trade surveillance and restriction

The Compliance teams keep an 'Insiders' List' which records those members of staff who are aware of inside information relating to investments. Compliance monitors the dealing activity for any security on the Insiders' List. We also have an effective and established Personal Account Dealing policy.

35. Monitoring service providers 8

The Market Data team operates Quilter-wide to ensure that we have a consistent and effective approach across the businesses. In October 2021 market data principles were established across Quilter to ensure consistency and to have a governance framework around the appointment or decision to leave service providers. The overall aim is to provide consistency for our customers.

We identified further data requirements in 2021 and the Market Data team provides ongoing management of the service providers and the team is responsible for:

- monitoring issues and troubleshooting with the business
- reviewing contracts including pricing
- reviewing usage with the business on an ongoing basis to ensure we are correctly contracted

We have added further data requirements in 2021 and the Market Data team leads the process for identifying and onboarding new service providers and data modules. The team is responsible for:

- business sign-off for accurate data and coverage
- reviewing all legal points in conjunction with our legal team
- confirming budget and where it is located

There have been particular challenges which have required significant interaction with the service providers as the business usage has been fluid and changing. In addition, the Market Data team is well placed in order to resolve issues around which underlying Quilter entity requires the data and the access rights.

In addition to this the underlying users of the data have regular discussions with the service providers regarding a number of issues including the accuracy of the data, the data coverage, the challenges of ESG data for non-equity holdings as well as the accessibility of the data through different systems.

Our role in promoting well-functioning financial markets

Quilter has an important role to play within the financial services industry and society as a whole.

36. Corporate and committee membership of external bodies 4 10

Quilter is a member of the Investment Association (UK trade body), IIGCC (Institutional Investors Group on Climate Change), the Investor Group of the 30% Club and UKSIF (The UK Sustainable Investment and Finance Association). This facilitates collaboration with other investors. As an example, within the 30% Club, Quilter Cheviot is leading a collaboration with two other investment houses.

IIGCC The Institutional Investors Group on Climate Change

30% Club GROWTH THROUGH DIVERSITY

UKSIF UK Sustainable Investment and Finance Association

We work with other organisations in the industry to promote and advance responsible investment.

- Quilter is a signatory to the Principles for Responsible Investment (PRI) and takes this commitment seriously as a member of the PRI Wealth Manager Working Group
- Quilter also has a committee member on TISA's Responsible & Sustainable Investment Committee, which has a broad purpose to develop understanding, engage with regulators and look to implement plans and industry guidance
- Additionally, we have a representative on the Impact Investing Institute's Learning Panel

We do this to promote best practice and seek to address issues that require collective effort and action

37. Contributing to industry-wide consultations 4 10

Quilter has contributed to several consultation and discussion papers during 2021, including:

- FCA Consultation Paper (CP21/24) – Diversity and inclusion on company boards and executive committees
- Joint FCA, PRA and Bank of England Discussion Paper DP21/2 on "Diversity and inclusion in the financial sector – working together to drive change"
- June 2021 FCA Consultation Paper (CP21/17) – Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers
- FCA discussion paper on product labels and sustainability disclosure requirements (DP21-4)

While we have broadly been in support of the content, we have offered suggestions for refinements in each case and have sought opinion across Quilter to ensure that different customer types are represented within the feedback process.

38. Market risks 4

How we manage risk

Our Enterprise Risk Management Framework (ERMF) is embedded across Quilter and encompasses a number of elements to help Quilter assess and manage its risk exposures. A strong and embedded risk culture is vital in ensuring that risk implications are considered when making strategic and operational decisions, and that Quilter understands its risk profile and manages the business on a continuous basis within the approved risk appetite.

The **Executive Risk Forum** is the primary management committee overseeing the risk profile of the Quilter. This forum is chaired by the Quilter Chief Executive Officer, with representation from across Quilter. Ongoing oversight of the risk profile and of risk management arrangements is undertaken by the Board Risk Committee, with relevant matters also being considered by the Board. Similar arrangements are maintained locally in each significant business area.

On a quarterly basis, the Quilter Chief Risk Officer formally reports the second line perspective on the risk profile of the firm, performance against risk appetite and a perspective on the effectiveness of management responses.

Conduct risk

The Financial Conduct Authority (FCA) is the primary conduct regulator for Quilter's UK regulated entities. Quilter takes its regulatory obligations in relation to customers and our conduct seriously and is committed to operating in a responsible and compliant manner.

Quilter seeks to deliver on these obligations through culture and values, backed by a rigorous governance system and an approach to compliance that drives fair outcomes for customers. The standards of behaviour Quilter expects from its staff are set out in the Quilter Code of Conduct.

Prudential risk

Quilter is prudentially regulated by the Prudential Regulation Authority (PRA) under Solvency II and by the FCA under Capital Requirement Directive regulations and other applicable prudential requirements. To meet these regulations, we operate a consistent approach to risk management across Quilter. As such, we have integrated the Own Risk and Solvency Assessment and Internal Capital Adequacy Assessment Process into our risk management framework.

We analyse the capital required to protect the sustainability of Quilter and how those capital requirements might develop over our planning period. The assessments include a range of stress and scenario testing covering a broad range of scenarios, including market shocks, new business growth scenarios and operational risk events. Key to our process is preparing management action plans, providing assurance that Quilter is both well capitalised and prepared to take necessary action should adverse events occur.

Operational risk

Quilter operates a series of processes to facilitate the identification and management of operational risk and the reporting of risk events. A discipline of Risk and Control Self Assessments (RCSAs) and risk event management is facilitated by our risk system, along with remedial action tracking. Root cause analysis is conducted on material events.

Climate risk

One of our, and our customers', most significant exposures to climate-related risk comes from the potential for transition market risk in our investment solutions. We also face investment-related reputational risk if we unintentionally convey misleading information about the environmental soundness of our investments, including our sustainable investment solutions. Our strategy for managing climate-related risks within our investment activity centres around the integration of environmental considerations in our investment processes, alongside other ESG-related considerations, and our consistent approach to stewardship.

At Quilter, an understanding of climate-related risks and opportunities is of growing importance to us and our customers. We consider both the risks posed to Quilter by climate-related issues as well as the risks posed to the climate by Quilter's activities. We also consider the potential impact of climate-related risks on our customers, and how climate-related issues could affect our continued responsibility to ensure good customer outcomes and avoid the risk of customer harm.

We have assessed Quilter against the following climate-related risks and opportunities. Our identified climate-related risks describe both physical risks associated with the physical impacts of climate change, and transitional risks, which relate to the global transition to a lower-carbon economy. Physical and transitional climate risks are related. For example, a failure to transition early enough to a low carbon economy could lead to more severe physical risks in the long term.

We have included a high-level assessment of the significance of each identified risk or opportunity for Quilter. For the purposes of this high-level assessment, we have considered whether each risk or opportunity has the potential to manifest in the short, medium or long term, using the following timescales as guidance.

This year we have agreed our Climate Risk Appetite statement, which reflects both the physical and transition risks associated with climate change. We are working to develop Science Based Targets for emissions reductions in our investments in the early part of 2022. Further information on our exposure to and management of climate-related risks and opportunities can be found in the 2021 TCFD report.

Summary

Looking ahead to 2022 we will continue to work to enhance our responsible investment capabilities:

- Continuing our stewardship with our underlying investments
- Identifying further collaborative engagement opportunities where we are able to contribute meaningfully
- Developing our products and services for customers with specific responsible investment preferences
- Increasing the resource dedicated to responsible investment

Further information

Responsible investment | Quilter
Responsible investment | Quilter Cheviot
Responsible investment | Quilter Investors

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