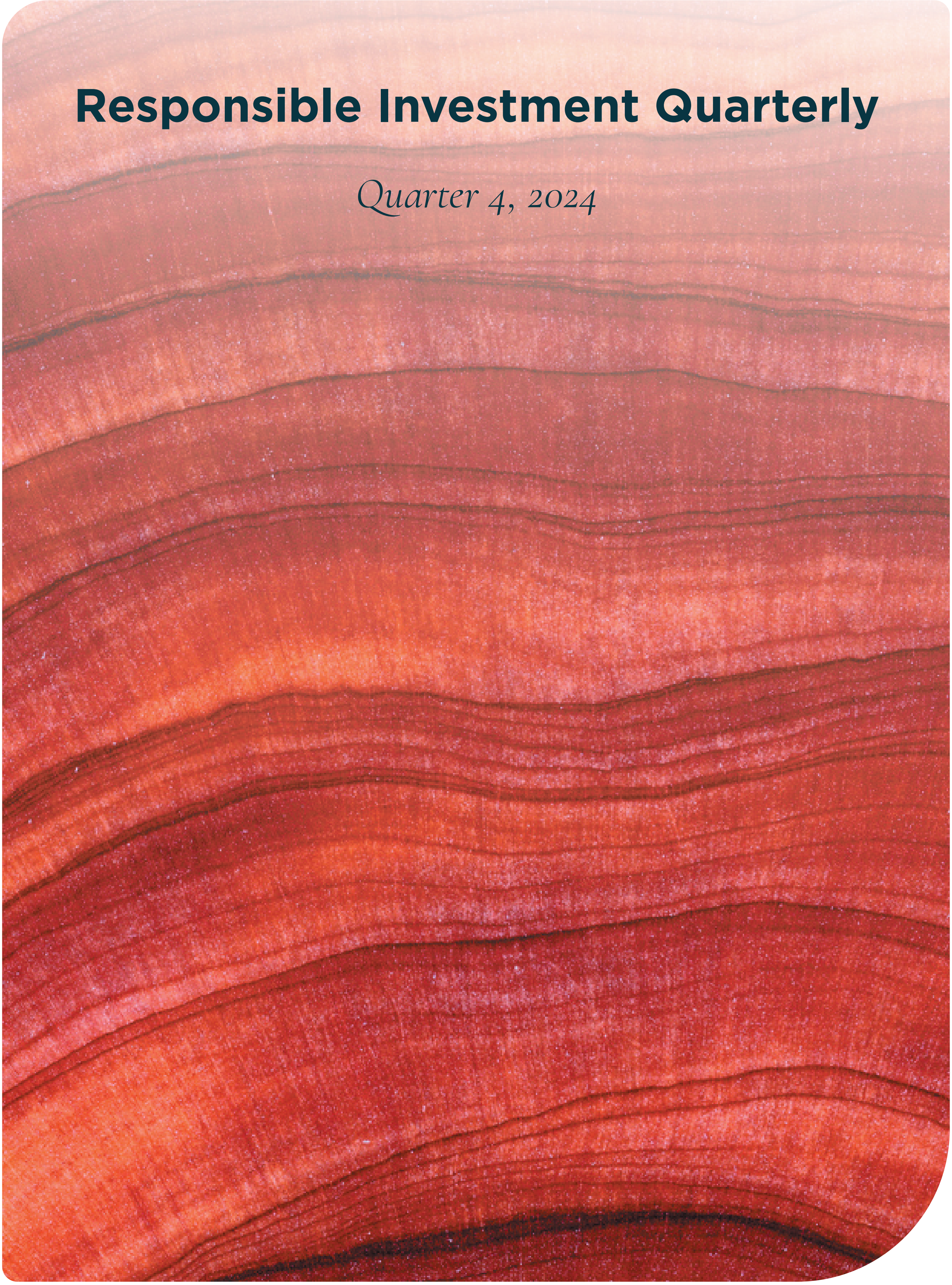
QUILTER CHEVIOT

Responsible Investment Quarterly

Quarter 4, 2024



Approver: Quilter Cheviot Limited, 20 January 2025

QUILTER CHEVIOT

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Welcome

Much of Q4 was dedicated to finalising our Climate Action Plan and advancing several collaborative engagement initiatives. We continued our contributions to the Advisers' Sustainability Group, with Gemma leading a working group on best practice as part of this. We also participated in the IIGCC's External Fund Managers Working Group, aiming to set industry standards for net zero alignment in externally managed funds. Our engagements through Nature Action 100 (NA100) and PRI's Spring initiative continued, with Quilter Cheviot joining a new engagement group targeting BHP.

Voting activity slowed down across Q4, with the majority of meetings voted at held across the US and UK markets. In Q4, we re-engaged with the boards of a dozen investment trusts that hadn't received a triple green rating from us last year. Our discussions covered director succession, board independence, and responses to the new Sustainability Disclosure Requirements (SDR) regulation which includes Naming and Marketing Rules for funds. We collaborated with the funds research team to update our internal ESG ratings for these companies. We also engaged with two index managers about their exclusion policies on controversial weapons, which will be detailed further in this report.

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Spotlight

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Harry Finch
Intern

One of the Quilter Cheviot values I think makes this company so successful is 'Stronger Together', a trait embodied by the Responsible Investment and Corporate Sustainability teams. Having worked with teams throughout university and during work experience, it was important to me to join a company that values team culture.

My time with the Responsible Investment team was hugely insightful. The world of operational emissions reporting was challenging to traverse but rewarding. This was the most significant focus for me during my placement, requiring structure and orderly recording of large datasets, something I had prior experience with throughout my studies. Specifically, I focused on the 'Products, Goods and Services' aspect of our emissions reporting, which was eye-opening. My exposure to this topic broadened my understanding of the nuances of operational management, a function crucial to any successful business around the globe.

As part of the team's ongoing effort to engage with investment trusts, I was fortunate enough to attend a number of these engagements, most commonly speaking with directors on the board. As shareholders, we explained our viewpoint on a number of issues with the hopes of encouraging moves towards more transparent disclosures and their own responsible investment-driven engagement. Having experienced a wide variety of meetings and management styles, I learned that each engagement would be different from the last, which I found incredibly interesting. Taking minutes of these meetings helped me to develop a detailed understanding of the structure of these entities as well as common issues they face, such as the implications of recent changes to SDR labelling.

I was introduced to our exclusion policy regarding controversial weapons and tasked with engaging with our third-party fund managers, aiming to obtain attestation statements. This involved collating data of any previous contact and determining which managers we needed to interact with before beginning the process of engagement. This task solidified the importance of the work to me. Promoting a heightened awareness of these topics was essential to maintaining the integrity of our investments, an aim central to the identity of the Responsible Investments team.

In the midst of these main tasks, I have been introduced to proxy voting, understanding the importance of accurately representing shareholder beliefs and opinions, specifically with regards to CEO/chair duality and remuneration policies. I have also been shown the intricacies of ESG related metrics and the challenges that arise when attempting to formulate a scoring framework that can be used by the whole firm.

The tasks mentioned above require a keen eye for detail and thorough processing skills, which I believe I have significantly improved upon during this placement. Overall, my time with the team has been full of opportunities for development and lots of fun.

Voting highlights

From October through to December, we voted at 58 company meetings, a decrease from 63 across the same time period last year. During the quarter, attention shifted towards more traditional governance-related topics, particularly among UK companies. With a focus on themes such as board composition and executive compensation.

