Managed Portfolio Service (Direct)

Quarterly Investment Review Q2 2024

QUILTER CHEVIOT

Image: iStock

Approver: Quilter Cheviot Limited: 19 July 2024

Contents

Market Commentary

Quarter ended 30 June 2024

The first half of 2024 provided a favourable market environment for investors, with equity benchmarks in the UK, US and continental Europe hitting record highs and bonds continuing to offer relatively attractive yields compared to much of the past decade. The MSCI All Country World index ended the first six months of the year up 12.7% (all returns in sterling, unless otherwise stated).

June saw a re-emergence of US leadership in equities, as a 4.1% return for the MSCI North America index lifted the MSCI All Country World index to a 3.0% monthly return. Political uncertainty and a period of consolidation after a good run higher in previous months meant the MSCI UK (-1.0%) and MSCI Europe ex UK (-1.6%) indices ended the month slightly lower. That said, the second quarter on the whole was good for UK stocks as they outperformed peers, with the index now up 7.8% year-to-date.

In the UK, headline inflation came in at 2% in May, the first time in three years it has not exceeded the target level of the Bank of England (BoE). However, the core measure, excluding food and energy, came in at 3.5% and services inflation is higher still at 5.7%. Those calling for rate cuts will likely cite the headline figure, a rise in the unemployment rate to 4.4% — the highest level since the end of 2021 — and a dip in leading economic indicators in June. On the other hand, first quarter GDP growth came in at the fastest pace since 2019, albeit against a pretty low bar, beating expectations and then being revised higher to 0.7%.

Despite the fall in headline inflation being announced the day before the BoE's most recent policy decision, rate setters decided to maintain the base rate at its 16-year high of 5.25%. At the time of writing, the chances of a cut at the next scheduled rate-setting decision, in August, remain in the balance.

Gilts performed well in June, with the broad-based index returning 1.3%, helped by the aforementioned softer data. We remain modestly 'overweight' duration (a measure of sensitivity to changes in interest rates) due to the expectation of easier central bank policy, and are also 'underweight' credit versus government bonds due to current tight spreads.

The European Central Bank (ECB) moved ahead of its UK and US counterparts to lower its base rate, delivering an interest rate cut in early June. When inflation surged higher in 2022 the ECB was slower to act in raising rates, but has responded first to falling inflation data. The move lower should not necessarily be seen as the start of a preordained cutting cycle, one that will inevitably lead to rates heading back close to zero (or negative territory in the ECB's case). Inflation remains elevated, and the bank's own economic projections have inflation above its 2% target until the final quarter of 2025.

In the US, the Federal Reserve (Fed) remains in a holding pattern, waiting for either inflation to hasten its decline or the economy to weaken sufficiently to require supporting. Recent economic data hint at a softening of consumer strength, and the unemployment rate has ticked higher, but on the whole it seemingly continues to fare pretty well.

Events in recent years suggest the era of zero interest rate policy is firmly behind us, and that we are now in a new environment of 'higher-for-longer' policy. Widespread expectations for significant cuts this year have failed to transpire, and the base case is now for one to two reductions of 0.25%. This change of view has come about due to leading economies displaying ongoing resilience and inflation, while reined in from runaway levels, not being sufficiently squashed.

Market Commentary

Quarter ended 30 June 2024

Outlook

While the first half of 2024 was positive for investors, it was certainly not fuelled by the same unbridled optimism that we saw in the final stages of 2023. It has been a rewarding time for stock markets, particularly large technology companies exposed to the generative AI theme, and there are some pockets of the market that are undoubtedly pricing in significant growth expectations, necessitating the need to tread carefully. However, across certain sectors and asset classes it has been a fairly underwhelming and, in some cases, negative period of returns.

