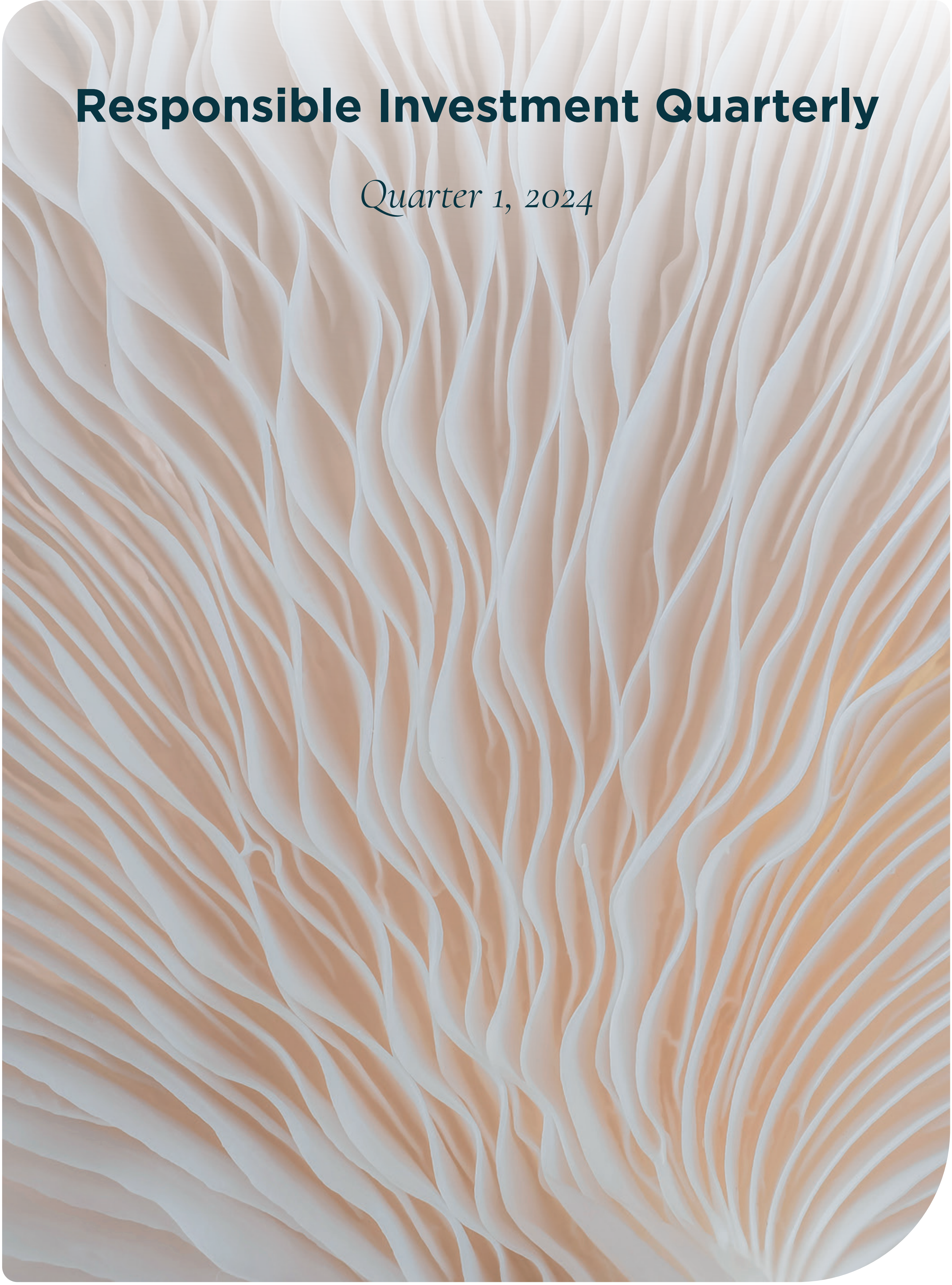
QUILTER CHEVIOT

Responsible Investment Quarterly

Quarter 1, 2024



Approver: Quilter Cheviot Limited, 30 April 2024

QUILTER CHEVIOT

Contents

Welcome

In the first quarter of 2024 we focused on the delivery of regulatory requirements, notably TCFD reporting and the Stewardship Code report. RI Reels continued into its third year, marked by the release of three vlogs during this quarter.

We initiated four thematic engagements covering topics from health and safety to deforestation and the second phase of the investment trust thematic engagement on alternatives and Real Estate Investment Trusts (REITS).

Collecting data continues to be an important part of our work. Throughout the first quarter, we navigated a data scraping project which aims to enhance and improve our proprietary ESG integration tool.

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

Margaret Schmitt
Responsible Investment Analyst
e: margaret.schmitt@quiltercheviot.com
t: 020 7150 4735

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

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

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

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

Thematic engagements

Defending data: Cyber security and critical infrastructure

This engagement programme targeted our most material holdings in the IT software and telecoms industry groups. We completed a risk assessment on the cyber governance of these companies and have used the conversations as an opportunity to establish best practice cyber governance. Using the UN backed Principles for Responsible Investment's (PRI) cyber governance framework, we have evaluated board communication, business continuity, training, and skills and resources. We have also assessed the threat environment to identify current and emerging threats.

Nicholas Omale
Responsible Investment Analyst

Greg Kearney
Senior Responsible Investment Analyst

Ben Barringer
Equity Research Analyst

Matthew Dorset
Equity Research Team Associate

Click here for the full insight

Thematic engagements

Investing in diversity disclosure

Annually we send our ESG (environmental, social and governance factors) Request for Information (ESG RFI) to our third-party managers. This focuses on their approach to responsible investment as well as the firm itself. Approximately half of our assets under management (AUM) are managed through third-party funds rather than directly invested. Therefore, as part of our responsible investment approach it is critical that we engage with our third-party managers. To effectively do so, we consider:

- Responsible investment credentials and process
- Diversity within the firm
- Approach to climate action

We use the responses to the ESG RFI to inform our engagement with the third-party managers we invest in and then identify engagement themes; for 2023 we have focused on diversity disclosure.

Ramón Secades
Responsible
Investment Analyst

Kirsty Ward
Responsible
Investment Analyst

Click here for the full insight

Thematic engagements

Succession: evaluating board tenure in the EU

Maintaining an effective and independent level of decision making and oversight is key for a board and forms an important part of corporate governance. It is an area we focused on during the last proxy season and we are now reevaluating how to approach different governance standards relating to director independence in different geographies. A non-executive director's (NED) independence hinges on several factors, including material relationships, significant holdings and tenure. The UK Corporate Governance Code states that a NED's independence becomes impaired when they have served on the board for more than nine years from the date of their first appointment; however, this is not necessarily the case in other geographies. Therefore, we have undertaken a review of tenure limits in the US and Europe. European companies differ from our holdings in the US and the UK, as it is not uncommon for companies to be operated by a founding family, with a number of family members having seats on the board, ultimately impacting the overall levels of board independence.

Kirsty Ward
Responsible
Investment Analyst

Click here for the full insight

Voting highlights

Key voting activity:

Across Q1 2024, we voted at 51 meetings, a slight increase from 50 meetings voted on during the same period last year.

Traditional governance topics such as director elections and execution remuneration were the focus of conversations in this quarter. Assessing executive remuneration is not an exact science, and several factors are considered. In some instances, companies have departed from UK best practice guidelines in response to their growing global presence and aim to remain competitive on a global stage, especially across North America. As executives across this geography tend to experience higher payer packages, we are increasingly mindful of the challenges facing large global companies listed in the UK. This is a complex assessment, and we analyse on a case-by-case basis.

Similar to the previous quarter, across Q1 2024, there were fewer meeting agenda items related to social and environmental topics in Q4, relative to other quarters. We have therefore summarised the key governance and social voting issues across the period.

Governance voting activity by numbers

7*x votes against electing / re-electing director (management item)
We placed withhold votes against the re-election of five directors at the Dolby Laboratories annual general meeting due to the directors benefiting from a multi-class share structure with unequal rights. In this instance, the company had not set a timeline or deadline to convert to ordinary shares which impacts shareholders with inferior voting rights. We consider this to disenfranchise majority shareholders in the long run.
Company voted on: Dolby Laboratories (x5), Novo Nordisk (x2)

1x vote against approving the auditors and authorising their remuneration (management item)
We voted against the company in this instance as it had not publicly disclosed the selection process of appointing the new auditors which is not in line with UK best practice guidelines.
Company voted on: Image Scan Holdings

1x vote in favour of an independent board chair (shareholder proposal)
In the US, in contrast to the UK, it is common for the CEO and chair roles to be combined. However, this can raise concerns for us about companies' performance and compensation practices being behind peers. In this instance, we supported the shareholder request for an independent board chair, as while the company has a lead independent director, it has underperformed its peers in recent years, implying the board would benefit from more effective oversight, of which an independent chair could promote.
Company voted on: Walgreens Boots Alliance

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

Voting highlights

Social voting activity by numbers

1x vote in favour of gender/racial pay gap reporting
We supported this proposal as we felt shareholders would benefit from better transparency on median pay gap disclosure.
Company voted on: Apple

1x vote in favour of reporting on the use of artificial intelligence
We supported this proposal as the company currently does not provide adequate level of disclosure on how it manages risks related to the use of artificial intelligence and a transparency report could alleviate shareholder concerns in this area.
Company voted on: Apple

Voting activity

Over the fourth quarter we voted at:

51

51 COMPANY MEETINGS

Over the quarter we voted on:

645

645 RESOLUTIONS

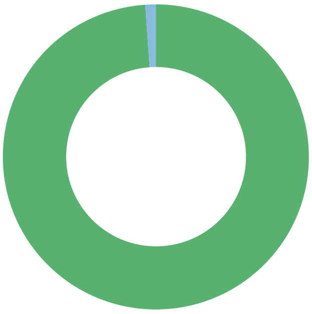
for X **11** resolutions we did not support management (this includes shareholder proposals).

We enabled clients to instruct votes at 11 meetings

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

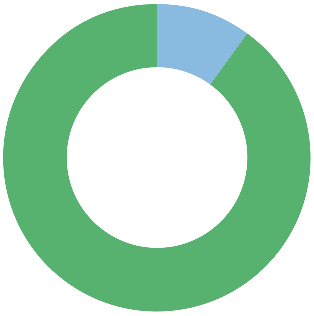
Voting activity

Management resolutions voted on in Q1 2024
(excluding shareholder proposals)



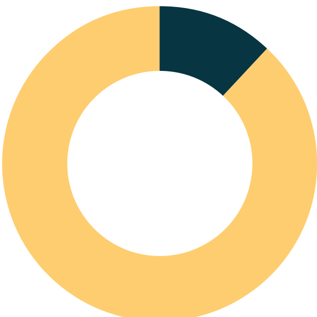
- With management recommendation
  99%
- Against management recommendation
  1%

Meetings with votes against management in Q1 2024
(including shareholder proposals)



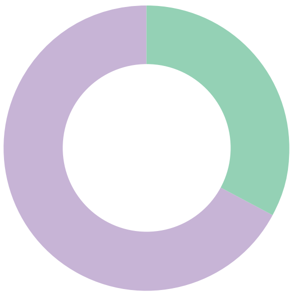
- With management recommendation
  90%
- Against management recommendation
  10%

Management resolutions voted against by topic in Q1 2024
(excluding shareholder proposals)



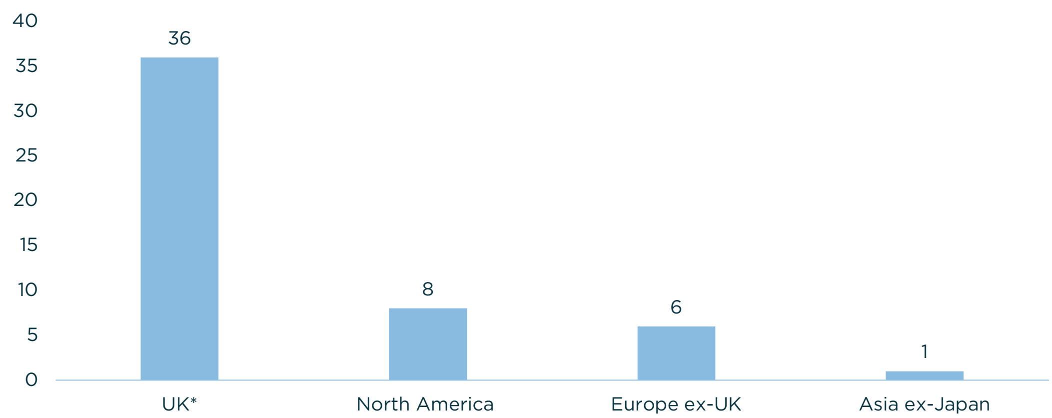
- Audit and accounts
  12%
- Board related
  88%

Shareholder proposals supported in Q1 2024



- Board related
  33%
- Shareholder rights/ company articles
  67%

Meetings voted in each geography in Q1 2024



* Includes the Crown Dependencies of Jersey and Guernsey

Engagement activity

Here, we outline examples of our engagement in the first three months 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

Thematic engagement – climate transition plans

Objective: We recommenced our ongoing thematic engagement on climate transition plans and disclosures with the largest emitters among our direct equity holdings. This systematic engagement process is conducted on a 24-month cycle. The first phase was very much engagement for information and this second iteration will look to assess progress against previously stated plans. We will engage with ten companies representing over 80% of direct equity Scope 1 and 2 emissions exposure within the centrally monitored discretionary holdings. We will reassess the quality of transitions plans and whether companies are taking (or not taking) appropriate measures to align with a future lower carbon economy.