We have summarised the key voting issues from the quarter below.

Social voting activity by numbers:

1x vote in favour of reporting on median gender/racial pay gaps (shareholder proposal)
We supported this proposal as we felt shareholders would benefit from greater transparency on median pay gap statistics across race and gender, especially unadjusted data as this would allow shareholders to evaluate and measure progress towards reducing pay inequities more fully.
Company voted on: Proctor and Gamble

1x vote in favour of reporting on artificial intelligence data sourcing accountability (shareholder proposal)
We supported this shareholder request as shareholders would benefit from increased disclosure regarding how the company is managing human rights-related risks in high-risk countries.
Company voted on: Microsoft

Governance voting activity by numbers:

5x votes against management on compensated related resolutions (management item)
We voted against remuneration reports, policies and financial statements in instances where the performance metrics were not robust enough. Additionally, we voted against significant executive salary increases where the company had failed to provide a compelling rationale and where we had concerns about excessive payouts were raised with the companies.
Companies voted on: Frontier IP, Haydale Graphene Industries, Palo Alto Networks, Pernod Ricard, Seeing Machines

4*x votes against electing/re-electing director (management item)
We voted against the re-election of directors owing to board independence concerns, the presence of multi class voting structures and lack of board diversity.
Companies voted on: Haydale Graphene Industries, PRS REIT, Pernod Ricard, Seeing Machines

**Withheld and abstain votes have been included within votes against figures.*

Voting activity

Over the fourth quarter of 2024, we voted at:

58

COMPANY MEETINGS

Over the quarter we voted on:

602

RESOLUTIONS

for 13 resolutions where we did not support management (this includes shareholder proposals).

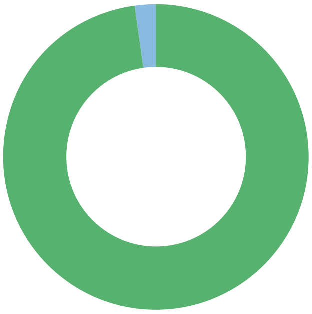
We enabled clients to instruct votes at 23 meetings

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

Voting activity

Management resolutions voted on in Q4 2024

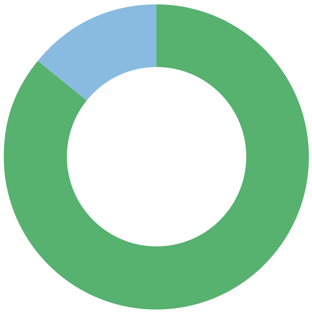
(excluding shareholder proposals)



- With management recommendation **98%**
- Against management recommendation **2%**

Meetings with votes against management in Q4 2024

(including shareholder proposals)



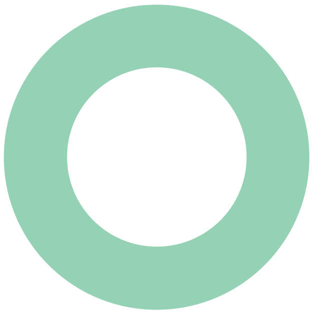
- With management recommendation **86%**
- Against management recommendation **14%**

Management resolutions voted against by topic in Q4 2024

(excluding shareholder proposals)

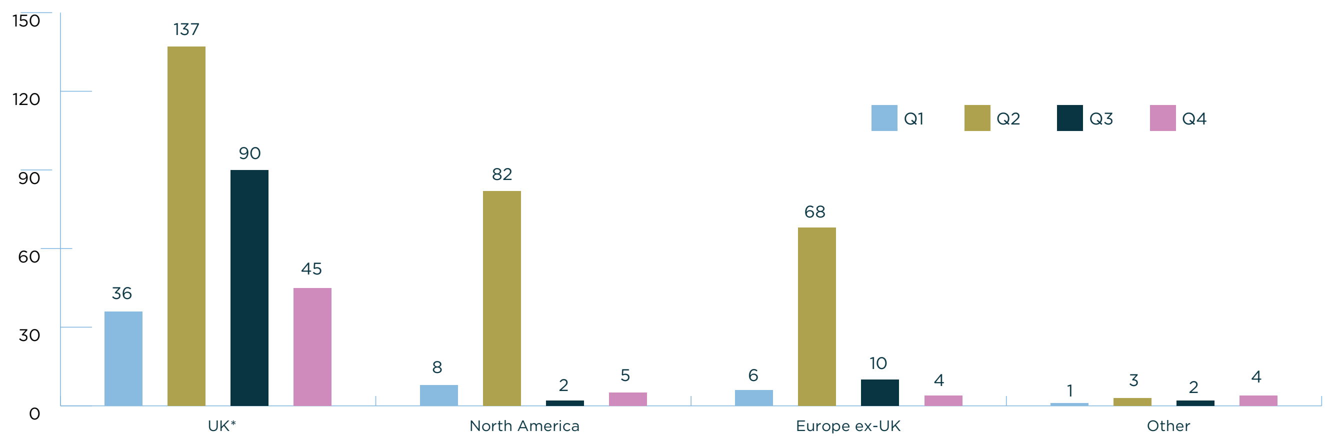
- Remuneration **40%**
- Board related **40%**
- Audit and accounts **10%**
- Capital structure **10%**

Shareholder proposals supported in Q4 2024



- Social and ethical matters **100%**

Meetings voted in each geography in 2024



* Includes the Crown Dependencies of Jersey and Guernsey

Engagement activity

Here, we outline examples of our engagement in the fourth quarter of 2024. In line with the Shareholder Rights Directive II (SRD II) disclosure regulations, we have included the name of the company, investment trust or fund in most cases. In some cases, we will not, as this would be unhelpful in the long-term to the ongoing engagement process.

We have structured the engagement report broadly into the following areas which reflects our thematic, collaborative and our ongoing engagement agenda:

Environment: climate and natural capital

Social: cyber-security, supply chains in apparel and product safety in the healthcare sector

Governance: companies and our thematic engagement with investment trusts (this quarter primarily focused on infrastructure and renewables)

Environment

Sonoco Products - Environment

Objective: this was the final engagement focused on the largest emitters amongst our Climate Assets Funds' holdings. The objective of this engagement is to better understand the climate transition plans and progress to date of the 'biggest emitters' (by financed emissions). This engagement is intended to complement the 'Taking the Temperature' engagement conducted across the firm's broader monitored universe. It looks to apply the framework developed to better identify how 'fit for purpose' companies' climate action plans are.

Sonoco has a relatively sound climate strategy in place, with SBTi-validated absolute targets and reasonable year-on-year decarbonisation progress to date. It became clear during our discussion that much of its climate strategy to date has been driven by emerging regulation. This includes the Corporate Sustainability Reporting Directive (CSRD) in the EU, the US Securities and Exchange Commission (SEC) mandated reporting, and California-specific disclosures. The company now has a dedicated sustainability reporting resource in recognition of the growing importance of these disclosures. This is encouraging, although we did note the company could improve on the transparency in some elements of its reporting, for instance, its omission of Scope 3 emissions in company reporting, despite the inclusion of these figures in its CDP disclosures.

We also noted the company has not set targets beyond 2030. Sonoco cited its reluctance to set commitments it was uncertain it could achieve. In its case, addressing the energy intensity of its paper mills remains a challenge where current technology is unlikely to enable full carbon neutrality. Client demand also appears to be a significant driver behind the company's willingness to set targets. it repeatedly mentioned the need for 'proving the value' of its commitments, particularly in achieving executive support for these measures.