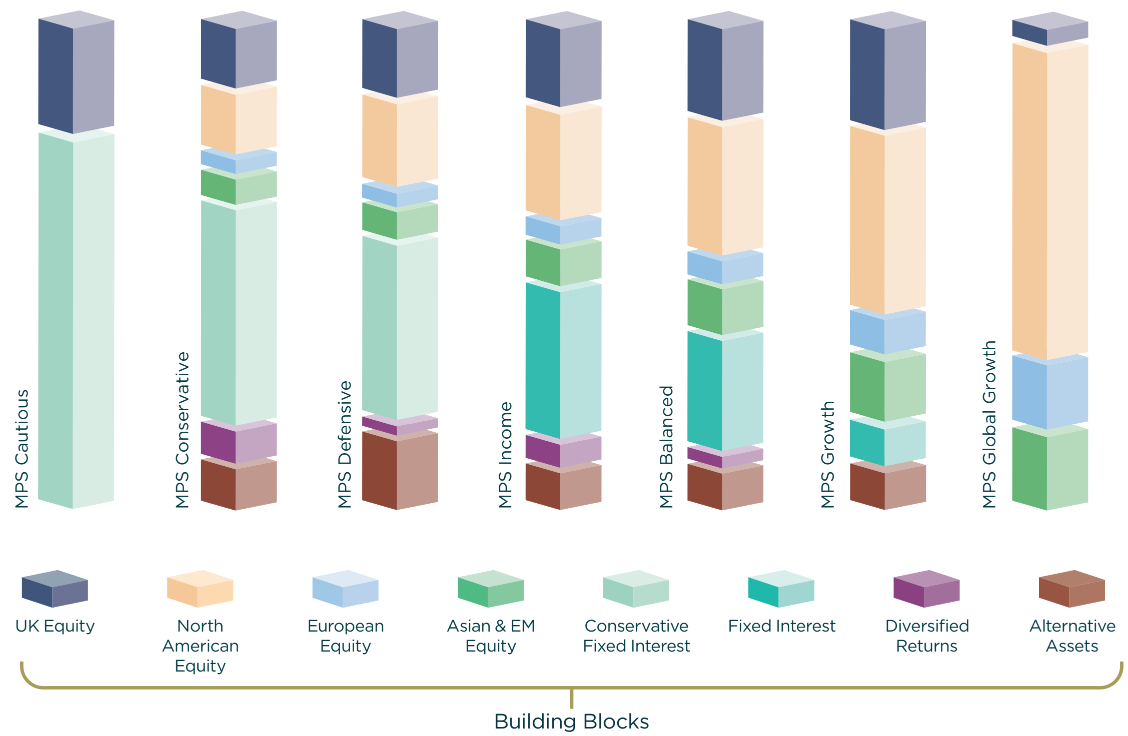
To summarise, and in doing so reiterating a number of the key messages from the beginning of 2024:

- We see the backdrop as supportive for active managers, with individual stock opportunities continuing to emerge. The renewed bid activity seen across UK equities so far in 2024 is a case in point, and has enabled us to generate pleasing outperformance within this allocation.
- We remain selectively 'overweight' the strategies' exposure to equities: recent gains have largely been supported by strong fundamentals, and we believe earnings growth can continue to drive equities higher from here.
- The strategies' US equity allocations provide targeted exposure to our preferred names within the so-called 'Magnificent Seven', including those companies at the heart of the emerging generative AI theme. However, we also see growing potential for a broadening out of market leadership from here, and have been adding to segments of the market that we deem to have been overlooked.
- We see opportunities across the investment trust universe, and have been selectively taking advantage of these within the strategies' alternative investment exposure.
- Finally, we remain constructive on the outlook for high-quality fixed interest investments. Inflation concerns, a resilient global economy and the resetting of interest rate cut expectations have proven a headwind for bond investors so far this year. While there remains uncertainty around the scale and timing of rate cuts for the rest of 2024, with rate setters concerned that the fight is not over, the data appears increasingly supportive for downward movements and a slow, but gradual, move to more 'dovish' policy across central banks. Government bonds offer attractive yields, and should economic growth underwhelm, resulting in more aggressive central bank action, stand well-placed to benefit.

MPS Strategy Overview

How our Building Blocks form our MPS Strategies

For Illustrative purposes only



The MPS strategies are constructed using the 'Building Blocks', a range of funds that Quilter Cheviot has established to build the investment exposures deemed optimal for each investment strategy. The Building Blocks are designed to provide specific geographic or asset class exposures, and are constructed using a combination of direct equities, bonds and / or external fund holdings.