Anglo American – Environment

Overall, the company presents a serious and credible transition plan with relatively clear medium and long-term aims. Anglo American describes one of the main goals of the transition plan as operational carbon neutrality by 2040, avoiding the term 'net zero' due to an unusual interpretation of the definition as meaning to account for historical emissions. This is not a conclusion that many others have come to, but from our reading does not necessarily take away from the ambition or level of detail within the plan as it is not currently over reliant on offsets which can be a common confusion around use of the term 'neutrality'. Anglo American has an 'ambition' to reduce Scope 3 emissions by 50% by 2040. Although ambition is soft wording, many peers do not have a target in this area, so a quantification of the proposed trajectory is welcome. Questions remain over how fugitive emissions from methane in coal mining will be successfully managed and at what point a material amount of machinery and haulage vehicles will be powered by lower-carbon technologies. These are processes that are underway and still within the proposed timelines. The reduction of Scope 3 emissions is largely reliant on the adoption of low-carbon steel making processes among clients, which if successful, also leaves the company managing the risks surrounding a potentially obsolete metallurgical coal business. More broadly, we also welcomed Anglo's transparency on industry trade associations membership and regular assessment of climate policy alignment with these organisations lobbying efforts.

Outcome: This was a useful benchmarking conversation. The company has a long way to go to meet its stated targets, but the level of ambition and inclusion of product use emissions targets is welcome. Progress towards targets over the next two years will provide a good indication of the likelihood of meeting medium term goals. We will monitor developments moving forward as part of our ongoing climate engagement program.

CRH - Environment

CRH added detail to its commitment to decarbonise. The Science Based Targets initiative (SBTi) approved, upgraded targets are an example of best practice in the industry group. Very few peers have set comprehensive targets that have an absolute reduction measure and include Scope 3 emissions. If CRH can significantly reduce emissions from cement manufacturing (which it is ahead of schedule to do) then this will be a much lower carbon company. CRH outlined levers it will aim to use to decarbonise activities through to 2030 (alternative kiln fuels, lower use of clinker within its cement etc.) It is not clear how CRH will meet decarbonisation targets beyond this as it will be heavily reliant on carbon capture and storage/usage technology. This is not an issue specific to CRH or even the cement industry, but it is a significant gap in longer term plans.

Outcome: This was a constructive conversation. Overall CRH has outlined robust, market leading targets and we will monitor progress towards interim targets moving forwards.

DS Smith - Environment

DS Smith may not rank among the world' largest emitters but it has set out ambitious medium and long-term decarbonisation targets. These goals include Scope 3 emissions, which make up most the total. The transition plan has been verified by the Science Based Target Initiative (SBTi) which adds to its ambition and credibility. The company has outlined the main operational levers to achieve operational decarbonisation: upgrading manufacturing equipment at paper mills, driving energy efficiency, and switching to renewable energy inputs. Although significant effort and capital expenditure will be needed to meet these goals, the direction of travel is clear. Less clear is how the company will be working to decarbonise Scope 3 emissions, particularly those found in its supply chain – beyond an apparently gentle supplier engagement approach, where strategic contractors are encouraged to set science-based emissions reduction targets. Given the importance of Scope 3 emissions in achieving the overall transition strategy, more detail on this would be welcome. That said, the importance of setting an ambitious SBTi approved plan should not be understated. It is an essential publicly available benchmark by which the company can be assessed and gives a strong signal of intent.

Outcome: This was a useful benchmarking conversation. The company has a long way to go to meet its stated targets, but the level of ambition and verification of the transition plan is welcome. Progress towards the targets over the next two years will provide a good indication of the likelihood of meeting medium term goals. We will monitor developments moving forward.

Linde - Environment

Linde is a carbon intensive company that is aware of the pressing need to reduce emissions and the benefits available in capturing the opportunities a lower carbon economy presents. It has set a medium-term target to reduce operational emissions which has been verified by the Science Based Target Initiative. Scope 2 emission reductions should progress as national energy grids continue to decarbonise, using a greater mix of renewable and low carbon energy. The company has demonstrated efforts to accelerate this process through pursuing renewable and low carbon power purchasing agreements. Significant reductions in Scope 1 emissions are contingent on technological advances in applying carbon capture to hydrogen production facilities (moving it from grey to lower carbon blue hydrogen) and eventually proving the viability of scalable green hydrogen. Supported by policy initiatives in the US, the company has promised significant investment in retrofitting existing facilities with carbon capture technology. Linde is active in early-stage green hydrogen projects (c. 80 worldwide) but are some distance from demonstrating scalable production volumes. In conclusion, relative to the sector, progress is encouraging and a shift to an absolute medium-term emissions reduction target is welcome. We expect to see the company release a Scope 3 emissions reduction target in 2025/2026. This would add to the comprehensiveness of an already detailed climate transition plan.

Outcome: Overall progress is encouraging, and we are comfortable with the company's stated ambitions and targets – despite technological headwinds related to the scalability of green hydrogen. The next few years will be critical in demonstrating whether this framework can be implemented successfully. We will monitor developments moving forward.

National Grid - Environment

National Grid has set out an ambitious plan to reduce Scope 1 and 2 emissions, most of which will take place by 2030. The company has made quantitative absolute reduction targets for Scope 3, but these are less ambitious and more reliant on general decarbonisation of the UK/US energy system. National Grid has been an early participant in the SBTi process – having received validation of the transition plan. Short-term targets are aligned with a SBTi 1.5 °C framework. This is an encouraging certification and is increasingly seen as a measure of a credible transition plan. One inconsistency and presumably a barrier to longer term net zero planning is the company's US power generation capacity and specifically an oil-fired power plant on Long Island. This is a non-operated asset but represents 45% of Scope 1 and 2 emissions. This follow up engagement was helpful in specifying that these facilities are unlikely to operate beyond 2040.

Outcome: This was a constructive engagement, and we appreciated the company's level of transparency. Overall, National Grid has been proactive in building a detailed, absolute reduction strategy – that has been externally verified by the SBTi. We will continue to monitor how US operations and legacy fossil-fuel generation affects the net zero strategy execution.

Rio Tinto - Environment

Rio Tinto has set ambitious, detailed plans for reducing Scope 1 and 2 emissions. The company reports on Scope 3 emissions but has not set overall Scope 3 targets. The transparency on disclosures is welcome. Difficulties faced on setting meaningful reductions targets in this area is noted, however, it was good to see the company set some specific near-term targets on reducing emissions among iron ore customers. Progress in decarbonising has not been as smooth as anticipated, with the company openly admitting that the 2025 aim to reduce operational emission by 15% is unlikely to be met. Early-stage levers in decarbonising include switching electricity generated or purchased to renewables in both aluminium manufacturing and mining operations. These efforts, particularly commissioning of renewable energy solutions in Australia, have taken longer than anticipated. The company is still confident in meeting its 2030 goal of reducing Scope 1 and 2 emissions by 50%. Most Scope 3 emissions comes from steelmaking practices of customers, particularly in China. The company has relatively little control over these practices or the energy mix in the grid providing power to the manufacturing sites. Even with these limitations, it is encouraging to see Rio is making an effort to partner with customers to optimise processes and introducing new technology, such as funding for electric arc furnaces (EAF) 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.

Outcome: Overall Rio Tinto has continued to demonstrate a relatively coherent transition plan, the execution of which will need to be challenged over time, with progress over the next few years critical to the success of the cornerstone 2030 targets.

Shell - Environment

From a climate transition perspective, this was a concerning update. Shell does have a relatively detailed plan for reducing Scope 1 and 2 emissions, which represents c.10% of total emissions. While Scope 3 emissions are included in 2050 net zero targets, absolute reduction targets have not been set, and the company has hinted that the net carbon intensity targets that are in place will need to be pared back.

This is driven by the commitments to maintain oil production levels and increase gas output through to 2030. Questions remain over carbon capture and storage (CCS) technology developments needed to meet current targets. Fundamentally, transitioning to a net zero economy involves rapid and radical decarbonisation on a sectoral and global level. It can be difficult to see how Shell's capital expenditure plans align with this steep downward trajectory. Shell will be spending $10-15bn over the next three years on low carbon capital expenditure, but this compares with the $40bn Shell will spend on oil and gas production in the same period. It is not clear how the company will be net zero by 2050, what milestones it will meet to be so, what low carbon opportunities will replace the revenues they currently receive from the fossil fuel dependent operations and whether it is investing enough now to generate these opportunities in the future.

Outcome: There are early indications that the company will need to water-down previously stated targets. More generally the current transition plan lacks clarity, and it is not clear how the company would navigate a more rapid energy transition scenario. We will wait to see what the final draft of the new plan looks like prior to the 2024 AGM and vote accordingly.

SSE - Environment

SSE's decarbonisation strategy is relatively straightforward, focusing on 1) developing renewable energy generation and transmission infrastructure, and 2) diverting and transitioning customers from gas to renewable energy sources. The company is progressing its renewable infrastructure build-out of large-scale wind farms and battery/energy storage projects and is on track to more than double its renewable energy generation capacity by 2027 (9 Gigawatt (GW) from 4 GW in 2022-23). The company has programmes to encourage consumers to switch their fuel supply from gas; and this includes commercial customers. Its approach to Scope 3 emissions is concentrated on a supplier Science-based Target (SBT) outreach target, which SSE achieved in 2022-23 (over 50% suppliers committed or set targets through the Science-Based Targets Initiative, SBTi). The other significant Scope 3 emissions sources are more challenging to address, including decarbonising heat, and reducing emissions from purchased goods.

A theme in our discussion was the importance in the near- and mid-term of so-called 'bridge fuels', energy sources which will fill the energy supply gap between renewable energy sources, fully replacing phased-out fossil fuel sources. The primary 'bridge fuel' is natural gas, which SSE is planning to phase-down steadily, only four natural-gas plants will remain operational beyond 2030 or replace with abated fuel sources under development i.e. carbon capture, utilisation and storage (CCUS) or hydrogen. On a related basis, the company has recently invested in natural gas-based hydrogen (referred to as blue hydrogen) which is likely to play a temporary, 'bridging' role as hydrogen becomes a scalable, lower-carbon energy source. Where its fossil fuel-based power generation infrastructure is reaching end-of-life (EOL), SSE is deploying other bridge fuels on a more temporary basis as 'sustainable stopgaps'. For instance, at a diesel-based generation plant in Ireland which reached EOL in 2022, SSE is using sustainability-certified hydrogenated vegetable oils (HVO). The company has thoroughly interrogated the supply chain accreditation of this fuel source and is satisfied that it meets its assurance requirements.

Building connections to the grid remains a key strategic limitation in the transition to renewable energy supply across the UK. The 2022-2023 launch of Ofgem's Accelerated Strategic Transmission Investment (ASTI) framework of critical transmission development projects is a 'game changer' for SSE, which has nine ASTI projects being developed by 2031 for £17 billion. The streamlined permitting and funding process of the ASTI framework will significantly enhance the national electricity grid for transmission operators, effectively unlocking much of the renewable energy supply which has been stuck in planning or limited by a lack of available grid connections to deliver and distribute new energy supplies.

SSE described its recent progress in developing hydrogen fuel transmission and storage infrastructure as 'two steps forward, one step back.' The company has continued to develop its CCUS projects at Keadby-3 (part of the East Coast Cluster) and Peterhead (northern Scotland). However, these 'industrial clusters' have become complicated and competitive with various stakeholders competing for limited government permitting and funding support. Unfortunately, Keadby-3 was not included in the first priority group for development funding, but the Humber project remains on-track for permitting fulfilment by 2030 at latest. The only other unaddressed concern SSE has regarding CCUS capacity is the need for a market mechanism to finance sustained carbon storage longer-term.

Outcome: This is our first conversation with SSE, which did not feature in our 2021 round of this engagement. Overall, SSE appears to have earned its reputation within its sector as a leader in sustainability and evidenced both longevity and progressive action in decarbonising its assets. The bulk of its existing Scope 1&2 emissions come from the power generation side of its business, which it is working extensively to reduce as part of its 2030 decarbonisation targets. SSE continues to commit considerable resources towards developing its renewable energy generation, while simultaneously planning the staged phase-out of unabated natural gas from its energy mix. One of the most significant challenges the business faces on achieving its targets appears to be government support for decarbonising the grid, both in building out transmission systems and fostering the development of future fuels (e.g. hydrogen). It is making considerable progress on all fronts, having secured accelerated development support for nine large-scale transmission projects, built out its renewable energy infrastructure in line with targets, and continuing its hydrogen energy infrastructure development in both the Humber and Scotland industrial clusters.

Thematic engagement – Net Zero Asset Managers Initiative (NZAM)

Objective: This quarter, we finished The NZAM thematic engagement that started in September 2023. During this engagement have engaged with 20 of the third-party managers with NZAM targets where we have our largest third-party fund holdings. During the first quarter of 2024, we will publish a report that outlines the conclusions drawn from this engagement program. These engagements aim to better understand how different managers are approaching their Net Zero targets, including their chosen methodologies and the process behind selecting the size of committed NZAM aligned assets.