Despite some reticence on the longer-term achievability of net zero, Sonoco is developing its strategy to address Scope 3 emissions (these are very material: estimated Scope 3 values from 2023 CDP disclosures were over 4m tCO_2e, nearly four times the total of its Scope 1 and 2 emissions). We highlighted the fact that these were omitted from the company's reporting despite their materiality, the company assured us that transparency it its disclosures remains a priority for the company. It claims to be tracking progress in reducing Scope 3 emissions internally (it does have a Science Based Targets initiative (SBTi) target to reduce these by 13.5% by 2030), despite this also being conspicuously absent from its sustainability reporting.

Sonoco is building a dedicated supplier data platform to facilitate flowing supplier-specific emissions data through when this is required for regulatory reporting (e.g. CSRD). A key barrier to addressing Scope 3 emissions is accurate measurement of supplier inputs, Sonoco is using industry-average emissions factors and estimates for much of its Scope 3 footprint. The company was unable to elaborate how it plans to enhance the granularity of these data in future, however, it is developing individual life cycle analyses (LCAs) for its own products slowly.

Beyond its decarbonisation targets, the company is taking additional measures to reduce its environmental impact. The company uses almost entirely recycled inputs in its products, with only very minimal use of virgin paper fibre, effectively removing deforestation risk from its supply chain. It cited the EU's Deforestation Regulation as a key driver towards this for both its own operations and broad improvements in reuse of recycled components into paper products.

Outcome: Sonoco appears to be well-positioned to achieve the decarbonisation targets it has set for the near-term future. It is making demonstrable, if modest, progress against its existing targets, and these are a reasonable balance of achievable and appropriate (i.e. absolute terms, inclusive of Scope 3). Moving forward, we would like to see further progress and detail on the company's strategy to address Scope 3 emissions, particularly a commitment to continue decarbonising its operations beyond 2030.

Tesco PLC - Environment

Objective: we engaged with Tesco to discuss its climate transition plan, as part of the Net Zero Engagement Initiative (NZEI) with collaborating investors Premier Miton and AP3. This was a follow-up call after our discussion last year, following the publication of Tesco's new SBTi-validated science-based targets and its 2024 Climate Factsheet update.

Tesco has made significant improvement in its already-sound climate strategy, particularly with the addition of new SBTi-validated targets which now include Forest, Land and Agriculture (FLAG) targets. Tesco joins a progressive subset of companies in setting a FLAG target, with just over 1% of SBTi-committed companies having these in place to date since guidance recommended this in 2022.

Tesco's Scope 3 strategy is to focus on where it has more influence. It is mapping its supply chain emissions to identify hotspots, encouraging use of its food group forums to build supplier knowledge on decarbonisation measures, and urging suppliers towards industry best practice and affiliated resources (e.g. the SBTi). It is starting to collate supplier emissions data using the Manufacture 2030 platform, where it has asked its top 400 suppliers to submit emissions data for products and services. Although the company is aware of the challenges around supply chain emissions, it feels the only practicable approach to Scope 3 is to 'parallel run' (i.e. enhance data quality while acting to decarbonise the known emissions).

We noted the company has introduced an internal carbon price, which is used as a 'shadow' price applying only to parts of the business making material investment decisions, where these might jeopardise the company's ability to meet its climate targets in the future. The company sees this as an important tool to ensure carbon considerations 'remain on the table' for Tesco's merger and acquisition activities.

Tesco pointed out it has already published the equivalent of its transition plan across its various disclosures. The company expressed disappointment at the UK government's recent rolling back on the date when mandatory transition plans would be required. The company reiterated that it supports the introduction of regulation and wishes to see more of a 'level playing field' in mandatory climate disclosures.

Outcome: Our discussion confirmed Tesco has earned its reputation as a leader in its climate strategy and decarbonisation objectives. It was clear from the measures the company is taking, especially in the more challenging aspects of decarbonisation, addressing Scope 3 emissions and considering climate impact of critical business decisions, that it is making a meaningful effort to address its climate impacts. Its progress to date on its operational (Scope 1 and 2) emissions is reassuring and bodes well for its newly ambitious FLAG and supply chain decarbonisation targets. The company is clearly supportive of the climate transition and, better yet, is backing its advocacy with delivery on its commitments. Although challenges remain, it clearly sets itself apart as a leader worth emulating.

Wealth Managers for Climate Action - Environment

We are proud members of the Wealth Managers on Climate Group (WMC), a collection of UK wealth managers working together to support climate action in our investments. The group was convened as a forum specifically for wealth managers, which often have different operating constraints and opportunities to larger asset managers. The purpose of the group is for managers to effectively and collaboratively engage on sustainability-related topics, especially climate.

In November 2024 we, alongside several other members of the WMC, sent an open letter to all fund houses in our centrally monitored holdings itemising our climate expectations. The letter included specific examples of best practice and minimum standards for our third-party managers. We are engaging with all recipients of the letter over the course of the next few months, to determine where each manager is meeting these expectations and identify areas for improvement. We intend to share our progress on this response with our peers at the WMC meeting in Q1 2025.

Third-party manager (global equities) - Environment

Objective: to understand the rationale for the firm withdrawing its membership of both the Net Zero Asset Managers Initiative (NZAM) and Climate Action 100+ (CA100+) and how it might impact the firm's existing approach to climate stewardship of its assets.

Our engagement included members of the executive committee involved in the decision to withdraw and was well-equipped to discuss what drove the firm's decision. The firm has been monitoring the shifting pressures from clients on its climate approach, particularly considering Trump's recent election. The issue recently came to a head following the firm receiving credible indications of clients' potentially black-listing and suing the firm over its climate stewardship commitments in NZAM and CA100+. The firm's executive team met to review its public climate commitments and evaluate the potential risks of ongoing participation in these initiatives. Ultimately, the firm's decision was informed by a number of factors.

Data: the firm prepared extensive figures around clients' views (or expected views) on climate. This included the proportion of the client-base in 'red' (conservative / Republican) states, the proportion of climate-progressive 'green' clients, the number of institutional clients themselves members of CA100+, and other metrics. The firm was clear that the data was not debated – but did not clearly indicate which direction the plurality of the firm's client base leans ('green' or 'red').

Strengthening 'anti-ESG' forces: the re-election of Trump has coincided with new lawsuits targeting supposedly 'woke' asset managers for their participation in climate stewardship initiatives (most typically CA100+). Although the firm made clear it refutes the claims suggested by the plaintiffs in these cases – namely, that the inclusion of climate as a material factor in asset managers' investment processes is in conflict with prioritising financial returns – it is wary of the continued scrutiny managers will face. It noted specifically that the firm's structure – as a limited liability partnership (LLP) – has 'zero tolerance' for direct litigation. The firm pointedly did not respond to our 'slippery slope' question – given that it caved to (perceived) pressure from clients in this case, how does this prevent outside forces (such as proponents of the anti-ESG movement in the US) from further dictating the firm's policies and memberships?

Time and resources spent: the firm flagged how much of its time it has spent, to date, defending these commitments and educating clients on the importance of including climate in its investment processes. This obviously takes time and valuable resources away from the firm's other activities – including achieving these targets. The firm flagged that it has engaged with firms in a similar position (reevaluating public-facing climate commitments), and that consideration of time spent was a common theme.