From the 350+ global equities, 150+ fixed interest securities and 320+ funds that Quilter Cheviot's research teams actively research and monitor, the MPS team carefully select those which form the eight individual Building Blocks. Combined, these exposures provide clients with a best-in-class investment management solution that is both nimble in nature and active in its approach, all at a market-leading cost.

Quarterly Performance Overview & Attribution

As at 30 June 2024

Strategy returns were positive over the second quarter, with the largest contribution to both absolute and relative performance coming from the UK and (where held) North American equity allocations.

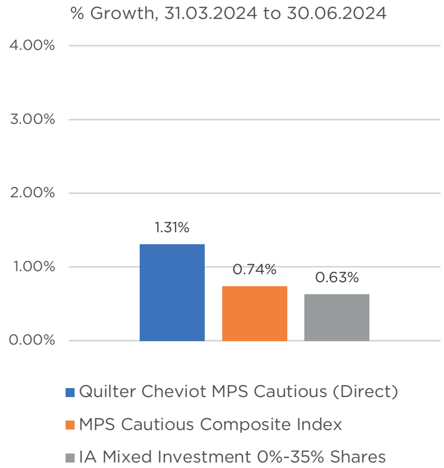
Digging deeper into the drivers of returns, and one notable trend over the quarter was the growing prominence of corporate activity across listed UK companies, prompted by the relatively inexpensive nature of the UK stock market and the discount on which many quality companies are trading versus their peers. Darktrace, our UK-based cybersecurity holding, was bid for by private equity firm Thoma Bravo, while Australian mining and metals giant BHP also initiated discussions for an informal all-share offer for Anglo American, which was rejected by the latter's board. This trend certainly prompts mixed feelings. While it can create opportunity for active managers and the possibility for sharp (and short-term) uplifts on the value of holdings, in the absence of a healthy initial public offering (IPO) market it results in a diminishing opportunity set available to investors in the UK stock market. The loss of attractive long-term investment opportunities therefore further reduces the appeal of the index. In addition to outright bids, several companies have also decided to move their listing overseas, or announce that a move is under consideration, including some significant index heavyweights. As such, the dwindling nature of the UK stock market is an area very much in the spotlight, with a clear need to ensure the UK remains an attractive environment for companies to come to market.

Elsewhere, emerging markets delivered strong gains over the quarter as China rebounded, while political developments in India and South Africa proved supportive for investor sentiment. Thanks to pleasing security selection, the strategies' European equity allocation also finished in marginally positive territory, despite the worries caused by the announcement of parliamentary elections in France. Meanwhile, yen weakness eroded returns from Japanese equities for a sterling investor, resulting in a loss over the quarter.

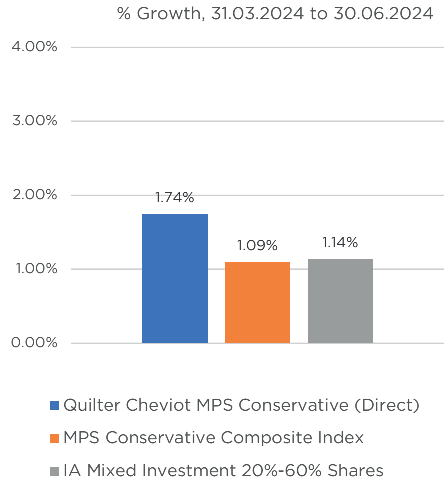
Despite the rally seen in June, it was a far from vintage period for fixed interest investors. The strategies' allocations finished broadly flat, so ahead of gilt and sterling credit indices. Finally, we saw a positive return from the allocation to alternative investments, with pleasing contributions from the absolute return and private equity holdings.

Image: iStock

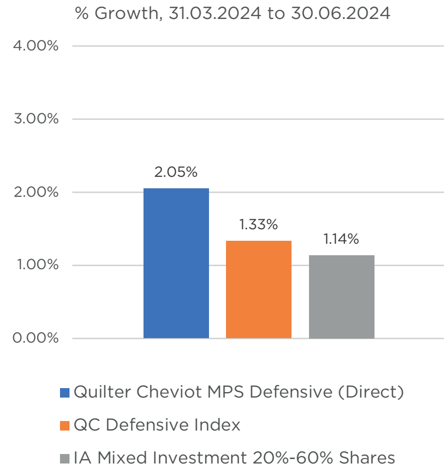
Quilter Cheviot MPS Cautious (Direct)