Third party manager – Asian equities

The firm has set comprehensive net zero alignment targets encompassing its entire AuM and uses temperature rating alignment, an independent and rigorous alignment methodology designed and endorsed by key climate authorities, rather than using a commercially available methodology. Given the boutique nature of the firm, it was a straightforward process to align its products to a firm-wide net zero strategy. It was important to the firm that it be fully committed; it does not consider a piecemeal approach to be effective or authentic to the firm's ultimate aims to protect clients' investments from climate risk-related impacts. As a result, its NZAM targets are inclusive of Scope 1, 2 and 3, and all asset classes except cash assets (for which no net zero alignment methodology exists currently). These targets are inclusive of all financed emissions, placing the firm very much in the climate progressive camp relative to peers. The firm has further collaborated with the Carbon Trust to calculate its holdings' temperature ratings, providing another layer of assurance to its net zero strategy.

There are several organisational advantages the firm enjoys which make setting such stringent targets comparatively easy. The firm's investment philosophy is focused on equities and typically prohibits investments in many carbon-intensive industries, removing many of those which will be more challenging to align to net zero – e.g., oil, coal, steel, cement. Its client base also appears more receptive to climate objectives in their investments, with over half of the firms' clients being either UK- or Europe-based. It also has very small and aligned investment teams, making it simpler to elicit support from these managers and avoid the friction larger firms encounter when instituting top-down policies.

The firm's climate engagement strategy is a clearly structured ladder, beginning with letters to the companies it invests in and escalating to meetings with company management, votes against management, and potential divestment. All engagement is driven by fund managers, with the ESG team available to provide specialist research or resources as needed. The firm has an 'ESG Red Line Voting Policy' which specifies six criteria which will result in the firm voting against a company. The firm clarified these criteria supersede any other positive voting recommendations for a company, illustrating the significant weight climate-linked performance has within the firm's engagement framework. It was able to evidence the apparent success of this approach with several of its holdings, both cases where its engagement yielded the changes advocated for, and where the firm reduced the size of its holding following several years of unsuccessful engagement. The firm makes an effort to remain cognisant of the different market conditions companies are operating under and is sympathetic to the context in which it sets its climate expectations. For example, where 'asks' are beyond the national disclosure standards of the country a company is operating in, it tries to be more flexible in educating and working constructively towards resolution (e.g. particularly in its emerging markets).

The firm stated it was confident in achieving its net zero targets, despite some wider challenges the industry is facing. The absence of common, accessible net zero alignment methodology makes comparison of net zero commitments very challenging and discourages collaboration between industry actors facing similar challenges. The firm has engaged with Transition Pathway Initiative (TPI) on improving the availability and breadth of open-source alignment data and methodologies. More specific to the firm's investments, it noted the divergent national decarbonisation trajectories between the global west and other emerging markets, particularly in Asia (e.g. Indonesia's net zero target of 2060, India 2070), and the impact this has where the bulk of available industry guidance is predicated on national net zero policies targeting 2050.

Outcome: The firm's net zero strategy is comprehensive and progressive, committing close to 100% of its AuM to alignment using a rigorous third party-accredited methodology. It has taken steps further 'above and beyond' many peers in setting its targets, however the firm's size, carbon-light investment universe, and European-tilted client base are noteworthy organisational advantages. The clear, investment team-driven engagement approach and climate-specific voting red lines make evident the firm takes achieving its climate targets seriously.

Third party manager – multi-asset

The firm has set relatively modest but effective fund-level targets through NZAM, with a focus on fund manager ownership and firmly science-based decarbonisation trajectories. Its targets are to reduce the financed emissions intensity of equity and corporate debt assets by 50% by 2030 for committed portfolios (including Scope 1 & 2 emissions only), which comprise just over 7% of the firm's assets under management (AuM) (~$43.5b). Notably, the firm has excluded Scope 3 emissions entirely from its analysis and targets, out of data quality concerns, which is unusual relative to peers.

Each portfolio is performing against two levels of net zero targets:

1) all portfolios have a target of 70% of its financed emissions need to be invested in companies that are

classified as aligned or have been directly engaged with to discuss the transition planning in place.;

2) each portfolio has a bespoke decarbonisation trajectory.

All trajectories are aligned with a 50% reduction in emissions by 2030, in line with a 1.5°C decarbonisation trajectory as per Intergovernmental Panel on Climate Change (IPCC) guidance. The firm has chosen to set its net zero alignment targets at portfolio-level, meaning a portfolio is either entirely committed to net zero by 2050, or it is excluded. This means investment teams have direct control over and responsibility for their portfolio's decarbonisation, including all engagement activities. The firm includes clear criteria in its voting policies around climate targets, which outline specific sector-appropriate expectations on climate targets, emissions disclosure, and climate strategy.

Looking ahead, however, the firm will likely struggle to overcome the significant split in client demand for climate objectives in its two-thirds American/ one-third European client base. It is unclear how it plans to address the forthcoming plateau in its net zero-committed assets.

Outcome: Overall, the firm has taken a pragmatic approach in setting its modest preliminary NZAM targets, focusing on investment team-driven ownership of portfolio-specific decarbonisation targets and related engagement. It has taken a similar approach to other large asset managers by including asset classes with straight-forward, agreed methodologies in place (e.g. equities, corporate debt, real estate) and adopting a tailored version of Net Zero Investment Framework (NZIF) for its alignment criteria. Although its fund-manager-driven approach appears to have more robust governance in place than asset class-based commitments, this highlights the challenges of contrasting client demand for climate objectives in investment. The firm is likely to struggle to grow its net zero-committed assets in the face of its majority American client base and does not appear to have a strategy to overcome this. Despite the relatively robust nature of the assets committed currently, in the longer term it is unclear how the firm will grow its NZAM commitment given these challenges.

Third party manager – multi-asset

The federal segmented structure of the firm as an investment house has resulted in a complicated and conservative approach to the firm's net zero target. The firm has tried to mirror this federated structure in its approach to implementing net zero targets, with each investment team taking ownership of any net zero target linked to their products. However, in conversation it appears the firm's stewardship team owns and drives progress on its net zero commitments much more so than the fund managers (FMs).

The firm broadly has a conservative view of climate risk's relevance to investment, framing climate as a contributing factor in systemic market instability. Its NZAM targets are therefore limited, consisting entirely of funds with explicit net zero alignment objectives (<5% AuM). The firm expects this to change as it has introduced net zero assessment prototypes, to encourage its investment teams to consider climate targets. The firm has adopted portfolio alignment and decarbonisation (emissions intensity-based) targets which vary across each fund. The firm does not have a clear strategy to increase the scope of its commitment at this stage.

Despite the engagement focus of its NZAM targets, the firm does not place special emphasis on or evidence capacity for effective engagement. Climate-related engagement appears to be primarily led by the firm's stewardship team, which maintains its own prioritisation and materiality matrix based on a regular inventory of the firm's climate targets. The firm does engage with its passive/index issuers, unlike some peers, however this sits solely with the stewardship team – again, reflecting the clear segregation between FMs and stewardship team regarding responsibility for engagements. This segregation between the stewardship team and the FMs suggests a level of disconnect between the net zero alignment targets set by the firm and its teams capable of delivering them which is not usual within a firm with this organisational structure.

Outcome: The firm's conservative stance is clear from both the scale and relative progression of its NZAM commitment: it has committed only its easiest-to-align (arguably already aligned or aligning) assets and is still developing as-yet-undefined processes for implementing and achieving its targets. The firm considers its federated approach to climate targets more appropriate to its investment style, given that investment teams own many of the critical tools needed for portfolio-level target alignment (i.e., asset allocation, voting decisions). However, there appears to be an implementation gap between the firm's engagement based NZAM targets and its engagement practices, currently almost entirely led by its stewardship team rather than its FMs. For its targets to be considered credible, it will need to evidence considerable improvements in both FM-led engagement and expanding the scope of its net zero committed assets.

Third party manager – strategy

The firm's climate stewardship strategy comprises a focus list of engagement targets based on financed emissions, which evaluates companies' progress against four climate expectations set by the firm:

- Commit to decarbonise business models toward net zero by mid-century.
- Set long, medium and short-term targets covering Scope 1, 2 and relevant Scope 3 emissions.
- Publish a detailed transition plan explaining how they will deliver that transition and meet those targets; and
- Publish their performance and progress annually.

The resulting list is cross-referenced against external priority engagement lists (e.g. Climate Action 100+), and priority-ranked based on materiality of the firm's holding and company accessibility. The firm's investment desks are consulted on the drafted list to discuss priorities and agree the targeted aims.

Climate-related engagements are a shared responsibility between the firm's stewardship team and its fund managers and research analysts. The firm aims to consistently include fund managers and analysts in relevant engagements, even where the engagement is initiated by the stewardship team. It has a clear 'menu' of escalation measures it deploys as and where appropriate across a typical engagement timeline of 18 months to three years, ranging from participation in collaborative engagements to airing its concerns publicly. The firm has a unified, consensus-based voting approach.

The firm seems to have an evolving top-down approach to its net zero targets. Responsibility for targets currently sits with the executive team, but the firm plans to shift ownership of targets towards the investment desks. It has been building data capabilities within the firm to comprehensively integrate climate into all component steps within its investment decision process. Investment desks will increasingly be expected to consider issuing companies' emissions, temperature score and discrete industry-specific climate risks and opportunities when making investment decisions. Ownership of the firm's net zero targets will continue to sit with the executive management team – where it is codified in executive remuneration – while fund managers will have the day-to-day responsibility for implementation of the engagement driving progress on targets. The firm's stewardship team's role is primarily one of monitoring for progress.

Outcome: The firm has taken an eminently reasonable and comparatively progressive approach to setting net zero targets for its assets. Its use of a more challenging methodology for its net zero target, temperature alignment, has become a common hallmark of firms with more progressive climate strategies. This is reinforced by the inclusion of Scope 3 emissions in its targets (the 2040 target), and the firm's explicit and detailed Climate Transition Action Plan (CTAP) outlining its overarching climate strategy. The firm seems to have devolved/spread accountability for its climate targets across both its executive teams and its fund managers.

Thematic engagement – withdrawal of several US investment managers from Climate Action 100+ (CA100+)

Climate Action 100+ (CA100+) is an investor-led initiative launched in 2017 to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The second phase of the initiative, announced in June 2023, aims to scale up active ownership and shift the focus from disclosure to implementation of climate transition plans.

CA100+ is managed by five investor networks which all have a sustainability related objective. CA100+ has significant legal resources through the investor networks and the proposed changes to the second phase of the collaborative initiative had been discussed and evaluated. Although CA100+ could not reveal details of specific conversations, it confirmed that extensive consultations had been conducted, and that this included numerous discussions with several of the US managers.

Climate 100+ has two requirements to become members that have remained unchanged since the creation of the initiative.

1) be a member of, or signatory to, at least one of the investor networks

2) be able to participate in engagements with focus companies.

Phase two of the collaborative engagement framework introduces optional ways for investors to contribute to the initiative, this includes:

- asking companies to disclose and implement robust transition plans and
- to work with a wider range of stakeholders to address the sectoral barriers to the net zero transition.

Over the last couple of months, several US asset managers have withdrawn from the CA 100+ initiative. We were disappointed by this development, as we are part of the CA 100+ and are currently leading engagements with National Grid. The timing of the stampede of announcements on the back of one firm announcing its exit, has also raised our scepticism. Although CA100+ could not reveal details of specific conversations, it confirmed that extensive consultations had been conducted, and that this included numerous discussions with several of the US managers.

We organised an engagement with the US firms which had recently announced their withdrawal from CA100+.

Objective: to understand fully the rationale of the firms' withdrawals and how this affects their climate strategy going forward. Additionally, we wanted to speak to CA100+ to get its perspective on phase two of its work and this wave of exits.

Manager 1 - Environment

The firm announced changes to its CA100+ membership simultaneous to other large US-based asset managers withdrawing from the initiative. The firm has separated its approach to collaborative engagements into its US and non-US operations and transferred its CA100+ membership to the latter.

We queried how this organisational split is consistent with the firm's overall approach to climate risk. The firm stated the organisational split aims to better serve its global client base, as the two branches reflect variation in local regulation and views of fiduciary duty. The firm's policy is a 'shared thread' which applies to both organisations; this includes the approach to managing climate risk, which holds that climate risk is a material fiduciary risk. After reiterating that its climate stewardship approach remains unchanged, the firm then cited a forthcoming addition to this stewardship strategy, a new decarbonisation-focused engagement policy.

When asked directly about the decision to modify its participation in CA100+, the firm stated this was due to a legal difference of interpretation of the phase two objectives. The firm considers the phase two commitment to be inconsistent with the US-based view of fiduciary duty and communicated this to CA100+. The firm views this decision as a strategic move, as this new arrangement removes the legal context which restricted its activities in CA100+. It firmly dismissed the suggestion that its decision was swayed by the sustained anti-ESG political pressure in the US, despite many prominent anti-ESG advocates welcoming this move.

Outcome: Although the firm presented a plausible rationale for amending its participation in CA100+, the circumstances and details of its announcement weaken its overall credibility on climate. The firm's rationale is undermined is undermined by its poor communications management and the as-yet unannounced decarbonisation engagement policy. Cynically one might wonder whether the poor communication was intentional. By publicly offering limited context on the decision, critics can view this as a 'victory' while the firm privately frames this to clients as continued improvement of its climate approach. It remains to be seen if this approach achieves this dual intent: will apparently acceding to anti-ESG proponents reduce the politicised pressure on the firm, or encourage further scrutiny? The firm's forthcoming decarbonisation-specific engagement policy also raises questions around whether its climate approach will be uniform globally – or if this policy is intended to balance against a broader watering-down of climate approach for US-based clients.