The firm was keen to emphasise that despite these withdrawals, nothing has changed in its climate approach: its NZAM targets (which were structured to apply a 'whole of fund' approach) remain in place internally, and it will continue to apply its NZIF-style climate risk assessment to ~90% of its assets. Its NZAM targets remain in place because the firm's approach to NZAM was to explicitly require client endorsement of targets – therefore, these mandates stand regardless of the firm's membership in NZAM. We appreciate that this provides a continuity to the firm's climate stewardship work. Similarly, the firm retains 'one line' on the relevance of climate risk to its factor integration processes, and is not changing its public climate statement, which applies to its entire global client base. The firm also noted its engagements through CA100+ were with companies it already maintains good relationships with, and fully expects to continue its climate engagements with these companies outside of the CA100+ forum.

Outcome: this discussion was markedly different from those we had with other asset managers at the peak of the CA100+ withdrawals earlier in 2024. Although we made clear we find this development disappointing, we appreciated the firm's direct and frank response to the pressures driving its decision. The firm was also much better able to evidence the retention of its existing climate commitments – particularly for its NZAM commitment. The way forward, the firm suggested, is to get increasingly specific and example-based when discussing climate risk as a material financial risk, and to shift discussions away from climate as a moral issue and more as a tangible threat (e.g., away from 'climate' and towards 'resilient'). The firm welcomed our engagement and encouraged us to hold them to account and continue to challenge on this front.

Governance

Please note for investment trusts we have a proprietary RAG rating which assesses the trust's board composition, board effectiveness and responsible investment disclosures.

3I Infrastructure - Governance

Objective: to follow up via email following a meeting in 2023, with the chair of the board to discuss our concerns regarding the shareholder representative non-executive director (NED) on the board.

In the 2023 meeting, we raised concerns regarding the NED who represents 3i Group plc, the largest investor, and the parent company of the investment adviser. In our view this is an impediment to the overall independence of the board, additionally the non-independent director receives a fee paid by the trust. We strongly feel that shareholders should not be responsible for paying this fee.

In our email, we requested an update on these issues. The chair confirmed that this matter had been discussed at the board level however there was no changes proposed. The chair explained that the fees to the non-independent director are immaterial in relation to the trust. Although we understand the immateriality of these fees, it is our belief that shareholders should not be expected to pay for a non-independent director, regardless of the amount.

Outcome: we communicated to the board that if the non-independent director stood up for re-election at the 2025 AGM, we would not be able to support her re-election. We rate investment trusts on board composition, board effectiveness and responsible investment disclosures. This engagement did not change our internal RAG rating for the trust as this was already factored into this.

Baillie Gifford Japan - Governance

Objective: this engagement was part of our overall investment trust thematic engagement and our second time meeting the chair who is stepping down at the next AGM.

The board has appointed an existing NED as the future chair and plans to appoint a new director following the incumbent chair's departure. The recruitment will focus on future leadership potential with significant investment management experience, as part of this an external board evaluation is scheduled.

The chair highlighted Baillie Gifford's responsiveness and the board's transparent engagement on performance matters. He noted two successful requests for fee reductions during his tenure, demonstrating board effectiveness in acting in shareholders' interests. ESG-related updates are provided in every board pack, covering voting and engagement interactions. The board encourages proactive ESG engagement, which has shown positive results.

Outcome: overall we have no specific concerns with the trust and this engagement did not alter our internal RAG rating.

Bioventix - Governance

Objective: to discuss our concerns regarding the chair's board tenure for this AIM listed company.

The chair has served on the board for 20 years, far exceeding the nine-year best practice guidelines we expect the chair to adhere to. While we are flexible to a degree, we consider the independence of the chair important in managing impartial oversight of the board's activities. We spoke with the company, and its niche positioning within the biotech market means finding qualified board members with the appropriate expertise is challenging. The Chief Financial Officer highlighted the chair's experience as paramount to the functioning, and viability of the small business. While we are sympathetic to this point, we encourage UK-listed companies to maintain an independent board chair. We outlined our expectations to the board to implement a succession plan and provide a timeline in achieving this.

The composition of the board committees does not adhere to UK best practice recommendations, as we typically expect these committees to comprise wholly of independent directors. The company is currently undergoing a recruitment process to appoint a new NED to the board, following which, the appointee will replace the chair on both the remuneration and audit committees. We welcome this update which will result in both committees adhering to best practice independence guidelines.

Outcome: the additional context informed our decision to offer cautious support at this year's meeting. We outlined our expectations to the board to implement a succession plan and provide a timeline in achieving this. If this expectation is not met by next year's AGM, we will vote against the chair.

F&C Investment Trust - Governance

Objective: this engagement served as a follow-up with the board to discuss recent developments in board composition, as well as responsible investment disclosures, including the implications of the UK Sustainable Disclosure Requirements (UK SDR).

The meeting covered the trust's new priority themes: Social Media and Responsible AI, Human Rights, Net Zero, and Biodiversity. We noted that the trust has portfolio-level NZAM targets, which is uncommon but welcome. The chair emphasised the board's role in driving net zero strategies.

The board's annual report explains the trust's stewardship activities and net zero strategy through case studies. Although some funds are managed by third-party managers, Columbia Threadneedle retains the voting rights. We suggested more transparency on proxy voting and the portion of assets managed by third parties. The board considered applying for a UK SDR label but decided against it, as the fund is not a sustainable fund but does integrate ESG information for long-term returns.

We also discussed board composition and succession planning. The annual report discloses the succession calendar, and the chair aims to limit tenure to nine years. The board conducts an external evaluation every other year. At the 2024 AGM we supported all resolutions, however, after examining the voting results, there were significant votes against director re-elections and directors' remuneration. We queried the board about this, but they were not able to provide a conclusive answer, board is expected to investigate this further.

Outcome: the trust has some useful responsible investment related disclosures, and we support the board's review of the manager's sustainability-related reporting. This engagement improved our internal RAG rating for the trust, for board composition.

Finsbury Growth & Income Trust - Governance

Objective: the board requested a meeting to introduce the new chair and to address the trust's poor performance over the past five years.

The board is undergoing some changes, with the appointment of a new chair, and planning for the upcoming retirement of the Audit Committee chair in two years. As part of this the board undertook an external evaluation.

The trust currently invests in 22 UK stocks, with high concentration on the top ten. This facilitates comprehensive reporting on stewardship activities. The annual report explains the manager's ESG integration process and the use of Sustainability Accounting Standards Board (SASB) materiality mapping. The portfolio involves both positive and negative screens, excluding coal and fossil fuel stocks. While the report offers useful engagement examples, we suggested to the board that more details on ESG integration and voting rationale would be helpful. For example, the reporting includes Weighted Average Carbon Intensity (WACI) metrics, versus the benchmark, but fails to explain how this metric is being used by the manager's team.

The portfolio has been underperforming against its benchmark (FTSE All Share Total Return Index GB) over the last five years, additionally the company was currently trading at a 10% discount to its Net Asset Value (NAV). The trust's buyback policy aims to limit the discount to 5%, which was clearly ineffective given the discount level. We proposed several strategies to the board to boost performance in the coming years. These included a continuation vote.

Outcome: several weeks after our engagement the board announced the introduction of a continuation vote from 2026. The introduction of a continuation vote is validation of our thoughts on recent performance. Consequently, the board effectiveness RAG rating has improved.

JD Sports - Governance

Objective: this was a reactive engagement following media reports of allegations of poor governance practices. We engaged the company to raise concerns on the matter and seek clarification.