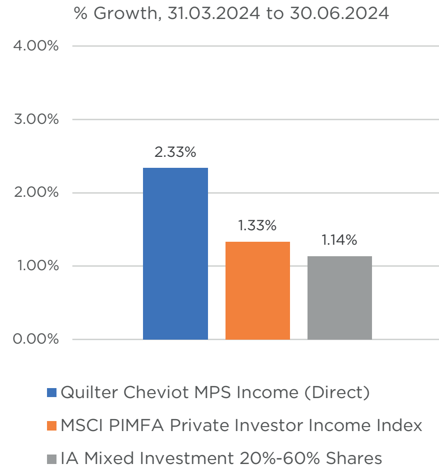
Quilter Cheviot MPS Conservative (Direct)



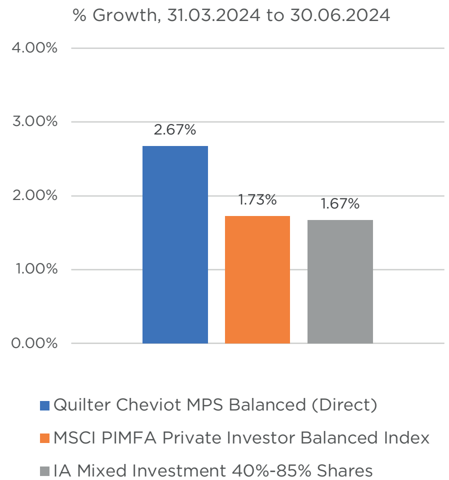
Quilter Cheviot MPS Defensive (Direct)



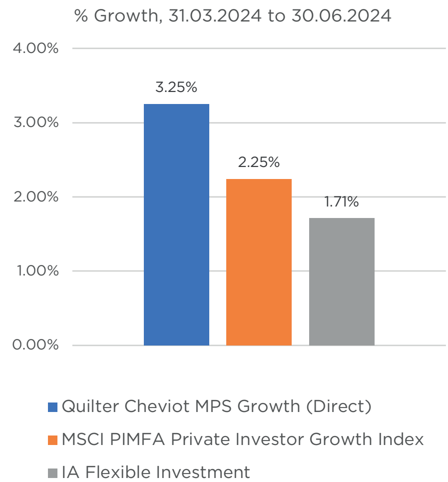
Quilter Cheviot MPS Income (Direct)



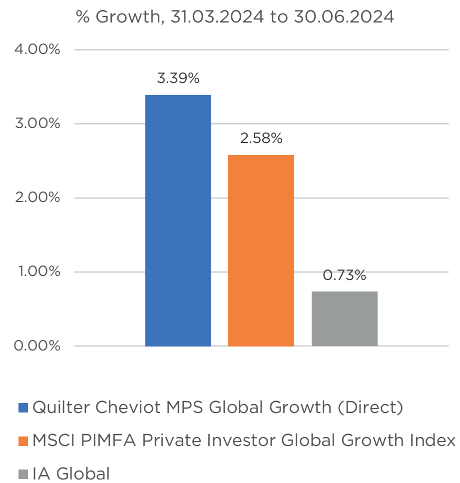
Quilter Cheviot MPS Balanced (Direct)



Quilter Cheviot MPS Growth (Direct)



Quilter Cheviot MPS Global Growth (Direct)

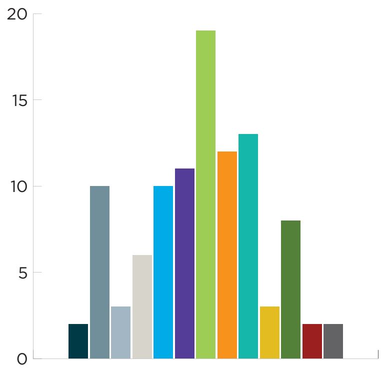


Source: Quilter Cheviot, Financial Express, 9 July 2024. All figures to 30 June 2024. Strategy performance is shown gross of management fees with all income reinvested, real returns may vary. IA Sector returns are net of underlying fund manager charges while benchmarks will not include any charges. **Past performance is not a guarantee of future results.**