Manager 2 - Environment

The firm framed its withdrawal from the CA100+ initiative as reflective of divergent approaches on what pragmatic climate engagement looks like. The advent of phase two was certainly the instigating factor driving the timing of this decision. It offered several reasons justifying its departure from the initiative, including:

- The focus of phase two was misdirected, with insufficient engagement attention on asset owners. It considers asset owners a more critical target for achieving economic and behavioural shifts of significance for climate action.
- Where the firm has made progress in climate engagements, CA100+ membership was not a deciding factor. Its CA100+ engagements to date have been primarily one-on-one engagements anyway, so this has not materially differed from the firm's own engagement approach.
- The resource and reporting requirements included in phase two would be onerous; internal review of these prompted the decision for the firm to withdraw.
- The firm generally considered the 'juice not worth the squeeze' – as in, the costs of its CA100+

membership outweighed the benefits.

- Although the firm did not engage with CA100+ organisers to express its concerns, it specifically noted its objection to working with one of the managing partner organisations of CA100+. The firm acknowledged this compromised its ability to work with CA100+ more broadly.

The firm's approach to climate engagement seems to be shaped by growing scepticism towards climate net zero targets, and a desire to link climate engagement with client demand. The firm explicitly cited the need for a 'sense check' on net zero goals to take place in 2025, considering this withdrawal to be indicative of the larger reckoning to come. Like other firms, it evidenced its evolving in-house engagement capabilities since joining the initiative, particularly its more nuanced approach in the anti-ESG context of some US markets. The firm's focus is now on responding to client requests for specific climate engagements with companies; it considers this approach to be much more effective in realising progress in climate objectives. It also highlighted the significance of 'investor sovereignty', where investor preferences (e.g. for a climate-informed portfolio) must determine the firm's climate engagement activities, not the reverse.

Notably, the firm claimed this decision was not influenced by the anti-ESG movement in the US.

Outcome: The firm provided numerous reasons for its withdrawal from CA100+, broadly coalescing around scepticism towards the initiative's effectiveness in achieving 'real world' progress on climate objectives. However, the firm's involvement in the initiative to date appears to have been extremely limited – comprising only direct (one-on-one) engagements, and a stated reluctance to communicate with organisers its concerns. The firm's points on focusing more engagement attention on asset owners and using client pressure to steer issuer engagements are interesting.

Manager 3 - Environment

The firm framed its decision to withdraw from the CA100+ initiative as evidence of the firm's improved stewardship capabilities and reduced value of participating in the collaborative initiative. The firm's stewardship capabilities have significantly improved since it joined CA100+ in 2020, with the number of engagements growing from 500 to 1,300 and the stewardship team expanding to 40 individuals. The firm believes that its in-house stewardship resources are more efficient in achieving the outcomes it sets for its engagements.

The firm expressed dismay at how its withdrawal was depicted in the press and blamed press coverage for confusing its intention for withdrawing. The firm had prior discussions with CA100+ and the initiative was aware of its intention to withdraw. It believes it creates better outcomes for its clients by engaging directly with companies. However, the volume of client engagement requests (such as this) suggests the firm's view is somewhat misplaced.

Outcome: Its justifications of enhanced stewardship resources and better company access in direct engagement were not entirely convincing. Given the firm's AuM and influence, its claim it previously lacked investee company access is surprising, and its stewardship resources remain limited relatively to the firm's size. The firm's choice to frame this decision as 'business as usual' is unsurprising, however it has underestimated the impact of the decision on its clients and the wider industry. Although it has assured us that the withdrawal of CA100+ is not in any way indicative of a change in how the firm approaches climate risk, we will continue to scrutinise of the firm's climate commitments.

Manager 4 - Environment

The firm joined a number of large US-based asset managers in leaving the Climate Action 100+ collaboration in mid-February 2024. The firm made its announcement on the back of those from other large asset managers, stating that the initiative is 'not aligned with its approach to sustainability.' We wanted to better understand the specific reasons for the firm's withdrawal.

The firm was explicit that its withdrawal being concurrent with similar peers was unintentional, and ultimately the announcement was made following press inquiries following other withdrawals. The firm had informed its asset owner parent company of its intended withdrawal but had not informed CA100+ of its intention at the time it broke the news. The firm stated the following reasons for its withdrawal:

- The firm considered the objectives and targets of the CA100+ engagements to be too broad ranging in purpose. It stated its preference to target individual topics, rather than multiple. The example provided was of its internal engagement on methane abatement; however, it is noted that this is not an example of an industry collaborative engagement.
- The firm did not consider the CA100+ engagements to align with 'what issuers are more likely to be responsive to'. It did not elaborate on this, although it alluded to the strength of its pre-existing relationships driving any gains from its collaborative engagement targets.
- The firm stated CA100+ was not as concentrated on concerns specifically relevant to fixed income (FI) investors as it would have liked. It did not elaborate on how FI investors' interests diverge from those of equity investors.
- The firm also considered its activity in CA100+ to be declining, having wound down a collaborative engagement it undertook within the initiative over the last few years. It reiterated the firm's preference for leadership roles and active participation in collaborations.

Outcome: The firm's reiterated that its withdrawal from the group was not driven by reputational risk concerns and did not reflect a fundamental change in the firm's view of climate risk. The firm seemed confident that clients' reaction was not negative, and that they would be 'understanding' and view this decision as 'part of normal business.' The firm viewed our response – that we did not see this as a positive development – as unexpected. We will monitor the firm's own climate-related engagement approach over the coming months.

Manager 5 - Environment

This firm presented a much clearer, more cogent reasoning behind its decision to withdraw from the CA100+ collaborative engagement initiative than many of its peers. Like other US-based institutional asset managers, it had optics-based qualms on first joining the initiative, as it was keen to avoid the perception of collusion. It communicated these clearly with CA100+ organisers, and the firm was comfortable undertaking several engagements through the initiative in 2020-2021.

When asked the reasons for the firm's withdrawal, it framed this as a misalignment between the stewardship aims of CA100+ and the firm's stewardship strategy driven by the phase two commitment of CA100+. Although the firm considers the initiative well-run and reputable, it viewed the renewed focus on decarbonisation targets as an overly prescriptive engagement objective. It admitted that the anti-ESG political pressure in the US influenced this decision, as it considered progressive climate engagement to be increasingly risky. Ultimately, the perceived risks began to outweigh the rewards for the firm, particularly given it did not benefit from company access through its CA100+ membership as this has not been an issue for the firm (this is a key benefit for many smaller firms).

The firm does not consider this withdrawal to be indicative of any material change in its climate stewardship approach. It considers its existing climate stewardship programme to be robust. In 2023 it engaged with 110 out of the 170 CA100+ target companies through its own direct engagement process, and it has a strong record in consistent voting on climate-related resolutions (although it 'does not shout about it'). The firm maintained that it views climate risk as a material financial risk in investments and reiterated that none of its climate stewardship policies or engagement topics are changing. The firm described its climate approach in the future as aligned in direction (to CA100+ objectives), with a slight difference in pace (and perhaps, public communication).

The firm did admit it would have been a courtesy to communicate this decision to clients before it became public knowledge, and that it could have timed this better (its climate stewardship materials are being republished in the coming weeks as part of a routine review).

Outcome: The firm was much franker in attributing its decision to withdraw from CA100+ to a perceived divergence in the engagement approach and objectives of CA100+ with the advent of phase two. In their words, this decision 'isn't a victory, it's a business decision.' In contrast to other US-based peers, it admitted the role that anti-ESG politicised pressure has played in it evaluating the relative risks of remaining associated with a progressive climate-centric initiative. Although we do not support this decision, the transparency of the firm 'owning' the decision is welcome. We look forward to reviewing the firm's renewed climate stewardship materials in the coming months and will remain vigilant for any further signals of climate 'back-sliding'.

Climate Action100+ (CA100+) - Environment

Climate Action 100+ (CA100+) is an investor-led initiative launched in 2017 to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The second phase of the initiative, announced in June 2023, aims to scale up active ownership and shift the focus from disclosure to implementation of climate transition plans. However, several US asset managers have withdrawn from the initiative, citing that not all their clients are looking for sustainable objectives and that decarbonisation cannot be an objective in of itself.

CA100+ is managed by five investor networks which all have a sustainability related objective. CA100+ has significant legal resources through the investor networks and the proposed changes to the second phase of the collaborative initiative had been discussed and evaluated. Although CA100+ could not reveal details of specific conversations, it confirmed that extensive consultations had been conducted, and that this included numerous discussions with several of the US managers.

CA100+ clarified that the new expectations were encouraged but ultimately optional. This challenges the strength of some arguments we have heard from the US investors, indicating that the new requirements of phase two did not legally allow them to remain members.

Concerns had been raised by some US managers regarding US regulations focused on 'shareholders acting in concert' which limits the way in which investors can collaborate. Other large investors have also used this as an excuse for their withdrawal. However, this is not a new issue and is not specific to phase two of the engagement framework. CA100+ was aware of this, and in order to accommodate this perceived issue, members are able to join as an 'individual engager'. The 'individual engager' category allows investors to join as members and engage focus companies on the goals of CA100+ individually and without participating in meetings that include other signatories.

Outcome: From our perspective phase two offers enough flexibility for investors to remain members. We believe that even though publicly stated rationales fail to mention it, changes in the socio-political dynamic in the US have strongly influenced the recent wave of withdrawals.

Thematic engagement – deforestation

Objective: In 2024 Quilter Cheviot launched a thematic engagement with monitored investee companies most exposed to deforestation linked commodity use, to better understand how they are managing these risks and preparing for the upcoming regulatory changes. Demonstrating strong management of dependencies and impacts related to natural capital and biodiversity is a growing focus for investors and regulators alike. Regulators are recommending that investors disclose their exposure to such risks in a variety of formats from the initial Taskforce for Nature-related Financial Disclosures to UK Stewardship Code submissions. Ending deforestation is an important aim for investors and companies looking to better manage the risks associated with nature loss and is also a key process in achieving global aims to reach net zero CO2e emissions by 2050. Policy makers are beginning to scrutinise these practices and the rapidly changing regulatory environment is best represented by a suite of policies being brought forward by the European Union to eliminate deforestation and forest degradation[1]. The most notable piece of legislation is the Regulation on Deforestation-free Products (EUDR) which requires companies to eliminate deforestation and forest degradation from their supply chains and operations starting in 2024. The rules add a layer of corporate disclosure on deforestation impacts and mitigation plans.

Adidas - Environment

Adidas is not as exposed to the articles of EUDR as some companies included in this thematic engagement. The company uses three main high-risk deforestation commodity inputs: leather, rubber and timber. Timber is used in product packaging and is mostly sourced from suppliers in low-risk geographies which provide Forest Stewardship Council (FSC) certification. Only a small portion of Adidas's rubber inputs fall under the articles of EUDR (those used in goalkeeper gloves) and the company is confident all of this will be appropriately certified by the end of 2024. Around 30% of the leather used in Adidas products is sourced from South America which will need to be verified as deforestation free, other leather used is produced in the US.

Despite this relatively small footprint, the company is aiming to implement a deforestation and raw material traceability strategy that goes beyond EUDR. This starts with its 2030 deforestation free leather sourcing commitment. While suppliers are currently certified by the Leather Working Group, to achieve the 2030 target, Adidas will follow a two-phase roadmap. The first phase encompasses mapping the leather supply chain beyond the tannery to the origin of the hide at the slaughterhouse. This additional transparency will allow a risk assessment and, in a second phase, lead to more specific requirements for the earlier production stages to ensure that the leather sourced is not linked to deforestation.

There is a notable absence in satellite tracking of deforestation that we have seen as consumer goods companies, but Adidas is exploring its use as part of its participation in the first stage of the COTI Initiative (Certification of Origin and Traceability Implementation Initiative), which aims to enable traceability for social and environmental compliance from farming to slaughterhouse, including indirect farming systems in the state of Pará, Brazil.

1 The Regulation on Deforestation-free Products (EUDR), Corporate Sustainability Reporting Directive (CSRD), and Corporate Sustainability Due Diligence Directive (CSDDD) are in the process of being finalised.

A target will be brought in for rubber in due course, but the industry is far more fragmented and does not appear to have the same level of pre-existing networks or certification standards. The company is working with the FSC to establish an appropriate certification scheme and platform for smallholders to register output as deforestation free. In building out its forest risk strategy the company aims to follow the Science Based Targets Network (SBTN) and similar standards to identify the first concrete actions to be taken across the entire value chain. This begins with mapping the supply chain beyond primary suppliers and setting-time bound commitments for a deforestation free supply chain, replicating targets set for leather sourcing.

Outcome: This is a good start for the company, and it is exploring some of the most advanced tools and best practice partners to implement a strategy beyond certification – to full supply chain traceability. We are comfortable that Adidas will meet its limited EUDR requirements but are encouraged by the commitment to implementing an enhanced approach. We will monitor development in how this is executed and when time-based deforestation targets for all rubber and timber use are brought into place.

LVMH - Environment

LVMH is a decentralised group umbrella for 75 underlying boutiques (Maisons) and six varied areas of activity from spirits to leather goods. The company's deforestation-free strategy aims to provide a framework of guidance and standards for Maisons to follow, but in reality, many use the freedom to accelerate past these targets. This fragmentation can make it difficult to understand the core processes being used to achieve the group's 2025 deforestation free supply chain target. The company provides many specific case studies on best, even leading practices, like Louis Vuitton's project to build a more direct relationship with cattle farmers in France with the end goal of providing full leather traceability information to customers. At a group level LVMH supports a number preservation and reforestation projects from Australia to the Amazon basin.