It has been reported that non-executive director Kath Smith, has an undisclosed financial interest in one of the company's suppliers (Montirex), leading to allegations of a potential conflict of interest. In the company's most recent annual report it did disclose that Smith chairs the board of Montirex but did not disclose that it was a supplier. JD Sports re-iterates that the role was approved by the board prior to initiation and the financial interest that that Smith holds is of a level that is considered 'non-material' based on current policies and procedures.

Outcome: our categorisation of the governance performance of the company has not changed on the basis of this event. However, this is not an example of best practice, and we will monitor next year's annual report to see how this has been rectified. We view best practice on similar conflicts as board approval plus detailed disclosure of the item. Montirex is not a material supplier for JD Sports, we would however expect better disclosure on the issue and have made the company aware of our expectations.

JPM Emerging Markets Income - Governance

Objective: update on the portfolio, board composition and responsible investment disclosures.

The board is undergoing a refresh with the appointment of a new chair of the Audit Committee. The board undergoes external evaluations every three years, the board size and skill set of the NEDs is in a good place. The manager provides strong support to the NEDs of its trusts and the board regards the manager as being sufficiently responsive to its asks.

We discussed responsible investment disclosures, and the chair was supportive of our ask for more engagement examples. It was noted that this task is more challenging with emerging markets.

Outcome: overall, we are satisfied with the board's composition and effectiveness. This engagement did not change the trust's RAG rating.

JPM Global Growth and Income - Governance

Objective: this was an update with the chair to discuss succession, as well as wider governance and disclosure matters. We previously engaged with the board on general governance matters as part of our due diligence process for adding holdings to our centrally monitored universe. The trust had recently merged with two other trusts: Scottish Investment Trust and JP Morgan Elect. Since then, it has also merged with JPM Multi-Asset Growth and Income.

At our last engagement in March 2023, we noted that the board fell short of the expected diversity targets because of the terms of the merger with The Scottish investment Trust. Furthermore, the chair was expected to stay on to complete a term of ten years, which is not in line with best practice. Given the recent merger we were lenient in our response however urged the chair to focus on improving board diversity.

The chair is handing over to a successor imminently, the incoming chair has been on the board for three years and was selected unanimously by fellow board members. Furthermore, the board is undergoing a refresh with the chair and another NED exiting, and a further NED leaving in 2026. The board has appointed new NEDs and therefore now meets the FCA diversity targets. In line with best practice JP Morgan was not involved in the recruitment process.

Outcome: the board has improved its composition through diversity as well as skill sets in line with the expectations we set. The engagement resulted in changes to the trust's RAG rating within our investment trust monitoring tool.

Mercantile - Governance

Objective: the objective was to gain an update since the last engagement two years ago. Board succession plans, effectiveness, and the board's interaction with the investment manager were discussed.

It was announced in the half-year report that Rachel Beagles will assume the role of Chair at the next AGM in 2025. The succession plan's first stage involved selecting the chair, with further discussions on the board's skillset to follow in December. The board aims for more than five but fewer than seven directors, recognising the importance of diversity of thought over visual diversity alone. The board undergoes an external evaluation every three years and internal evaluations via questionnaires, assessing overall and committee effectiveness.

The board prioritises articulating ESG considerations, viewing the management approach as 'ESG considerate'. Fee reviews occur regularly, the board is content the current fee is fair, based on market capitalisation. The primary goal is for the Mercantile to remain significant to JPM.

Outcome: we noted an improvement in the responsible investment disclosures, especially with the disclosure on case studies. We recommended a greater focus on ESG integration with explanations on how assessments and decisions are made based on material ESG risks, rather than just providing data. This engagement improved our internal "board effectiveness" rating for the trust, whist there were no changes in the RAG rating for "board composition" and "responsible investment disclosures".

Pernod Ricard - Governance

Objective: to discuss our concerns regarding the proposed increase to the long-term incentive (LTI) component of the combined CEO/chair remuneration.

Pernod Ricard is proposing an increase to the maximum payout cap of its LTI plan from EUR 1,875,000 to EUR 3,710,000, representing a 97.87% increase compared to the current calculation method. The proposed CEO/chair remuneration policy includes a 6% base salary increase from 2025 and a reduction in the short-term incentive plan (STI). The proposed salary increase is in line with, if not slightly lower than the wider workforce, which we generally welcome.

We spoke with the company, and it was acknowledged that given the company's relatively poor performance recently, the timing of the increase to the LTI suboptimal. The primary reasoning assumes that the maximum payout will not be awarded annually, and the revised plan includes more challenging performance and vesting conditions. We disagree with the three-year vesting period, as we would expect it to be five years. The proposed remuneration policy also allows for exceptional payments at the board's discretion, without specifying caps. Although the board has not used this component before, its inclusion deviates from best practice guidelines. The company states that discretionary payments would only be warranted in exceptional circumstances, such as recruiting a new CEO or executing transformative operations.

As is common across France, the roles of the Chair and CEO are combined, to date, the company has not implemented an end date on this. While the company has a lead independent director in place, the ongoing remuneration issues indicate appropriate checks and balances are currently not in place.

Outcome: remuneration has been a persistent issue at Pernod Ricard, we voted against the renumeration policy when it was last put to shareholder vote. Despite reductions to the STI, there is still no compelling justification for the proposed increase to the LTI. Additionally, the continuation of the combined CEO/chair role, given our concerns about remuneration, warrants a vote against both agenda items.

Pershing Square - Governance

Objective: this meeting served as an introductory engagement with the new chair. Additionally, we aimed to address concerns previously raised regarding board composition, independence, and disclosure.

We began by discussing the newly appointed non-independent NED who replaces a former non-independent director. The board acknowledged our preference for a fully independent board but indicated no changes are expected soon. This speaks to our concerns regarding the efficacy of the board, for example we would question whether it is the portfolio manager, rather than the board that has driven delisting from the Amsterdam exchange.

The board and the manager remain intransigent on UN PRI signatory status which is now a hygiene factor for us when we invest in a new fund. Regarding stewardship, we believe the manager has a good opportunity to showcase direct engagements due to the concentrated portfolio, but current disclosures are limited. We also discussed the inclusion of voting disclosures and rationales.

Outcome: concerns persist regarding the independence of the board and its capacity to challenge the investment adviser. The board continues to include a manager representative, with no indications of any future changes. Additionally, the investment adviser has shown reluctance to become a UN PRI signatory, positioning it as a laggard in this respect. There have been some improvements in disclosure practices with the introduction of a monthly factsheet. At the 2024 AGM we voted against the non-independent director, and we communicated to the board our intention to do so again at the next AGM. This engagement did not change our internal RAG rating, the trust is a laggard all three aspects on the rating: board composition, board effectiveness and responsible investment disclosures.

Polar Capital Technology - Governance

Objective: this engagement was arranged as part of our ongoing investment trust thematic engagement.

In 2022, Catherine Cripps took up the position of chair and aimed to bring a fresh perspective while increasing efficiency. The chair is working closely with deputy portfolio manager on investment metrics by pooling reliable data and evaluating the previous use of ESG-related factors in investment decisions. The 2024 report contained fewer engagement examples; this was as result of a desire to produce shorter overall annual report.

Outcome: we are satisfied with the board’s oversight and succession planning. We identified some disclosure areas that could be improved. This engagement did not change our internal RAG rating for the trust.

