

RESPONSIBLE INVESTMENT

Equity dashboards and ESG integration

Our equity ESG (environmental, social and governance) integration approach encompasses three aspects:



The quantitative data is used by our equity analysts and is the key component in determining which equities should be held within our DPS Applied strategies.

For our quantitative ESG integration approach, we incorporate material ESG factors based on the Sustainability Accounting Standards Board (SASB) framework plus additional factors which are identified in conjunction with the relevant analyst, which are determined to be relevant to the sector. Material ESG factors are sourced through various third-party data providers, annual reports, and publicly available sources on non-governmental (NGO) platforms such as CDP (formerly known as the carbon disclosure project).

By using several platforms for sourcing our data, we have data points which relate to most of SASB's materiality factors and use these to undertake a holistic analysis through our industry group dashboards. Despite the variety of sources used, there are some areas where we do not currently have the required data. Air quality, energy management and critical incident risk management are some of the disclosure topics where we have data gaps and there will be ongoing work to source this.

SASB

The SASB¹ reporting framework identifies ESG factors, which are financially material, and which have a direct impact on companies' enterprise value. There are a total of 26 factors which will have varying importance depending on the industry groups covered. For example, in the pharmaceutical and biotechnology industry, relevant disclosure topics will include access and affordability, product quality and safety, and customer welfare. This will be different to the energy industry where its main disclosure topics are greenhouse gas (GHG) emissions, employee health and safety, water, and wastewater management. As the material issues vary based on industry, we have created 18 ESG industry group dashboards to cover all industries on our monitored list.

Core and bespoke datasets

In addition to the SASB factors, all dashboards have seven core datasets, and some will also have bespoke data. The core datasets included on all dashboards provide relevant insight for all industry groups and are:

- Climate GHG reduction targets
- CDP climate disclosure scores
- ISS Quality Score - governance assessment
- CEO pay to total shareholder return alignment (TSR)
- Percentage of women on boards
- Average board tenure
- Sustainalytics' general risk rating

The first two data points are important for assessing companies' alignment with global net zero targets. For the climate GHG reduction targets, the focus is on companies who have approved science-based targets or at least have ambitious targets.

There are six bespoke datasets, and their usage in the dashboards will again vary based on industry. An example of this is the fossil fuel financing league table published by the Rainforest Action Network², which is only relevant to the banking industry.

Dashboard overview

The ESG industry group dashboards aggregate 30 datasets based on their industry materiality and importance and provide high level risk flags on consistent poor performers and excellent performers on a relative basis.

A company flagged as a leading area of concern would be one where there is consistent poor performance across the majority of the SASB, core and bespoke datasets, relative to industry group peers. In contrast with this, a company flagged as a leading area of excellence is one where there is a consistent positive performance across the majority of the SASB, core and bespoke datasets, relative to their industry group peers.

It is possible for a company to be flagged as a leading area of concern and excellence i.e., it is performing well on some ESG factors while performing poorly on others. When a company is flagged as both leading in concerns and excellence, all factors will need to be weighed up against each other to determine which risk factors are of greater importance.

To be able to screen the large datasets we use and provide a simple risk flag across all our industry groups, we use the Fact Set Data System DDE (Dynamic Data Exchange) code to generate real time data onto excel. This is only available for the datasets provided by Sustainalytics and ISS. Where we source data from publicly available sources, we must manually input the raw data for it to be processed along with our automated datasets. Once complete, we publish the dashboards through Microsoft Power BI on a quarterly basis.

1 <https://www.sasb.org>

2 <https://www.ran.org>

Inclusion criteria for DPS Applied strategies

The DPS Applied strategies have inclusionary criteria which are driven by the quantitative data provided through the industry group dashboards. This enables us to rank companies on a relative basis within industry groups and for inclusion within the DPS Applied strategies a company on a holistic basis will perform well against ESG factors relative to its peers. In addition, the DPS Applied strategies have exclusions³ related to specific activities or issues for example fossil fuel production, human rights issues and tobacco production. We defined the exclusions based on the most common concerns of clients.

This process is undertaken in conjunction with the relevant analyst, head of equity research, the Chief Investment Officer, and the responsible investment team. There is a moderation process and during this our engagement activity may result in a company being included within the focused universe.

We review the focused universe on a six-monthly basis.

³ This is monitored through Ethical Screening

To find out more about Responsible Investment at Quilter Cheviot visit our [website](#).

Quilter Cheviot

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

To find out more please contact your investment manager
or email: marketing@quiltercheviot.com



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