For LVMH as a group, the concentration of deforestation risk lies in leather and wood derivative inputs. Although 70-80% of raw materials used are sourced from lower risk European countries, the group aims to complete certification of all strategic raw materials by 2026. In higher risk sourcing geographies LVMH appears to rely on certification systems and, for wood, on the ground NGO partnerships. It has used satellite monitoring but does not seem to use this highly effective tool as comprehensively as other companies we have engaged. Many certification systems do not verify the full traceability of supply chains, only key mid points such as tanneries. Without a wider array of monitoring tools, it is difficult to see how deforestation risk or activity can be traced beyond mid-tier suppliers. That said, the company has set the ambitious 2030 target that all strategic supply chains should be fully traceable from raw material to finished products, demonstrated through a dedicated traceability system made available to customers. The group is planning to execute this via a tool using blockchain technology.

The company aims to build scientifically rigorous goals, based on the Science Based Targets for Nature framework. In 2022, the company quantified the potential deforestation intensity of its supply chains for three key materials; it amounts to 70 hectares per year (including animal feed). By calculating this intensity, the group is able to establish priorities for action and measure the progress made. We have seen few examples of companies attempting to quantify their impact on nature and we welcome the pioneering nature of this scienced-based, comparable approach.

Outcome: Overall, we are comfortable that LVMH is better prepared than many European companies to mitigate the regulatory risks brought by EUDR. While the primary focus on certification processes may lead to an incomplete picture of the deforestation risk in non-European supply chains, the development of block-chain based traceability tools should enhanced transparency. We will monitor progress towards targets in this area.

Nestlé - Environment

Nestlé's vast global supply chain holds a high level of deforestation risk. Nestlé sources commodities in most markets where deforestation is common, notably palm oil in Southeast Asia, soya in South America and cocoa in West Africa. The company has set a cross commodity target to be deforestation-free by 2025. Nestlé began this process by establishing a rigorous palm oil verification process, heavily dependent on the use of satellite monitoring and on-the-ground partnership with local non-government organisations (NGOs). Nestlé's pioneering use of satellite technology has significantly improved efforts to monitor deforestation activity. For the most part, the company looks on course to meet its deforestation-free targets, but challenges remain in commodities such as cocoa. Cocoa does not lend itself well to satellite monitoring and the fragmented nature of the market has encouraged the company to try to establish a more segregated supply chain, through its 'Cocoa Plan'. The plan is currently significantly behind where it needs to be to verify cocoa inputs as deforestation free for the purposes of EUDR and internal targets. That said, Nestlé has invested significant resources in this area to accelerate verification and broader sustainability action.

It is important to highlight the extreme complexity involved in monitoring global commodity supply chains. There will be some limits on the transparency a manufacturing company can provide. As things stand, most modern commodity chains are not segregated but are infused with armies of smallholders, cooperatives and aggregators that can make it extremely difficult to trace the origins of every drop of palm oil (or other unit of input). For example, Nestlé palm oil supply chain has 15 layers of suppliers, the company manages to trace three or four layers of this chain. The EU Deforestation Regulation aims to implement a regime of high-quality due diligence and risk assessment for any commodity derived inputs entering Europe.

Outcome: On the basis of our engagement, we are comfortable that Nestlé is well prepared for the upcoming legislative changes and has a robust enough process to mitigate regulatory risks involved. Cocoa is an example of a particular input that requires further verification but is receiving additional attention from the company and we will monitor progress towards targets in this area.

Unilever - Environment

Most of the company's deforestation risk sits in its palm oil supply chain, where it purchases around 2% of global output, in large part from Southeast Asia. Other forest risk commodities include soy and wood products, but these are mostly sourced from lower risk geographies in Europe and USA. As part of the efforts to achieve the 2023 deforestation free target, the company monitors and manages palm oil deforestation risk using several approaches. Roundtable on Sustainable Pam Oil (RSPO) or equivalent certification standards cover most palm oil suppliers, but Unilever is also aware of the limitations to these standards as they have been slow to create systemic change and often ignore the aggregation of commodities from small hold farmers upstream in the supply chain. Assessed across a range of metrics the company states that 97.5% of relevant commodities can now be classed as deforestation-free, using either certification or originating from a low-risk geography.

Unilever has developed an in-house satellite monitoring capability in partnership with a number of other companies and NGOs. This monitoring system is used in geographies where high-risk soy and palm oil is sourced. Through these partnerships the company has access to planted area maps, forest and carbon stock areas as well as critical biodiversity layers. Once alerts are received, Unilever will contact on the ground partners (like such as Indonesia's Forest Management Unit) to verify deforestation has occurred. A process of engagement with producers will then begin. The company is aiming to improve traceability by increasing the volume of palm oil sourced directly from farmers. Unilever has invested significant resources (around US$360 million) in processing facilities in northern Indonesia to refine the direct sourced palm oil and related products.

The EU Deforestation Regulation aims to implement a regime of high-quality due diligence and risk assessment for any commodity derived inputs entering Europe. Unilever is confident that its approach is among consumer group company best practice, but still believes it will be difficult to guarantee zero deforestation risk for all commodity inputs unless there is some flexibility in the way the regulation is implemented. On their initial reading Unilever also has concerns that there is an asymmetric focus placed on raw commodities brought into the EU trading area rather than manufactured products. An unintended consequence that could lead to companies moving manufacturing operations outside of the EU and imported finished products. Whether this comes to pass will again be dependent on the finer details of implementation.

Outcome: Overall, we are comfortable that Unilever is well prepared for the upcoming legislative changes and has a robust enough process to mitigate the regulatory risks involved. The company admits that there will be challenges involved in complying to the letter of the law and we will monitor progress towards targets in this area. Despite this, the resources committed to the forest risk strategy and efforts to improve traceability by sourcing more directly from farmers, positions Unilever well to comply.

Social

Thematic engagement – health and safety

Objective: In 2024 we launched an engagement on health and safety practices with investee companies in high-risk industry groups. The American Federation of Labor and Congress of Labor Organizations (IAFL-CIO) is an American based organisation representing 56 national and international unions. It has produced a 2023 report stating that transportation and construction (including housebuilders) were two of the five industries with the highest fatality and work-related injury rates. We have selected material holdings within these groups to engage with to better understand their approach to health and safety processes. This is an engagement for information and the primary outcome is to understand how investee companies are managing and potentially mitigating these risks, as well as using the information gathered from these conversations to form an assessment of what best practice looks like.

Canadian Pacific Kansas City - Social

Canadian Pacific Kansas City (CPKC) is aiming to build robust health and safety culture, driven by Canadian Pacific's (CP) strong approach and track record. The combined entity has started positively in 2023 by registering the lowest train accident frequency relative to peers in US. Rail transport in North

America is a heavily regulated industry with strict practice requirements. In that sense the day-to-day processes were very much in line with regulatory requirements. That said, the company believes the key differentiator and contributor to a positive safety record is culture. An important element of this was the introduction of the 'Home Safe' program, originating in Canadian Pacific but being rolled out to the rest of the merged entity. More tangible processes were also discussed. The company's technology group is constantly looking to enhance tools in assisting better safety outcomes. As well as increasing the spend on centralised traffic control systems CPKC has also introduced a practice of running electrics currents through rails to highlight indications of even hairline cracks in the tracks which could lead to rail accidents. This is an in-house innovation and complemented by the pursuit of predictive analytics and forward-looking tools. With activities across three countries the company has a good perspective on operational environments, and it noted that some are more challenging than others. The CP part of the business is still observing and learning the complexities of the operating environment in Mexico, which has experienced higher rail accident rates. The company was in the process of making additional capital expenditure in the region to improve rail infrastructure as well as rolling out safety training programs.

Outcome: Overall, we are comfortable with the company's health and safety approach. The record of the underlying entities, particularly Canadian Pacific, demonstrates several market leading practices and provides a useful benchmark. We will continue to monitor the development of combined operations and particular the success of implementing a robust transnational health and safety standard.

Union Pacific - Social

The core pillars of the health and safety culture at Union Pacific are training and board oversight. The company recently launched the 'Go Home Safe Choices' training, which is part of its long-term goal of world-class safety training. Regarding board oversight, the company made the decision to establish a safety and service quality committee last year. This committee has the primary responsibility for driving the strategic goal of world class safety. The remuneration committee also made the decision to include health and safety targets as part of executive remuneration. Currently, 20% of executive compensation is based on a scorecard which includes employee health and safety metrics.

In terms of its safety record, the company admits that between 2018-22 it struggled to meet the standard required for the company to meet its world-class safety targets. This period coincided with the COVID-19 pandemic, and employees were required to work onsite as they were considered essential workers. The company believes, as a result, there was an increase in health and safety related incidents, with some being linked to COVID-19; others to the extraordinary working context.

Another key area the company is using to achieve its target of world class safety standards is its capital expenditure. As a result of this expenditure, the company has noticed a 55% reduction in track-caused derailments in the last ten years. The final discussion point was on the company's decision to furlough maintenance of equipment workers, which the Federal Railroad Administration (FRA) has rebuked as prioritising cost-cutting over safety. From Union Pacific's view, this decision was made due to technological enhancements, which are crucial to improve safety, and this should be supported by unions and the FRA.

Outcome: Union Pacific is keen to become an industry leader in occupational health and safety, and this is exemplified through its long-term strategic targets, newly established training programme, board committee on safety, and the structure of its executive remuneration. The company recognised its poor performance between 2018-2022 and some further challenges prior to this. It has made strategic changes to address this concern and reported there were no fatalities last year and we will continue to monitor the impact of these improvements. Overall, this was a positive meeting where we received a comprehensive level of disclosure and information from the company's investor relations and corporate sustainability departments. We will be using the information provided in this meeting to benchmark against other industry peers who are most exposed to occupational health and safety incidents, to establish best practice.

Governance

Assura - Governance

Objective: To provide early-stage feedback on changes proposed to the chief financial officer's (CFO) remuneration, to be put forward at the 2024 AGM.

The company proposed a 12% increase in the CFO's salary, within the current remuneration policy framework. Reasons given for the raise included retention efforts. We are comfortable with this increase and are aware that the current CFO was brought into position below market, given it was their first CFO position. Since hiring, Jayne Cottam's salary has increased steadily but the outcome of this change does not place the overall CFO remuneration significantly above peers, being below median CFO salary for other similar sized real estate investment trusts (REITs).

Outcome: We are comfortable with the proposed raise in salary for the CFO and will support this at the upcoming AGM.

AstraZeneca - Governance

Objective: To assess the company's rationale for the proposed remuneration policy and performance share plan.

Our proxy adviser raised concerns regarding the proposed increase to the CEO's total remuneration specifically to the long-term incentive plan (LTIP) which with the potential changes could award 850% of base salary. The previous maximum LTIP award was 650%. This increase will position the CEO's earnings as the highest amongst the FTSE 10 peers and raises concerns of excessive pay. The company acknowledged that the structure of the policy is high relative to UK companies; however, AstraZeneca has designed the remuneration package to ensure its competitive within the global pharmaceutical industry. It is also worth noting that the company has achieved impressive total shareholder return under the current CEO's leadership and the proposed salary increase reflects company performance.

Outcome: While the proposed increase to the CEO's package is high, we agree that the company has a global peer base and understand the desire to pay competitively to attract and maintain the best talent. We therefore decided to support both the remuneration policy and performance share plan related items at the upcoming meeting.

Baillie Gifford US Growth Trust - Governance

Objective: This was a continuation of previous discussions with the chair which focused on the progress of responsible investment disclosures, board succession, and the possibility of future buybacks.

We have spoken with the chair on a number of occasions, most recently in late 2022. There have been improvements in the trust's responsible investment disclosure; it now shares detailed proxy voting records and engagement examples and has also released its first Task Force on Climate-related Financial Disclosures (TCFD) report. These changes are in line with the expectations we set for the trust and while this is a positive development, we believe that more information could be provided on the voting rationales. Additionally, only limited information is available on how Environmental, Social, Governance (ESG) related factors are integrated into the portfolio.

The board currently has three Non-Executive Directors (NEDs) who have served on the board for a similar tenure. This could pose a problem if the board does not plan for a smooth succession. The chair acknowledged this issue, and the board is planning an orderly succession spread over several years without overextending any individual's tenure. This is in line with our views on succession and tenure,

During our conversation, we discussed the discount to Net Asset Value (NAV), and the chair's view regarding the best use of capital, specifically buybacks. Despite the chair expressing the view that buybacks are not the best use of capital, we believe that given the current discount, implementing this could be accretive to shareholders. The chair indicated that the broker has been instructed to buy back shares on an ad-hoc basis if any big lines of stock become available and there is no obvious buyer.

Outcome: Since our last engagement in late 2022, there has been some progress in improving responsible investment disclosure. The annual report now includes engagement examples, and the trust has also published a TCFD report. This indicates a positive direction of travel, but there is still room for improvement. On board composition, it seems that the board has already started planning to ensure that the term limit of nine years is not exceeded. We are pleased to note that the trust has started to buy back shares on an ad hoc basis.

Banco Santander - Governance

Objective: To discuss the proposed salary increase of the CEO and the chair.

We raised concerns regarding the 2024 remuneration policy, specifically, the proposed 5% increase to the CEO's and chair's base salary, this is following a 3% increase the prior year. The company provided two key points for consideration; firstly, the average salary increase applied to employees in Spain was 6%, therefore the 5% applied to the CEO and the chair is in line with the wider workforce. Additionally, the bank achieved record results during 2023, with a total shareholder return of over 40%. This latter point somewhat mitigates the concerns raised by our proxy adviser of pay for performance concerns arising from the CEO's and chair's salary proposed increase. The company also provided what it views as its peer group comparison of executive pay which was helpful.