Scottish Mortgage - Governance

Objective: this was a follow-up meeting with the chair to discuss board composition and succession planning. We also covered responsible investment disclosures and portfolio performance.

The board has chosen a successor for the chair, who has an eight-year tenure. The plan is to replace him at the 2025 AGM, with the new chair having a couple of years of overlap. The current chair mentioned that the incoming chair has extensive investment trust experience, and that the succession plan for the Senior Independent Director (SID) would be a high priority for the incoming chair. The board meets the FCA's ethnic diversity requirements, but female representation is 33%, falling short of the 40% target.

While there is good disclosure on voting and a few engagement examples, would like more details on the ESG integration across the portfolio, both on the quoted and unquoted side. We told the board that we would like to see enhanced disclosure on how the manager is mitigating ESG-related risks within the portfolio.

Outcome: we welcome the decision by the board to maintain tenure within the nine-year best practice. Additionally, the board remains below the FCA's diversity guidelines so this must be a consideration in future recruitment. We have also communicated to the board our expectations regarding responsible investment disclosures. The trust is a laggard on all three components of the RAG rating: board composition, board effectiveness and responsible investment disclosures. This engagement did not change the rating.

Willis Tower Watson's annual remuneration engagement - Governance

Objective: the purpose was to gather views of investors on remuneration practices and trends through Willis Tower Watson's annual remuneration engagement.

We favour companies that proactively seek feedback from major shareholders, especially when significant changes in the remuneration policy are proposed. Engagement is always preferred outside the peak of the proxy season, which is the busy voting period between February and June, when most companies hold their annual general meetings. Other topics included the different approaches to remuneration for UK, European, and US listed companies, and the incorporation of ESG-related goals into executive compensation, provided the targets are pertinent to the company's operations and are both measurable and quantifiable.

Outcome: active ownership has many facets, and we hope that by participating in discussions like this, we are working with companies to improve the understanding shareholder preferences for remuneration practices.

Trust issues? Navigating private equity discount

2024 has been a challenging year for private equity investment trusts, with all but one trading at a discount. As of December 2024, the average discount was 30% and the trend seen these widening. This year has seen a record number of buybacks, yet this has done little to reduce these widening discounts.

We spoke to the boards of our private equity trusts, which were experiencing the steepest discounts, to understand how the boards are considering the capital allocation policy. Our perspective is that when the trusts are deeply discounted, the board should provide a strong rationale for why new investments would be more accretive to shareholders than buying back its own shares.

Chrysalis Investment Company - Governance

Chrysalis' discount has consistently remained wide at c.-40%, and we support the board's ongoing returning of value to its shareholders through share buybacks. We do not anticipate new investments until there is a meaningful narrowing of the discount.

The chair believes that, given the significant changes planned for the upcoming years that will determine the company's future strategy. This includes whether the company will continue to reinvest or liquidate remaining investments, it is prudent to pause director succession planning. We find this approach reasonable until there is greater clarity on the future strategy. The main focus is the expected Klarna IPO (the trust's largest holding) scheduled for Q1 2025.

Outcome: The board has scheduled an investor day in February, where we expect to gain more insight into the future strategy. This engagement did not alter our internal RAG rating for the trust.

Harbourvest Global Private Equity - Governance

This engagement was timely, as an activist investor had recently published a letter to the trust regarding widening discounts and pressuring the board to do more. Although addressed specifically to Harbourvest (HVPE), it is relevant for most private equity investment trusts. We asked the chair about the discount, cost disclosure changes, and board collaboration with the industry. We believe that the persistent discount in the private equity sector is a market issue and could benefit from collaborative efforts.

The chair explained the board started buybacks in mid-2022, the first in the trust's history, but the discount has continued to widen despite ongoing buybacks, this is not unique to HVPE. For example, Pantheon International's £150 million tender offer, failed to reduce the discount. The chair noted that depressed demand for private equity exposure by investors and the largest shareholder reducing its position have impeded recovery. We discussed selling some secondary or tail-end investments to generate cash for buybacks or to recycle capital into new investments with higher returns. The chair confirmed that HVPE has made some minor sales and has started modest investments after a long hiatus.

From September 2024, investment trusts have been exempted from the current cost disclosure regime, however there is a risk that some investment platforms will not host funds if they do not do so. The trust engaged with private equity peers to set costs at 0.0% however some peers backed out last minute. Currently, Hargreaves Lansdown is the only platform blocking HVPE because of the changes in cost disclosure, the board is engaging with them on this.

We discussed the changes in the board composition since 2022. At that time, the board had two non-independent directors who were management representatives, as permitted by the investment adviser's contractual rights in the trust's the articles of association. The chair explained how Quilter

Cheviot's comments were crucial for the board to present its case to the manager. We acknowledge the improvement the current board composition and appreciate the board's responsiveness on this matter.

Outcome: while we are disappointed with the current discount level, the board is actively seeking solutions. We hope improved market conditions in the new year will boost demand for shares and reduce the discount. We will continue to monitor the board's management of this issue. This engagement did not change our internal RAG rating for the trust.

Pantheon International - Governance

The chair provided an update on the strategy of the trust's management. He has greater confidence in the structure and management following the transition from fund of funds to single assets. The chair described the trusts as having a 'significant advantage' given its access to co-investments through Pantheon, he supports the corporate and leverage strategies. His concern is with the media commentary. Following the decision to implement the £200 million buyback, the chair believes the media misrepresented this move solely as a measure to address the discount, a claim he disputes. The discount currently stands at approximately 34%, an improvement from May 2023 (41%).

Approximately five weeks ago, the board appointed a marketing agency for the first time. The objective is to increase demand from prospective shareholders. The agency is engaging in its first assignment within this sector but has demonstrated potential. The board meets frequently with them, and the next step is implementation, which is expected to be gradual.

From September 2024, investment trusts have been exempted from the current cost disclosure regime, however there is a risk that some investment platforms will not host funds if they do not do so. The chair stated that the board is currently deliberating this and intends to with other Trusts in the alternatives space for their input.

Outcome: the cost disclosures could benefit investment trusts as the ongoing cost be lower than open-ended alternatives, but this might not eliminate the discount alone. The board is enhancing its marketing efforts, and the chair believes more shareholder education on private equity's role in portfolios will attract new buyers. Additionally, the board continues to conduct buybacks, which we welcome. We will continue monitoring the development of the trust's discount in the coming year. This engagement did not change our internal RAG rating for the trust.

Experian - Social

Objective: we engaged with the Chief Sustainability Officer and General Counsel at Experian as part of the company's sustainability roadshow.

The discussion covered regular social impact themes, including Experian's role as a credit bureau in improving underserved population's financial health. Consumer facing products such as Experian 'Go' and Experian 'Boost' have been successful in bringing 'credit invisible' customers into the financial system and allowing them to improve their credit scores through non-standard demonstrations of credit health (e.g. paying rent or regular subscription services). Through the 'Boost' product, Experian has noted that 88% of users, typically those without a pre-existing credit score, have improved their credit health. The company is in the process of building out processes to better measure social impact of products and is explicit in stating that the majority of its product line contributes towards Sustainable Development Goals (SDGs) 1.4, 8.10 and 9.3 (related to poverty prevention, decent work, and financial infrastructure).