Direct Equity Sector Positioning

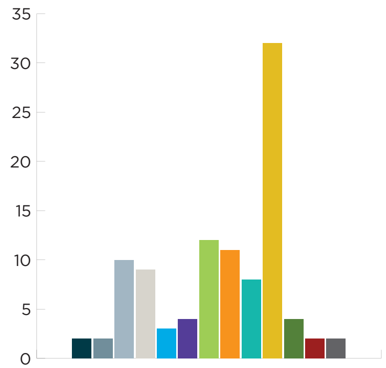
As at 30 June 2024

UK Equity Fund
Sector Exposure



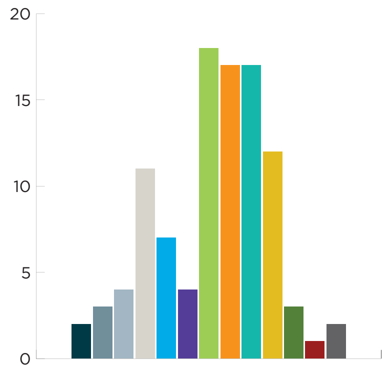
Cash Products	2%
Collectives	10%
Communication Services	3%
Consumer Discretionary	6%
Consumer Staples	10%
Energy	11%
Financials	19%
Health Care	12%
Industrials	13%
Information Technology	3%
Materials	8%
Real Estate	2%
Utilities	2%

North American Equity Fund
Sector Exposure



Cash Products	2%
Collectives	2%
Communication Services	10%
Consumer Discretionary	9%
Consumer Staples	3%
Energy	4%
Financials	12%
Health Care	11%
Industrials	8%
Information Technology	32%
Materials	4%
Real Estate	2%
Utilities	2%

European Equity Fund
Sector Exposure



Cash Products	2%
Collectives	3%
Communication Services	4%
Consumer Discretionary	11%
Consumer Staples	7%
Energy	4%
Financials	18%
Health Care	17%
Industrials	17%
Information Technology	12%
Materials	3%
Real Estate	1%
Utilities	2%

Q2 2024 Key Strategy Activity

There were no changes made to the strategies' asset allocations throughout the quarter. In short, we have been happy to leave headline positioning as it is. Crucial to emphasise, however, is that this decision does not preclude us from making dynamic adjustments to underlying stock and fund exposures, as demonstrated below.

Starting with the UK equity allocation, we sold our position in consumer healthcare business **Haleon**. While we continue to look favourably upon the company, its strong branding and associated pricing power, we perceive there to currently be a ceiling for the share price caused by incremental selling of the stock by its largest shareholders, GSK and Pfizer. Using the proceeds we topped up our holding in **Unilever**, which has shown recent positive momentum, as well as adding to the existing position in **HSBC**.

Turning to the US, and during the quarter we added to the positions in **Nvidia** (ahead of the company's record results) and **Meta** (owner of Facebook and Instagram), reducing holdings in Google's parent company **Alphabet** and global snack giant **Mondelez**, amongst others, to fund these moves. We also added to the position in **Apple**, exiting tobacco stock **Phillip Morris** and reducing the holding in enterprise software provider **Salesforce** to help fund the increased weighting. Apple is a stock we have traded actively over 2024: in the first four months of the year we held an underweight position, which benefited performance as the stock underperformed the market on the back of slowing growth and declining iPhone sales. The company's results in May then came in better than analysts' expectations, while in June the stock rallied further following the announcement of its partnership with OpenAI to integrate ChatGPT into its devices at its annual developers show. These developments leave us more positive on the stock's outlook, which we have mirrored through an increased weighting.

During the period we also added a dedicated allocation to US small- and mid-sized companies, achieved by incorporating the **Artemis US Smaller Companies** fund. Not fantastic timing given April's wobble, but longer term we like the prospects for the exposure. Our thesis is underpinned by a combination of factors: smaller firms in the US tend to perform especially well in a falling rate environment, and more domestically focused businesses (as small and mid-sized companies often are) tend to do better when there are clear signs of a recovery in consumer confidence. Recent government-led incentives are also likely to benefit domestic companies, while valuations for quality

Image: iStock

Q2 2024 Key Strategy Activity

companies down the market cap look attractive against the broader market. We see the fund as offering a clear, consistent and historically successful approach to 'small cap' investing that is complementary to the rest of the strategies' North American equity exposure.