The long-term component of variable pay accounts for 25% of the total variable remuneration which is lower than we would expect. However, a portion of the short-term incentives are paid with a multi-year retention period and subject to long term performance metrics which is not often the case for this type of incentive. On balance, given the additional context provided, and on the absence of material concerns, we decided to support the remuneration policy.

Outcome: The company provided sufficient rationale for us to support the remuneration policy despite the initial concerns raised. A salary increase which falls in line with the wider work force, alongside demonstrating strong performance is reasonable, however we will keep this under review and closely assess any increases at next year's meeting.

Darktrace - Governance

Objective: We held a follow up call with the chair of Darktrace following our vote against an Non-Executive Director (NED) at the 2023 AGM.

The chair of the board was keen to better understand our rationale for voting against the re-election of the NED, Patrick Jacobs in December. At the AGM, 57% of votes were cast against the election of Jacobs. As a result of this, he is no longer on the board. We reiterated the communications sent to the company prior to the vote. We voted against the NED owing to his association with Invoke Capital and Mike Lynch (an early investor in Darktrace). Mike Lynch's trial in the US creates unhelpful headline risk for Darktrace, which we view as unwarranted, so any move to distance Darktrace from these headlines is a positive in our eyes. Additionally, we do not believe granting a board seat to Invoke is conducive to helping Darktrace develop and mature as a global business and investment. This point was taken on board by the chair, and we also highlighted our opposition to another non-independent Invoke representative being appointed. We also firmly reiterated our desire to see better reporting on various sustainability disclosures. The company often scores badly among large commercial ESG data providers owing to poor ratings on certain governance issues, including data security. On further engagement we had found that the company does in fact have many of the policy and procedures in place (such as data breach insurance) but these have either not been obviously displayed or directly highlighted to the service providers. For investors with more superficial ESG analysis processes this may be a reason not to hold the company. This is a straightforward fix and Darktrace assured us this would be dealt with.

Outcome: A useful follow up call where we were better able to explain to the chair our rationale in supporting a board refresh. We also look forward to seeing better sustainability disclosures moving forward.

DSV - Governance

Objective: We engaged with the company to raise concerns related to CEO remuneration.

Our proxy adviser recommended voting against the remuneration report at the upcoming AGM. It outlined concerns that the total pay package has exceeded the proxy adviser suggested peer medians for multiple years and does not align with the share price performance over this period. The company challenged the peer group set by the proxy adviser and felt that these were poor comparators. That said, the total remuneration package exceeds most peers – even those given by the company. The high level of CEO total remuneration over the past three years was mainly driven to the performance of share options awarded between 2018-2020 which were exercised over the past three years by the outgoing CEO. Although the number of share options exercised by the CEO in this period is relatively unusual, shares awarded as part of the long-term incentive plan (LTIP) have been within the policy framework approved by shareholders. The performance of the options exercised is largely owed to the positive share price performance of the company since these options were awarded. Despite aligning with the performance criteria established within the remuneration policy, the board is aware that the potential value of LTIP awards has been significant, and measures have been taken to moderate future awards. The board has reduced the number of stock options granted and now always offer these 10-15% ‘out of the money’. There is no annual bonus, and all variable remuneration is granted in stock options across the firm.

Outcome: We agree that the total remuneration package received by the CEO is high and exceeds most peer median comparators. However, we supported management on this item as the performance of share options awarded is largely owing to historic share price gains and within the framework of the shareholder approved remuneration policy. We will closely review the next remuneration policy when put to shareholders and assess how the board monitors the volatility of awards moving forwards.

EDPR - Governance

Objective: We engaged with EDPR to discuss concerns related to the level of gender diversity on the board.

Our proxy adviser recommended voting against the chair of the Nominations Committee as the number of women directors on the board did not account for 40% of total members. This is viewed to be contrary to the Spanish corporate governance guidelines. The company made it clear that as a Portuguese domiciled (but Spanish listed) firm, it follows Portuguese corporate governance recommendations, which advises company boards (including executives) to be made up of a minimum of 33% of the underrepresented sex. The company currently meets these requirements. Further to this, the Spanish government is now legislating to bring the 40% guidance into law. EDPR expects this law to be in place by the end of 2024 and as a Spanish listed company it has committed to make the necessary changes to meet this legal requirement. This will be in place by the 2025 AGM at the latest, but possibly sooner.

Outcome: We are comfortable with the company’s position and commitment to meet Spanish regulatory requirements by 2025. We supported management in this instance and monitor developments moving forward.

Emerson Electric - Governance

Objective: To discuss a shareholder resolution asking the company to adopt a simple majority voting structure.

Shareholder filings requesting companies to adopt a simple majority voting structure are becoming more common. Emerson employs a legacy supermajority voting structure, enacted in 1986, whereby a hurdle of 85% of votes cast is required to pass special meeting agenda items. Such items include but are not limited to, amending company bylaws, and declassifying the board. The proponent has requested the board adopts a simple majority voting structure, so all agenda items require a lower hurdle to pass (over 50%). We discussed this with the company and it highlighted several complexities involved in the process of passing such changes. Given the supermajority provisions are considerably high (peer groups tend to range between 67%-75%), this agenda item, requires a significant number of votes cast to be passed. Additionally, there is a risk of the unintended consequence related to voting powers of preference shares if supermajority provisions are repealed as implementing a simple majority in this class would allow a small number of investors to propose and confirm changes in how they operated.

The company has made efforts to improve governance standards by recommending shareholders vote to support measures such as board declassification and reduced hurdles for shareholders to amend company bylaws. Like many companies in the US, AGMs often suffer from low retail shareholder participation, which results in votes placed falling below the 85% threshold needed to implement the changes. To address this, the company has engaged with retail investors, and institutional investors based outside of the US as they also tend to have lower voter turnout. There has been some success and participation has increased over a multi-year timespan.

Outcome: We typically support calls for adopting a simple majority vote as it enhances shareholder rights, however in this instance the picture is more complex. Largely owing to Emerson having such a high hurdle to pass in its supermajority voting structure, any change requires a significant voter turnout. As the board has demonstrated willingness to support change, we have given cautionary support to management and voted against the shareholder request in this instance. However, we will review the progress increasing shareholder participation as the basis of continued support.

Image Scan Holdings - Governance

Objective: To gain clarity around the composition of the remuneration committee and the selection process undertaken to appoint a new auditor.

Our proxy adviser recommended placing an abstention vote on the re-election of an executive director as he reportedly sits on the remuneration committee. This is a legacy issue on which we have previously engaged with the company as it does not meet best practice guidelines on committee independence. The guidelines state that UK remuneration committees should comprise solely of independent non-executive directors. We contacted the company for additional information prior to placing the vote. The chief financial officer (CFO) informed us that the information provided by our proxy adviser is incorrect, with the director in question having stepped down from the remuneration committee in December 2022 (the company's annual report confirmed this). Since then the remuneration committee has consisted of two to three independent non-executive directors.

Concerns were also raised as the company did not disclose the selection process taken to appoint new auditors. The company admitted it did not publish the tender and review process. Our expectation would be that companies are transparent about the tendering process. Additionally, the company received only verbal references from the auditor's clients, which provides limited value to shareholders.

Outcome: Engaging with the company to confirm our vote decision allowed for a meaningful exchange, clarifying the composition of the remuneration committee. Considering this, we have supported the re-election of the director. As the process of appointing the auditors did not follow best practice guidelines, we voted against this item.

JP Morgan European Discovery Trust - Governance

Objective: The board of JPMorgan European Discovery Trust (JEDT) appointed a new fund management team following a period of underperformance. We spoke with the board chair to understand the change and its reasoning.

The board had concerns about performance and had been in conversation with JPMAM for some time. The board met with two new fund managers: Jon Ingram and Jack Featherby, who impressed them with their approach to portfolio management. The chair stated that Jon Ingram has a strong track record of outperformance. The chair stated that the board had also explored external options.

We also discussed the tenure of the current audit committee chair as this is approaching nine years, which in terms of best practice and in our view, is the maximum permitted. The chair confirmed that this is in hand with the recruitment last year of a successor who will take over as the next audit committee chair. Furthermore, there is an ongoing recruitment process for an additional non-executive director.

Outcome: It was useful to get the board's perspective on these changes. We will monitor any further developments moving forward.

Melrose Industries - Governance

Objective: To provide early-stage feedback on Melrose's proposed remuneration policy, to be put forward at the 2024 AGM.

The company sought our feedback on the key principles of a new remuneration policy to be put forward at this year's AGM. Following last year's demerger of Dowlais, Melrose became a pure-play aerospace only business. The company feels it is time to move away from the previous model of having a larger LTIP component linked to a single share price metric, towards a more classic executive remuneration structure in line with FTSE 100 market practice. The new plan looks to implement an annual bonus and traditional long-term incentive with a performance share plan (PSP) with threshold and maximum opportunities. The proposed quantum of both is broadly in line with FTSE 100 median. We are broadly comfortable with the structure of the draft policy but will review the specifics (particularly around performance conditions) when released in the run up to the AGM.

Outcome: We are generally supportive of the direction of travel in moving towards a more traditional executive remuneration structure and have communicated this to the company. We will review the details of performance conditions when these are published.

Novo Nordisk - Governance

Objective: To discuss concerns regarding the company's multi-class share structure.

Novo Nordisk employs a multi-class share structure, split into class A and class B shares, with class A benefiting from superior voting rights (with a voting ratio of 10-to1). Class A shares are designated to Novo Holdings, and have 77% of voting rights, with class B shares designated to institutional investors.

There are concerns regarding the re-election of two directors at the upcoming Novo Nordisk meeting who benefit from superior voting rights through sitting on the board of Novo Holdings (the sole owner of Novo Nordisk). The company acknowledged that dual class share structures are prevalent in the Danish market and asserts that such a structure does not adversely affect the company's economic performance. However, this is not our primary concern. The presence of dual classes in this manner can result in institutional shareholders essentially being disenfranchised and erodes shareholders rights.

Outcome: Although the use of a multi-class share structure is not uncommon in Denmark and across Europe more broadly, we believe that in this case, it undermines the rights of shareholders. Consequently, we have cast our votes against the re-election of the two directors in question.

Princess Private Equity - Governance

Objective: This was an introductory meeting with the new chair of Princess Private Equity's board to have a frank discussion regarding his future agenda. Princess has had some tumultuous years, during which the dividend was suspended and the board experienced other very public governance concerns.

The chair, who took office last November, has extensive private equity expertise, as does Axel Holtrup, the Non-Executive Director (NED) who joined last February.

The chair began by outlining his strategic goals for the trust: governance, engagement and capital allocation policy. He said that he would not allow manager representatives on the board and would conduct a thorough board review to find out where the private equity expertise lies and make necessary changes. He also mentioned that he has pushed the fund manager to allocate more resources to the trust, especially regarding investor relations. Additionally, the investment adviser's CFO will now personally oversee the day-to-day activities of the trust.

We have had two main concerns with the board:

1) overall composition and expertise

2) overextended tenure of one of the NEDs

Outcome: While we still have some concerns with the board composition, we appreciate the new chair's candidness on the proposed strategy for the trust and will monitor these with interest.

Siemens Healthineers - Governance

Objective: To raise concerns regarding the independence of the supervisory board.

According to German corporate governance guidelines, the supervisory board of a company should consist of at least one-third independent directors. However, Siemens Healthineers falls short of this requirement, with only 25% of its board members being classified as independent. Several directors hold roles at the parent company, Siemens AG, and one director is a member of the founding family. These relationships impact the board's overall independence and may affect the directors' ability to act objectively. Our proxy adviser recommended voting against the re-election of eight directors due to these concerns. We reached out to the company for additional context. Siemens Healthineers holds a different criterion for independence. It does not consider the relationships that the proposed directors have with the parent group to be relevant to their abilities to serve as independent directors. We disagree with this assessment, as a familial relationship or strong business relation with close entities strongly compromises overall board independence.

Outcome: We consider the company's justification for categorising the contested directors as independent to fall short of our expectations of best practice. Therefore, we decided to vote against the eight nominated directors at this year's AGM.

Smithson Investment Trust - Governance

Objective: We engaged with the chair following the announcement to remove the discontinuation vote and subsequent decision to reinstate it following shareholder and public media backlash.

Within its prospectus the trust stated that a discontinuation vote would be considered if the discount was in excess of 10% in any year. The board used the 'considered' element as wriggle room to avoid the vote, We had met the chair previously in 2022 and had concerns regarding the board's independence. Therefore, we had a number of concerns regarding the drivers behind the decision-making.

We had a frank discussion with the chair regarding the board's decision making and the quality of advice it received on this matter. The chair accepts fully that the board under-estimated shareholder sentiment and the decision was taken to hold a continuation vote which would require simple majority approval.

We also discussed the voting outcome from last year. The chair received 24% of votes against her re-election. She said that this was because a single shareholder voted against her for not meeting the FCA diversity guidelines on ethnic diversity on the board. Since many retail shareholders do not vote, the annual general meetings usually have a low voting turnout. This means that institutional shareholders have an outsized influence on the results. The chair has taken shareholder feedback on board and diversity is being considered for future board appointments.