Experian maintains its focus on improving gender diversity at managerial level, aiming for women to hold 40% of senior manager positions by 2027 (currently 35%). In terms of climate transition planning, the company has had Scope 1 and 2 emissions reductions plans approved by the Science Based Target Initiative (SBTi) and is in the process of have its Scope 3 strategy approved. We touched upon the company's increasing use of artificial intelligence and machine learning. Although industry wide ethical governance of this area is nascent, Experian reiterated that it will not implement a new model unless it makes the credit outcomes more inclusive. Performance of new data models is regularly measured again baselines census data to check for bias and is monitored by Chief Data Officers in each country of operation.

Outcome: Experian is eligible for inclusion in Quilter Cheviot portfolios in the Dedicated responsible investment preference (which is the highest level). We have a favourable view on broad ESG performance and agree with the company's assessment that a material degree of revenue aligns with select SDGs. Based on this conversation, we maintain this view. We are encouraged to see a continued focus on improving diversity and governance outcomes as well as more quantitative measures on the contribution to better financial health.

RI Reels

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

Proxy Season

Ramon Secades joins Kirsty Ward to discuss proxy season this year.

Watch vlog

Alternative Investment Trusts

Ramon Secades joins Kirsty Ward to discuss his second thematic engagement piece on alternative investment trusts.

Watch vlog

Conversation with our interns

Kirsty Ward is joined by interns Freya Mcewan and Grace Barnett for a conversation about their experiences.

Watch vlog

Source of images: iStock

Overview

When we refer to the universe of holdings covered by our responsible investment approach this is what is included.

Activity	Universe
Voting	Discretionary holdings within the global equity and investment trust monitored lists where we have voting rights. Discretionary holdings in UK listed companies which are IM (investment manager) led ideas where we own more than 0.2% or £2 million of the market cap. MPS (Managed Portfolio Service) Building Blocks Climate Assets Balanced Fund and Climate Assets Growth Fund Quilter Cheviot Global Income and Growth Fund for Charities Quilter Investors Ethical Fund AIM Portfolio Service Quilter Investors ICAV Funds
Engagement	Centrally monitored holdings AIM Portfolio Service holdings UK holdings where we own more than 0.2% or £2 million of the market cap (governance matters only)
ESG integration	Centrally monitored holdings

We use the ISS proxy voting service in order to inform our decision making, however we do not automatically implement its recommendations. When we meet a company to discuss governance issues, the research analyst usually does so alongside the responsible investment team as we are committed to ensuring that responsible investment is integrated within our investment process rather than apart from it. As Quilter, we are a signatory to the Stewardship Code. In order to maintain our signatory status, we submit a Stewardship Code report to the Financial Reporting Council (FRC) every April. We have successfully maintained our signatory status for 2023.

UK STEWARDSHIP CODE

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

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

Responsible Investment at Quilter Cheviot

Active ownership and ESG integration – for discretionary clients
We vote and engage with companies and fund managers on environmental, social and governance (ESG) matters. Integrating ESG considerations into our investment process can have direct and indirect positive outcomes on the investments we make on behalf of our clients.

We take a more targeted approach for clients that want their portfolios to reflect their specific interests or preferences.

A Direct Equity Approach* - DPS Applied

The strategies harness Quilter Cheviot's research and responsible investment process, as well as data from external providers, to implement ESG factor screening on a positive and negative basis. To ensure more emphasis is placed on ESG risks beyond the firm-wide approach to active ownership and ESG integration which forms the basis of the Aware categorisation.

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

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

Ethical And Values Oriented Investment – Client Specific

This is incorporated on an individual client basis, informed by their specific ethical preferences and values. These will vary from client to client and will focus on industry groups, industries or individual companies.

* For UK, North American and European equity holdings

** Climate Assets Balanced Fund and Climate Assets Growth Fund.

Glossary

Welcome to our comprehensive responsible investment glossary. We're aware the investment world is full of specialised terminology, so hopefully you'll find the following key terms and concepts will enable you to navigate the world of Environmental, Social, and Governance (ESG) more easily.

Active ownership (Stewardship): Investors actively use voting and engagement to influence the management of companies with respect to environmental, social or governance factors. Similar principles are also used by investors in other asset classes such as fixed income, private equity or property. This will also involve active participation in industry and peer group collaborative initiatives.

Annual General Meeting (AGM): An annual general meeting is a requirement for all publicly listed companies. This meeting, held annually, provides an opportunity for shareholders to vote on company decisions either in person or by proxy.

American Depositary Receipts (ADRs): An ADR is a negotiable certificate that evidences an ownership interest in American Depositary Shares. ADRs allow U.S. investors to invest in non-U.S. companies and give non-U.S. companies easier access to the U.S. capital markets.

Source: US Securities and Exchange Commission

Carbon footprint: The total amount of greenhouse gases (including carbon dioxide and methane) that are generated by our actions.

Carbon pricing: Operates by placing a fee on emitting and/or offering an incentive for emitting fewer carbon emissions. This may refer to the rate of a carbon tax, or the price of emissions permits.

Carbon pricing has emerged as a key policy mechanism to curb and mitigate the dangerous impacts of greenhouse gas pollution and drive investments towards cleaner, more efficient alternatives.

Source: CDP

Circular economy: The model of production and consumption which involves sharing, leasing, reusing, repairing, refurbishing, and recycling existing materials and products as long as possible. In this way, the life cycle of products is extended.

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

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

Climate change: This refers to a change in the state of the climate that can be identified (e.g. by using statistical tests) and that persists for an extended period, typically decades or longer. Climate change may be due to natural internal processes or external forcings such as changed of the solar cycles, volcanic eruptions, and persistent anthropogenic (environmental change caused or influenced by people directly or indirectly) changes in the composition of the atmosphere or in land use.

This is one of the three Quilter responsible investment priorities.

Source: Intergovernmental Panel on Climate Change (IPCC)

COP: An acronym for 'Conference of the Parties' that can be used to refer to the meetings of countries as part of the United Nations (UN) Framework Convention on Climate Change (UNFCCC).

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

Engagement: Investors enter into purposeful dialogue with companies, funds, industry bodies, and governments to discuss environmental, social, and governance related issues in order to gain more information or to encourage and achieve change. This may be in collaboration with other investors.

ESG (Environmental, Social, and Governance): The risks and opportunities related to ESG issues.

Environment - relating to the environment. Examples include resource, water and land use, biodiversity, pollution, atmospheric emissions, climate change, and waste.

Social - relating to the relationship between companies and people, such as their employees, suppliers, customers, and communities. Examples of social issues of interest to investors include health and safety, labour standards, supply-chain management, and consumer protection.

Governance - relating to the governance of an organisation, also referred to as corporate governance. Examples include board composition, executive remuneration, internal controls, and balancing the interests of all stakeholders.

ESG integration: Analysing ESG data to better inform investment decisions.

ESG screening: Ethical and values-oriented investment based on client requirements is incorporated on an individual client basis within the Discretionary Portfolio Service. This is informed by their specific ethical preferences and values and will vary from client to client and will focus on sectors, industries, or individual companies.

Executive director: These are directors who act perform managerial duties within a business. They are held to account by the non-executive directors.

Global Depositary Receipt (GDR): A Global Depositary Receipt (GDR) is a negotiable certificate held in a country's local banks representing title to a certain number of foreign shares. Non-domestic companies wishing to list on the local exchange must offer GDRs.

Source: Morningstar

Green bonds: Differentiated from a regular bond by being "labelled" i.e., designated as "green" by the issuer or another entity, whereby a commitment is made to use the proceeds of green bonds (i.e., the principal) in a transparent manner, and exclusively to finance or refinance "green" projects, assets or business activities with an environmental benefit.