In Europe we reduced the holding in leading office real estate company **Gecina**, a high quality name in what is currently proving to be a challenging sector. We also trimmed exposure to **Nestlé** (which subsequently missed forecasts as volume declines, particularly in North America, exceeded market expectations), and used the proceeds to invest in existing holdings in the Energy and Financials sectors. We also made a new investment in **AIB Group**, the leading Irish bank that offers a wide range of services to retail and corporate customers. We think the bank is benefitting from higher interest rates and strong pricing power, with the Irish market having become more concentrated following the withdrawal of competitors. This move was funded by reducing the existing investments in Dutch multinational bank **ING** and Swiss pharmaceuticals giant **Roche**, both of which continue to be held as core exposures. In June we then added a position in **Inditex**, the biggest fashion retailer in the world and owner of one of the largest global brands, Zara. The allocation was funded through a reduction in the holdings in specialised food ingredients products supplier **Kerry Group** and luxury goods company **LVMH**. Inditex's unique model of just in time production, fast product cycle and vertical integration ensures a market-leading ability to respond to trends and bring products quickly to market. We also believe the US represents a real opportunity for the company, with Inditex well positioned to gain market share.

Across the strategies' fixed interest allocation, we initiated a position in the **Premier Miton Corporate Bond Monthly Income** fund, which invests in a diversified mix of sterling investment grade bonds. We rate the team, its strong track record and the fund's active approach highly, funding the trade from either a partial reduction or (for lower-risk investors) a full sale of the holding in the 'passive' **Vanguard UK Investment Grade Bond Index** fund. We also exited the holding in **Federated Hermes Unconstrained Credit** within the MI Quilter Cheviot Fixed Interest fund, following the news that the lead portfolio manager had departed. The position was replaced with another buy-rated idea – the **TwentyFour Strategic Income** fund, which offers specialist exposure to some of the higher-yielding parts of the bond market.

Within the strategies' alternatives investment allocations, we broadened our exposure to funds seeking to generate positive returns with a lower correlation to broader equity markets. The **Neuberger Berman Event Driven** fund is one of these new holdings, and aims to deliver returns through exposure to US equities, albeit in a relatively market neutral format. In keeping with this objective, it seeks to take advantage of mispricing that can occur as a result of corporate change (e.g. management changes or corporate reorganisations) and within environments of high corporate activity.

We also introduced a position in the **Trojan Fund**. The holding is a multi-asset strategy that aims to protect investors' capital and grow its value in real terms over the long term. The strategy primarily invests in developed market equities and bonds (including a large current allocation to US Treasury Inflation-Protected Securities (TIPS)), gold investments, as well as cash and short-dated Treasury bills. The process benefits from stable and experienced portfolio management and research teams, and demonstrates a clear, transparent approach to portfolio construction that ensures it plays a clearly defined role within the allocation.

Finally, amid a busy quarter for activity, we added selectively to the strategies' listed infrastructure exposure. The sector has endured a challenging period, with the structural tailwinds that have supported these trusts' premium ratings in recent years overwhelmed by the knock-on effects of the sharp rise in global interest rates and the re-emergence of alternative sources of yield. With several of these trusts also mid-cap constituents, it is likely that some of the selling pressure has also been exacerbated by their representation within an unloved segment of a deeply unloved UK stock market. We continue to see the merits of the allocation in providing access to good quality assets with predictable, contracted, often inflation-linked cashflows, exposed to structural trends. As such, we saw the historically wide discount levels as a good opportunity for long-term investors to secure attractive yields, as well as offering the potential for capital uplift.

Q2 2024 Key Strategy Activity *New purchase/position increase*

Please note this is not a comprehensive list of trades over the quarter, but a summary of key investment decisions driven primarily by stock and sector recommendations.