Outcome: We were disappointed at first to hear that the board had removed the discontinuation vote. We are encouraged by the board's decision to put the resolution back for shareholder approval. Additionally, we welcome lowering the vote threshold from 75% to 50% of issued share capital.
We also spoke about the board not meeting FCA diversity requirements; the chair is aware of and proactive on the issue and hopes to increase diversity through organic succession planning. We will monitor future board action on this issue.

Worldwide Healthcare - Governance

Objective: This was a follow up with the chair of Worldwide Healthcare to discuss board composition and the investment adviser's lack of signatory status to the UN backed Principles for Responsible Investment (PRI); the latter has been an issue which we have engaged with the board on for several years.

The meeting was arranged following the letter we sent to the board in October 2023, outlining our intentions to vote against the manager representative on the board. We had previously discussed our view that boards should be fully independent with the chair. The chair and Senior Independent Director (SID) have a contrary view and believe that not having the manager representative on the board would be in the long term, harmful to shareholders. Additionally, it was suggested that his removal from the board would worsen the relationship between the board and the investment adviser. This was not the answer we hoped for and highlighted why a board should not have a non-independent director. In our view the manager has a significant influence on the board.

During our conversation about independence, we discussed the topic of the chair's tenure. The chair explained that the board did not previously have a specific view on term limits. Instead, board continuity and 'corporate memory' was highly valued. However, the board has now changed its stance and is starting a process of board refreshment. The chair mentioned that he plans to stay for a further term of 1-3 years as the chair which will extend his tenure to 12 to 14 years.

Finally, we discussed PRI, and the chair expressed the view that given the US political headwinds, the investment adviser will no longer consider joining in the near future.

Outcome: We are unconvinced by the board's rationale for needing manager representation. Also, we have concerns about the chair's long tenure, which will reach 11 years at the next AGM, and there is no set date for his retirement. We have written to the board to confirm that we will be voting against the chair and the non-independent director at the upcoming AGM.

Thematic engagement – investment trusts

This quarter, we finished the second phase of the investment trust thematic engagement, focused on alternatives. Last September, we reported on the first phase of this thematic engagement, which focused on equity investment trusts. We have used the same framework to focus on the alternatives sector, where we hold 25 investment trusts within our centrally monitored universe and two investment managers-led ideas , where we hold a significant position.

This engagement aims to evaluate and set future expectations with each board against three factors:

- board composition
- board effectiveness
- responsible investment disclosures

Personal Assets Trust - Governance

Objective: This was the last engagement of our Alternative investment trust thematic engagement. We meet the chair to discuss governance and responsible investment disclosures.

The trust invests on a multi-asset basis and invests in physical gold, equities and fixed income. It aims to pay as high, secure and sustainable a dividend as is compatible with protecting and increasing the value of its shareholders' funds per share and maintaining its investment flexibility.

The board has provided the investment adviser with a specific investment mandate. This mandate includes limitations on risk, regions and asset classes. The board also discusses responsible investment during quarterly meetings including engagement and voting. The investment adviser discloses its stewardship activities through its annual report. However, we would like the disclosures to provide more clarity on disclosures pertain to the trust, and which apply to the investment adviser. The trust does not invest in tobacco or gambling stocks.

The board considers a NED as independent even though he joined the board in 1997, having been its company secretary in the 1980s. In our view NEDs with tenures over nine years are at risk of being regarded as non-independent. We appreciate the arguments of the value of continuity, and the expertise that the NED brings to the board. However, we believe a fully independent board is in the best position to defend shareholder interests and we have reflected this view to the board and will give it the opportunity to address this.

At the time of the engagement the board did not meet the FCA diversity targets of a minimum of 40% women and at least one NED from an ethnic minority. The board is in the process of recruiting another director, diversity is front of mind and the chair expects to be compliant with FCA diversity targets by the end of the trust's financial year. The chair is also keen to enhance age diversity in the board.

The trust has a significant exposure to retail shareholders through various platforms. The largest shareholder is Interactive Brokers, with 17%; additionally, 15% is held through Hargreaves Lansdown and AJ Bell. This direct retail exposure impacts shareholder turnout at the trust's annual meetings, which is usually sees 30-40% of shareholders voting. The chair confirmed that Interactive Investors makes it easier for clients to vote, while other platforms can make it challenging.

Outcome: The board is taking measures to improve board diversity, and we will continue to monitor further changes in this regard. In addition, we discussed tenure limits. We have written to the board to inform them of our expectation for a fully independent board, as we believe this would benefit shareholders.

We are moving on to the final phase of our investment trust thematic engagement, the property sector. Our focus will be on engaging with the boards of our monitored Real Estate Investment Trusts (REITs) while ensuring that they adhere to our framework and expectations for governance effectiveness and disclosure. We will also include open-ended funds in our assessment to allow us to compare the various levels of disclosure and governance between close-ended and open-ended vehicles.

Objective: We met the boards of our monitored REITs to further understand its oversight of responsible investment disclosures, board composition, succession as well as broader governance topics.

JPMorgan Global Core Real Assets - Governance

The trust's initial public offering (IPO) was in 2019. The company follows a multi-asset strategy investing in global real estate (US & Asia), global infrastructure, global transport, listed infrastructure companies, and US property trusts.

We last met with the chair in 2021 and discussed responsible investment disclosures; there has been little improvement since then. One of the concerns we raised in 2021 was the need for better stewardship reporting, especially with regard to voting disclosure. Although the equity allocation has increased to almost 50% of the trust, there is still no disclosure on voting or engagement. Most of the disclosures relate to JPMAM's ESG integration process. We explained our interest in how responsible investment is being integrated into the trust's investee companies. We understand that the multi-asset approach makes reporting more challenging, yet there is still very little being disclosed at the moment.

The trust is domiciled in Guernsey. According to the chair, it can be difficult to recruit NEDs from ethnic minority backgrounds in Guernsey. Given the board will recruit the next NED in Guernsey, the chair is not sure that he will be able to meet the ethnic diversity requirements. The chair does not see the justification in increasing the board to five just to meet diversity criteria, as the trust is small with c.£200 million.

Outcome: Responsible investment disclosures still need improvement, and we will follow up on this again. The board consists of four directors, most of whom are based in Guernsey. There are some diversity concerns, and although it is a small trust, it would be prudent to add another director to have a more well-rounded board and would help with succession. The trust will face another challenge later this year with the continuation vote in the midst of a persistent discount. If the trust continues past summer, we would be supportive of adding another non-Channel Islands NED.

PRS REIT- Governance

The PRS REIT operates in the private rented sector (PRS) as a landlord and follows a build-to-rent strategy. It partners with house builders to construct communities of family-sized homes, which are then let out to tenants. The company was launched in mid-2017 and has raised equity capital several times since then to expand its portfolio. Notably, the UK government is a significant investor in the company. Last September we engaged with Sigma Capital, its investment adviser as part of the CDP Non-disclosure Campaign (CDP NDC).

The trust currently has sustainability targets across the governance, social, and environmental pillars. These targets include Energy Performance Certificate (EPC) performance, working towards (greenhouse gas) GHG data collection, supporting the local community, engaging with residents, and more. We believe that this is a good start, but some of the targets are quite open-ended. It would be welcome to have further granularity and quantifiable targets. The chair confirmed that the trust will soon publish an updated sustainability report, which will include enhanced transparency and disclosure. After the board engagement, the investment adviser confirmed that it would not be submitting to CDP this year.

The board currently has three Non-Executive Directors (NEDs) who started their tenure at the same time and have been serving for six years. We inquired about the succession plan, and the chair explained that the board is continually considering it. The board expects its directors to serve no more than nine years; not everyone will complete their full term. This allows for a gradual rotation of directors. Additionally, the board is compliant with the FCA diversity guidelines.

Outcome: The responsible investment disclosures are better than some of the peers, but still have room to improve. We would like to see more granular detail on the portfolio sustainability goals. The trust is due to publish an updated sustainability report that should include enhanced disclosures. We have no concerns regarding board composition.

Regional REIT - Governance

Regional REIT is domiciled in Guernsey and trades on the main market of the London Stock Exchange. The company buys commercial properties in UK regions outside of London and focuses on regional offices.

ESG issues are a fixed agenda item at board meetings. Non-Executive Director (NED) Massy Larizadeh leads on responsible investment related issues and is the board representative in the ESG working group. The ESG working group met six times last year to discuss progress on ESG related targets as well as the external ratings such as Global Real Estate Sustainability Benchmark (GRESB) and The European Public Real Estate Association (EPRA). The trust received a EPRA sustainability bronze score, which is the lowest possible score. The board stated that ESG assessment is about preserving the quality of the assets and providing a good return for shareholders. The trust responsible investment disclosures are poor compared to peers.

The board includes a manager representative who is non-independent. The chair explained that this arrangement has existed since the trust's IPO. Initially, there were two non-independent NEDs, one from the investment adviser and one from the property manager. However, this has been reduced to just one representative, Stephen Inglis. He is the CEO of London & Scottish Property Investment Management, the company's asset manager. We told the board that we think the board should be fully independent. While the chair appreciates our view and is sympathetic to it, given he will step down from the board shortly, the decision is one for his successor. We let the board know that we would support the re-election of the non-independent director at the 2024 AGM, but if he is up for re-election at the 2025 AGM, we will vote against him. The board meets with the FCA diversity recommendations regarding gender and ethnicity.

The board evaluations are conducted by the company secretariat, Link Group. This year Link Group will also create a board matrix to determine what skills are needed for the new hires.

Outcome: The board has a manager representative. We have informed the board that we think that a fully independent board is in the best interest of shareholders and have provided a cautionary support for the re-election of the manager representative this year, but with intention to vote against if the director is up for election at next year's AGM.

Schroder European REIT - Governance

The Schroders European REIT is a UK-based investment trust, with a market cap of c.£90 million. It focuses on investing in smaller assets located in growing cities across Europe, excluding the UK. The trust has 15 properties in France, Germany and the Netherlands. It is managed from the UK but supported by personnel in Schroders' European offices.

The board holds four formal meetings yearly. During these discussions, sustainability is considered, and the head of sustainability provides an update on the portfolio's performance. There are no non-executive directors (NEDs) with expertise in responsible investment. Consideration has been given to hiring someone with a background in sustainability, however the board took the view that someone from large property management firm should have a good understanding of Environmental, Social, and Governance (ESG) topics. This could be the case but should be questioned during the interview processes rather than assumed. The trust is small, so the chair considers four board members to be sufficient, although some investors believe that four is already too many.

The chair stated that the trust is undergoing a significant shift towards sustainability. The manager has engaged two external providers to conduct a sustainability and net zero carbon (NZC) audit in 12 out of the 15 properties in the portfolio. The results of this audit are expected to be disclosed later this year and will show what buildings are required to be retrofitted to make the current portfolio more efficient. The audit will score assets between one to five (five being best) based on 11 key thematic weighted areas including energy and carbon; climate risk and resilience; biodiversity; transport and mobility; health and wellbeing; community and social integration; and building certifications.

The trust has achieved a Global Real Estate Sustainability Benchmark (GRESB) score of 85 and discloses the Energy Performance Certificate (EPC) rating, even though they do not have any properties in the UK. In the UK, a Minimum Energy Efficiency Standards (MEES) legislation requires all properties being let or sold in England and Wales to have a minimum EPC rating of 'E' or above. Talks are underway to raise this to a 'C' rating. About 30% of the trust's portfolio has an EPC rating below 'C', while five assets have completed a Building Research Establishment Environmental Assessment Methodology (BREEAM) certification. It is expected that the sustainability reporting will undergo significant changes over the coming year.

Outcome: Although the quality of responsible investment disclosure is better than some peers, there is still a lack of detail on the social and environmental properties of the portfolio. The portfolio consists of only 15 properties, making it easier to disclose at a greater level of detail. The current sustainability and NZC audit will hopefully increase this level of detail, set transparent targets, and determine the capital requirements related to aligning the portfolio to net zero. This enhanced reporting will be discussed mid-year. Furthermore, the board is not meeting the diversity targets set by FCA for gender and ethnicity, we will monitor developments in this area. This is not uncommon in small boards. However, the board will undergo a couple of rotations in the coming years, hopefully addressing this imbalance.

Supermarket Income REIT - Governance

Supermarket Income REIT was established in 2017 with a small portfolio of supermarkets leased to Sainsbury's and Tesco. The company has grown significantly since then through several equity raises and has a much more extensive portfolio with more geographic and tenant variety. The company still operates in the niche supermarket sector of the UK property market but is focused on assets with additional uses (such as fast-food/coffee pods in car parks) and those that are crucial in helping the tenant fulfil online orders, catering to the trend of grocery e-commerce. The trust portfolio comprises 55 supermarket sites rented to tenants like Tesco, Waitrose, Morrisons, Asda, Marks &Spencer, and Aldi.

The trust has a sustainability rating from European Public Real Estate (EPRA) Best Practices

Recommendations (BPR) of gold, which is the highest grade. The underlying sites have an Energy Performance Certificate (EPC) of A-D with only 16% of the properties on the D bracket. The investment adviser is a signatory to the Net Zero Asset Management Initiative, and the trust has reported its first TCFD report.

The board discussed the challenges associated with implementing energy-efficient measures in commercial properties. The main problem is that the tenants control the property, and any energy improvements require their agreement. In the case of supermarkets, the main source of emissions is the cooling systems. Fortunately, supermarkets are well suited for solar panels due to their large surface area. The chair provided a case study of working with a large tenant to install solar panels. The first step was to engage with the tenant. Since consumer retail is a turnover business, store managers were initially apprehensive about having scaffolding on the site, which could block customers or loading bays. However, the manager discussed the business case for the panels and the plan to work around the operations, ultimately leading to successful installation.