Greenhouse gases (GHG): Greenhouse gases (GHGs) are carbon dioxide, methane, nitrous oxide, and ozone. They account for a tiny fraction of the atmosphere, but they are a critical part of the overall atmosphere composition as they play a significant role in trapping the earth's heat and warming our planet. Since industrialisation, GHG concentrations have rocketed, warming the planet at unprecedented rates. The major cause of the increase in carbon emissions has been the use of fossil fuels in producing energy.

Greenwashing: Greenwashing describes misleading or unsubstantiated claims made by businesses including investment firms about the environmental performance of their products or activities.

Human rights: Human rights are the rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. Everyone is entitled to these rights, without discrimination.

This is one of the three Quilter responsible investment priorities.

Just transition: Just transition is a framework to ensure the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically – be they countries, regions, industries, communities, workers, or consumers.

Lead independent director: The role of a lead independent director is to serve as an intermediary between the independent directors, chairman and chief executive officer. Where a company maintains a combined Chief Executive Officer (CEO)/chair position, a lead independent director can serve as an independent counterweight to an executive (non -independent) chair.

Long-term incentive plan (LTIP): A type of executive compensation that pays out usually in the form of shares company. The reward is linked to performance metrics and the pay-out will be calibrated in line with the achievement of these. The quantum of the pay-out is linked to multiples of salary.

Natural capital: Natural capital is stock of renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils, or minerals) that combine to yield a flow of benefits and ecosystem services to society.

This is one of the three Quilter responsible investment priorities.

NEDs (Non-Executive Directors): These are directors who act in advisory capacity only, however they should hold the executive directors to account. They are not employees of the company; however, they are paid a fee for their services.

Net zero: Achieved when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period. Where multiple greenhouse gases are involved, the quantification of net zero emissions depends on the climate metric chosen to compare emissions of

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different gases (such as global warming potential, global temperature change potential, and others, as well as the chosen time horizon).

Source: IPCC

Over-boarded: Where non-executive directors are deemed to have a potentially excessive number of non-executive positions and the concern is whether they have sufficient time to contribute to the board of a company.

Paris Agreement on climate change: The Paris Agreement was a global agreement to strengthen the global response to climate change. It was agreed in 2015 that the global temperature rise this century should be kept to well below 2°C above pre-industrial levels and ideally below 1.5°C.

Power of Attorney: An instrument used to bestow authority to act on someone's behalf.

Pre-emption rights: These give shareholders first refusal when a company is issuing shares.

Premium listing: This was previously known as a primary listing for the London Stock Exchange. A company with a premium listing is expected to meet the UK's highest standards of regulation and corporate governance.

Principles of Responsible Investment (PRI): The world's leading voluntary initiative on responsible investment. Launched in 2006 it now has thousands of investor signatories globally who commit to adopt six principles for responsible investment and report against these annually. Although voluntary and investor-led the PRI is supported by the United Nations.

Proxy voting: Where a shareholder delegates their voting rights to be exercised on their behalf. Often voting rights are delegated to investment managers who exercise votes on investors' behalf. Votes are used to express shareholder opinions to company management.

Responsible investment: A strategy and practice to incorporate ESG factors in investment decisions and active ownership.

Source: PRI

Restricted share plan (RSUs): Some companies (and indeed investors) prefer the use of these plans as opposed to LTIPs (see above). The idea is that this type of plan encourages long-term behaviours and does not have the same use of targets that you would see within an LTIP. Therefore, it is expected that companies which adopt such an approach award a lower amount than would be seen under an LTIP which has a variable structure dependent on performance outcomes.

Share blocking: This refers to a rule prohibiting shareowners from trading or loaning shares that they intend to vote for some period of time leading up to, and often following, the company meeting date.

Short-term incentive plan (STIP): A type of executive compensation schemed that seeks to align a proportion of overall executive pay with a company's short-term strategy. STI have a performance year of one year or less and are typically paid in cash but may also be paid in shares.

SID (Senior Independent Director): The SID position is taken by an independent NED. The SID often plays a critical role in ensuring communication channels are open between the board and shareholders.

Stranded assets: Stranded assets describe the assets on corporate balance sheets that could rapidly lose their value because of forced write-offs. An example of this would be fossil fuel reserves remain unburned.

Stewardship: The responsible allocation, management, and oversight of capital to create long-term value for investors and beneficiaries leading to sustainable benefits for the economy, the environment, and society.

Source: Financial Reporting Council (FRC)

Sustainability focused investment: Sustainability-focused investment is an investment approach that selects and includes investments on the basis they fulfil certain sustainability criteria and/ or deliver on specific and measurable sustainability outcomes. Investments are selected based upon the sustainable solutions that they provide, such as what a company produces or the services it delivers. Consideration is often also given to how the company or asset delivers those products and services. There are different methods for assessing the sustainability characteristics of an investment, many of which reference an established framework such as the UN Sustainable Development Goals.

Task Force on Climate-related Financial Disclosures (TCFD): The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information.

Tender – bid waiver: This is the right to waive the requirement to make a general offer under Rule 9 of the Takeover Code, resulting in a request to procure a good or service to take place without public bidding.

The Shareholder Rights Directive II (SRD II): Establishes rules promoting the exercise of shareholder rights at general meetings of companies with registered offices in the EU and the shares of which are admitted to trading on a regulated market in the EU .The 2017 revision (Directive (EU) 2017/828) aims to encourage long-term shareholder engagement to ensure that decisions are made for the long-term stability of a company and take into account environmental and social issues. A notable requirement within this is for asset managers to report on their voting activity and shareholder engagement on an annual basis.

Source: EU Directive

Task Force on Nature-related Financial Disclosures (TNFD): TNFD was formed to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature related risks. The ultimate aim is to support a shift in global financial flows away from nature-negative outcomes and towards nature-positive outcomes.

Total shareholder return (TSR): Is a measure of the performance of a company's shares; it combines share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualised percentage.

UN Sustainable Development Goals (SDGs): The 2030 Agenda for Sustainable Development adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 UN Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth - all while tackling climate change and working to preserve our oceans and forests.

Source: United Nations

Voting Rights: Shares in listed companies typically come with specific voting rights which can be exercised at the company's annual general meeting or extraordinary meetings. They can be used as a means of expressing the opinion of the shareholder about how the company is being managed. This is also referred to as proxy voting when voting rights are delegated, for example to investment managers who exercise voting rights on an investor's behalf.

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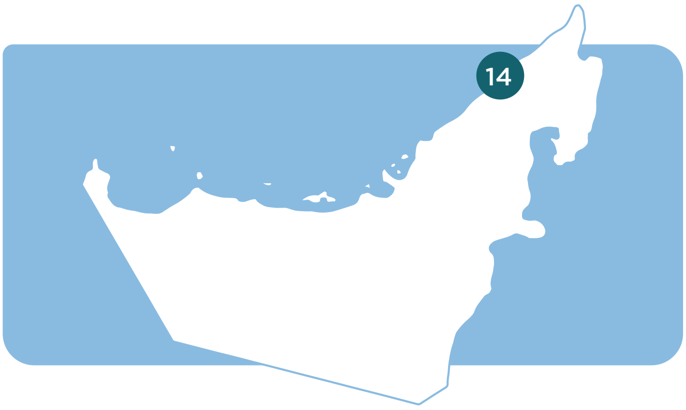
Our experts are here to help you



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