Date	Building Block	Trade	Holdings	Sector
April	North American Equity	New Position	Artemis Funds (Lux) SICAV US Smaller Companies I USD Acc	Collectives
April	North American Equity	Position Increase	Meta Platforms Inc Com USD0.000006 Cl 'A'	Communication Services
April	North American Equity	Position Increase	Nvidia Corp Com USD0.001	Information Technology
May	North American Equity	Position Increase	Apple Inc Com USD0.00001	Information Technology
May	North American Equity	Position Increase	Nvidia Corp Com USD0.001	Information Technology
June	North American Equity	Position Increase	Apple Inc Com USD0.00001	Information Technology
May	UK Equity	Position Increase	Unilever Plc ord GBP0.031111	Consumer Staples
May	UK Equity	Position Increase	HSBC Holdings Plc ord USD0.50	Financials
April	European Equity	Position Increase	TotalEnergies Se EUR2.5	Energy
April	European Equity	Position Increase	BNP Paribas EUR2	Financials
May	European Equity	New Position	AIB Group Plc ord EUR0.625 (CDI)	Financials
June	European Equity	New Position	Inditex (Ind.De Diseno Textil SA) EUR0.03 (Post Subd)	Consumer Discretionary
April	Fixed Interest	Position Increase	United Kingdom(Government of) 1.5% Gilt Bds 22/07/2026 GBP1000	UK Government Securities
May	Fixed Interest	New Position	Premier Miton Income Funds ICVC Premier Miton Corp Bd Monthly Inc C Dis	Other UK Fixed Interest
June	Fixed Interest	New Position	Vontobel Fund SICAV Twentyfour Strat Inc AQG GBP Dis	Fixed Interest - Overseas
April	Conservative Fixed Interest	Position Increase	United Kingdom(Government of) 0.625% Snr Bds 07/06/2025 GBP1000	UK Government Securities
May	Conservative Fixed Interest	New Position	Premier Miton Income Funds ICVC Premier Miton Corp Bd Monthly Inc C Dis	Other UK Fixed Interest
April	Alternative Assets	New Position	3i Infrastructure Plc ord NPV	Infrastructure
April	Alternative Assets	New Position	Trojan Investment Funds Trojan X Dis	Total Return
June	Alternative Assets	New Position	Neuberger Berman Investment Fds Plc Event Driven I5 GBP Dis	Absolute Return
April	Diversified Returns	New Position	Trojan Investment Funds Trojan X Dis	Total Return
June	Diversified Returns	New Position	Neuberger Berman Investment Fds Plc Event Driven I5 GBP Dis	Absolute Return

Q2 2024 Key Strategy Activity *Outright sale/position reduction*

Please note this is not a comprehensive list of trades over the quarter, but a summary of key investment decisions driven primarily by stock and sector recommendations.

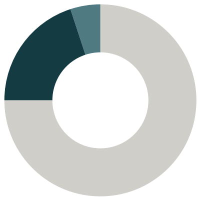
Date	Building Block	Trade	Holdings	Sector
April	North American Equity	Position Reduction	Mondelez Intl Inc Com NPV	Consumer Staples
April	North American Equity	Position Reduction	Apple Inc Com USD0.00001	Information Technology
April	North American Equity	Position Reduction	Alphabet Inc Capital Stock USD0.001 Cl A	Communication Services
April	North American Equity	Position Reduction	United Rentals Inc Com Stk USD0.01	Industrials
May	North American Equity	Position Reduction	Advanced Micro Devices Inc Com Stk USD0.01	Information Technology
May	North American Equity	Position Reduction	Salesforce Inc Com USD0.001	Information Technology
June	North American Equity	Outright Sale	Philip Morris International Inc Com NPV	Consumer Staples
May	UK Equity	Outright Sale	Haleon Plc ord GBP0.01	Health Care
April	European Equity	Position Reduction	Nestle SA CHF0.10 (Regd)	Consumer Staples
April	European Equity	Position Reduction	Gecina SA EUR7.50	Real Estate
May	European Equity	Position Reduction	ING Groep N.V. EUR0.01	Financials
May	European Equity	Position Reduction	Roche Holdings Ag Genusscheine NPV	Health Care
June	European Equity	Position Reduction	LVMH Moet Hennessy Vuitton SE EUR0.30	Consumer Discretionary
June	European Equity	Position Reduction	Kerry Group 'A'Ord EUR0.125	Consumer Staples
May	Fixed Interest	Position Reduction	Royal London Bond Funds ICVC Royal London Sterling Credit Z GBP Dis	Other UK Fixed Interest
May	Fixed Interest	Position Reduction	Vanguard Investment Series Plc UK Inv Grade Bd Idx Instl Pls GBP Dis	Other UK Fixed Interest
June	Fixed Interest	Outright Sale	Federated Hermes Investment Fds Plc Fed Hms Unconstrained Cred M3 GBP Dis H	Fixed Interest - Overseas
May	Conservative Fixed Interest	Outright Sale	Vanguard Investment Series Plc UK Inv Grade Bd Idx Instl Pls GBP Dis	Other UK Fixed Interest
June	Alternative Assets	Position Reduction	Montlake UCITS Platform ICAV MyGale Evt Driven UCITS Instl B Pld Fndr	Absolute Return
June	Alternative Assets	Position Reduction	Pimco Fds Global Investors Srs Plc Dynamic Multi Asset Instl GBP Acc Hgd	Absolute Return