Half of the board consist of female directors, with one woman serving as the chair of the management engagement committee and one director from an ethnic minority background meeting the FCA diversity requirements.

Outcome: We have no concerns with the board composition. Responsible investment disclosures which are moving in the right direction, but we would appreciate greater granularity in the reporting outputs.

TR Property- Governance

The trust invests in property shares across the UK and Europe, which account for roughly 90% of its portfolio, as well as a small portfolio of physical property in the UK. The company has a diverse shareholder base, including many direct retail shareholders, via investment platforms.

Although direct property is the smallest part of the portfolio, it requires more detailed reporting due to the various material aspects of direct management such as energy use, water use, tenant management and carbon emissions. In regards the direct equity holdings the responsible investment disclosure is limited to voting metrics and does not include the rationale behind the voting decision or any engagement activity. Including examples of this would help bring some clarity and context to the information provided. The board agreed and felt this would be particularly useful for retail shareholders. However, the Senior Independent Director (SID) expressed some reservations about disclosing individual conversations. We believe it is common practice for trusts to disclose individual examples of voting rationale.

The direct property portfolio has its own net zero target of 2050, but the board has discussed moving that target to 2040. However, it was hesitant to do this as the portfolio might change by 2025. The board argued that it wants to have the flexibility of buying a property with lower sustainability credentials (for example with lower energy performance), as part of the value added is to improve things like the EPC ratings. So based on the current portfolio the trust could move the target to 2040, however, buying a new property could make them move this target back to 2045 or 2050. There were also discussions of reporting the net zero alignment by individual property, the trust can do this as it has just a handful of sites. The trust received its first Global Real Estate Sustainability Benchmark (GRESB) rating this year and obtained one out of five stars.

The manager allocates time to interact with the investment platforms, as they are a significant part of the shareholder register. However, the platforms vary in how much they reciprocate the engagement.

Outcome: We discussed the disclosure of stewardship for the portfolio's equity portion and underlined the importance of providing examples of voting and engagement to improve transparency. The trust is expected to publish a new sustainability report, and we will evaluate this when made available. Also, the trust has obtained its first GRESB rating ever, which is positive, and we would like to see the trust work towards a better rating.

Tritax Big Box - Governance

As the name indicates, Tritax Big Box REIT is a real estate investment trust focusing on large-scale distribution centres, typically spanning over 400,000 square feet. These centres are strategically located in the Midlands, making them easily accessible via road or rail.

Although the board does not have a formal ESG committee, responsible investment is an item of all board meetings, and the board undertakes a detailed analysis of its ESG strategy once a year. The board also completes monthly ESG reviews with Karen Whitworth, the Senior Independent Director (SID), who is the board's 'ESG Champion' and regularly meets with the manager's ESG director to discuss ESG issues, including climate-related risks and opportunities. and reports back to the broader board as necessary.

The trust has good Energy Performance Certificate ratings (EPCs), with 98% of the portfolio rated A-C and 49% rated A. The trust also performs well on external metrics such as Global Real Estate Sustainability Benchmark (GRESB), achieving a score of 83/100 (four green stars) for the standing portfolio and 99/100 (five green stars) for development activities.

The responsible investment disclosures are more detailed than those of some of its peers. It includes examples of specific actions being taken to improve the sustainability characteristics of its assets and to improve external ratings such as GESB and EPCs. The board is also ahead of some of its peers in considering the portfolio's climate impact. As one of the largest externally managed REITs, the trust has greater resources dedicated to reporting.

The board currently has less than 40% female representation, which falls short of the FCA diversity recommendations. However, the board believes it has a balanced set of skills and is not actively looking to add any new directors in the immediate future. The board has a good mix of directors in terms of tenure, which allows for the gradual rotation of directors. The executive search firm Odgers Berndtson has been used for the last two appointments to the board. The audit committee chair will step down in two years. The board has already started to plan the succession process focusing on gender diversity.

Outcome: The board is well-balanced in experience and tenures, with a thoughtful succession plan. Although it falls short of FCA gender targets, the board has taken steps to address this, and diversity is integrated into the organic succession plans. The board has a good oversight of the responsible investment activities of the portfolio, and although it does not have a formal committee, ESG factors are discussed in all board meetings. The disclosure is better than peers, but still has room to improve.

Urban Logistics REIT - Governance

Urban Logistics REIT is a UK-based mid-cap real estate investment trust primarily invested in logistics properties. These properties are mainly located in 'last touch' and 'last mile' locations, which refers to warehouses located in close proximity to urban centres. The company was established in 2016 and is a constituent of FTSE250. The portfolio is valued at £1.1 billion and consists mainly of Midlands and Northeast warehouses.

The trust publicises the energy performance certificate (EPC) ratings of its portfolio. According to the minimum energy efficiency standard (MEES) regulation, landlords must meet certain EPC requirements for their buildings. Currently, landlords will no longer be allowed to rent out any buildings that have an EPC rating below E. The government is exploring raising the EPC rating requirement to C by 2030.

The portfolio has 23% of properties with an EPC rating of D and 1% with an E rating. This is higher than some of its peers. The chair explained that the investment adviser purchases second or third-hand warehouses that typically have lower EPC ratings. The trust's value proposition is to retrofit these properties and increase their EPC ratings. Depending on the number of properties that the trust acquires, the EPC rating of the portfolio may fluctuate as they retrofit these assets. The trust also has sustainability targets regarding net zero by 2024 for Scope 1 and 2, higher EPC ratings, engagement with tenants on decarbonisation, use of renewables, increased biodiversity and transparent disclosures.

The board is made up of five non-executive directors (NEDs), four of whom are independent, and one is a manager representative named Richard Moffitt. We have expressed to the board that in our view having a fully independent board would be the best way to safeguard the interests of shareholders. Richard Moffitt has served on the board since 2016; therefore, he will reach a tenure of nine years at the 2025 AGM; however, when asked, the chair said he has no intention of applying the nine-year rule to Mr Moffitt. The chair of the audit committee has been in the position for eight years, and the board plans to replace him with the recently appointed NED, Lynda Heywood who was recruited using Russell Reynolds Associates, an executive search firm. The board is also using this firm to hire another director with a focus on finance experience.

The board has 40% female representation, which makes it compliant with the FCA diversity recommendations for gender diversity. However, there are no NEDs from an ethnic minority background as recommended by the FCA targets. The chair commented that diversity was part of the brief to the executive search firm, however, he cannot guarantee this will be sorted in the next hire.

Outcome: During our conversation with the chair, we expressed our view that boards that are fully independent are better equipped to safeguard the interests of shareholders. We also noted that the current board does not comply with the FCA targets concerning the presence of at least one NED from an ethnically minority background. However, we understand that the board is considering this matter while recruiting new members. We sent a follow up in writing with the board reiterating our preference for a completely independent board by the 2025 AGM.

Fund engagement

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

1. The firmwide approach to responsible investment
2. Manager and strategy approach to responsible investment
3. Engagement on ESG risk and exposure
4. The firmwide approach to net zero

During this quarter our primary focus was on our thematic engagements relating to net zero commitments and the exodus from Climate Action 100+. We carried out one engagement which was outside these engagement frameworks.

Third party manager – infrastructure - The firmwide approach to net zero

Objective: We met with the sustainability team of the manager ahead of the publication of the updated sustainability report to review progress following a previous engagement.

The investment strategy focuses on low-risk, long-term concessions and public partnership infrastructure, especially social infrastructure. The nature of its assets means that the asset manager's ability to address environmental and climate risks is limited, as it has limited authority to deviate from the terms of the government contract.

Recently focus has turned to voluntary shareholder-requested reporting frameworks, such as the Sustainable Finance Disclosure Regulation (SFDR) and TCFD. Guernsey-domiciled companies are not obligated to follow these frameworks; however, the sustainability report will be published at the end of March and will include both the SFDR and TCFD reporting frameworks. The report will highlight ESG Key Performance Indicators (KPIs) that are within manager's perceived control. The Net Zero Investment Framework (NZIF) has provided guidance for infrastructure assets and the company aims for a bottom-up approach to target setting.

According to the manager, 30% of the portfolio can realistically be aligned with net zero targets, while of the remaining 70% improvements are possible but would require further engagement with government owners.

For example, the manager can upgrade a school's light bulbs to LEDs, hence improving energy performance. However, it cannot make major changes like adding solar panels as that would be considered a change to the contract. It is working with the local authorities to renegotiate these contracts to align them to net zero.

Outcome: The manager's net zero plans show some good signs of development, but more clarity is needed. The fact that the assets are subject to government contracts limits the influence the manager has over the alignment to net zero.

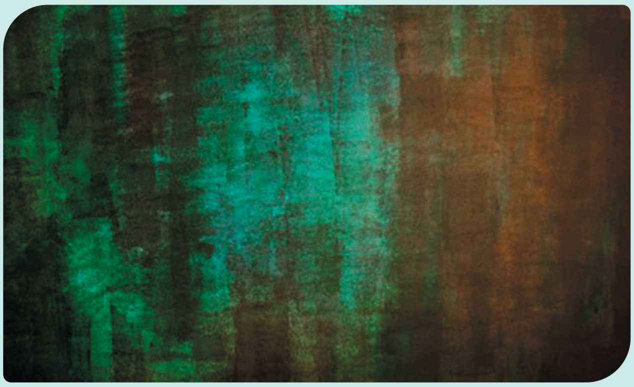
RI Reels

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

Alternative Investment Trusts

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

Watch vlog



Product safety and litigation

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

Kirsty Ward is joined by Ramon Secades to discuss how companies manage product safety.

Watch vlog

Pulling the thread

In our February reel, Kirsty Ward is joined by Greg Kearney to discuss labour standards in the apparel industry.

Watch vlog

Source of images: iStock

Overview

Overview of our activity across our discretionary holdings at Quilter Cheviot:

Activity	Universe
Voting	Discretionary holdings within the global equity monitored lists where we have voting rights including: MPS (Managed Portfolio Service) Building Blocks Climate Assets Balanced Fund and Climate Assets Growth Fund Quilter Cheviot Global Income and Growth Fund for Charities Quilter Investors Ethical Fund AIM Portfolio Service This includes our global equity and investment trust monitored lists; UK holdings where we own more than 0.2% or £2 million of the market cap. Additionally, clients are able to instruct voting on their behalf.
Engagement	Global equities within the monitored list Funds held on the centrally monitored list AIM Portfolio Service holdings UK holdings where we own more than 0.2% or £2 million of the market cap.
ESG integration	All holdings within the centrally monitored universe of equities, funds and fixed income.

We use the ISS proxy voting service in order to inform our decision making, however we do not automatically implement its recommendations. When we meet a company to discuss governance issues, the research analyst 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 in 2023.

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

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

Responsible Investment at Quilter Cheviot

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

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

A Direct Equity Approach* - DPS Focused

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

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

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

Ethical And Values Oriented Investment – Client Specific

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

* For UK, North American and European equity holdings

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

Glossary

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

51

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.

53

Our offices

1 Belfast

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

2 Birmingham

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

3 Bristol

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

4 Dublin/Europe

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

5 Edinburgh

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

6 Glasgow

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

7 Jersey

3rd Floor, Windward House
La Route de la Liberation
St Helier
Jersey
JE1 1QJ
t: +44 (0)1534 506 070

8 Leeds

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

9 Leicester

1st Floor
7 Dominus Way
Leicester LE19 1RP
t: +44 (0)116 249 3000

10 Liverpool

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

11 London

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

12 Manchester

4th Floor, Bauhaus
27 Quay Street
Manchester M3 3GY
t: +44 (0)161 832 9979

13 Salisbury

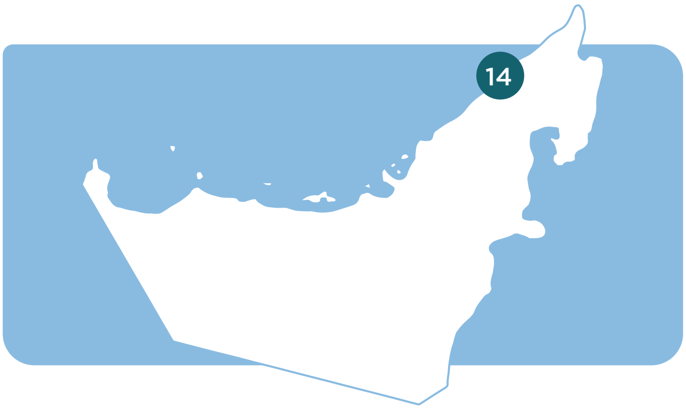
London Road Office Park
London Road
Salisbury SP1 3HP
t: +44 (0)1722 424 600

14 Dubai

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

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

Our experts are here to help you



1 Belfast
2 Birmingham
3 Bristol
4 Dublin
5 Edinburgh
6 Glasgow
7 Jersey
8 Leeds
9 Leicester
10 Liverpool
11 London
12 Manchester
13 Salisbury
14 Dubai

55

QUILTER CHEVIOT

SPECIALISTS IN INVESTMENT MANAGEMENT

This is a marketing communication and is not independent investment research. Financial Instruments referred to are not subject to a prohibition on dealing ahead of the dissemination of marketing communications. Any reference to any securities or instruments is not a recommendation and should not be regarded as a solicitation or an offer to buy or sell any securities or instruments mentioned in it. Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not recover what you invest. All images in this document are sourced from iStock.

Approver Quilter Cheviot Limited 16 April 2024

QC000364_1 (04/2024)