To view the top holdings in each Building Block fund, please see our latest factsheets.

Asset Class / Regional Equity Allocation

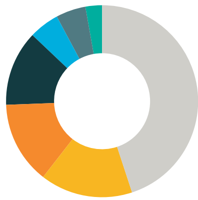
As at 30 June 2024

Quilter Cheviot MPS Cautious (Direct)



Key	Name	Weight
	Fixed Interest	75.0%
	UK Equities	20.0%
	Cash Products	5.0%

Quilter Cheviot MPS Conservative (Direct)

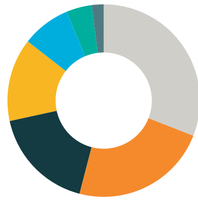


	Fixed Interest	45.0%
	Alternatives	15.5%
	North American Equities	14.0%
	UK Equities	12.5%
	Global Equities	5.2%
	Cash Products	5.0%
	Cont'l European Equities	2.8%

Quilter Cheviot MPS Defensive (Direct)

Key	Name	Weight
	Fixed Interest	36.0%
	North American Equities	17.3%
	Alternatives	17.0%
	UK Equities	15.0%
	Global Equities	6.4%
	Cash Products	5.0%
	Cont'l European Equities	3.3%

Quilter Cheviot MPS Income (Direct)

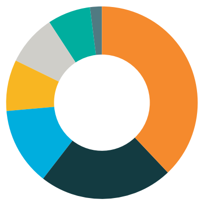


Key	Name	Weight
	Fixed Interest	31.0%
	North American Equities	23.0%
	UK Equities	17.5%
	Alternatives	14.0%
	Global Equities	8.2%
	Cont'l European Equities	4.3%
	Cash Products	2.0%

Quilter Cheviot MPS Balanced (Direct)

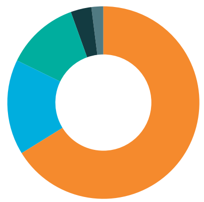
Key	Name	Weight
	North American Equities	28.0%
	Fixed Interest	23.5%
	UK Equities	20.0%
	Alternatives	11.0%
	Global Equities	10.2%
	Cont'l European Equities	5.3%
	Cash Products	2.0%

Quilter Cheviot MPS Growth (Direct)



Key	Name	Weight
	North American Equities	38.0%
	UK Equities	22.5%
	Global Equities	13.2%
	Alternatives	8.5%
	Fixed Interest	8.5%
	Cont'l European Equities	7.3%
	Cash Products	2.0%

Quilter Cheviot MPS Global Growth (Direct)



Key	Name	Weight
	North American Equities	66.3%
	Global Equities	16.0%
	Cont'l European Equities	12.3%
	UK Equities	3.4%
	Cash Products	2.0%

Risk Ratings

As at 31 March 2024

	Dynamic Planner (1-10 scale)	defaqto (1-10 scale)	Risk Rated by Synaptic (SAA 1-5 scale)	Oxford Risk (1-5 scale)	EV (1-5 scale)	FinaMetrica (Best Fit)
Cautious	3	2	2.4	1	0.95	14 - 40
Conservative	4	3	2.4	2	1.83	41 - 51
Defensive	4	4	2.7	2	2.28	50 - 54
Income	5	5	3.2	3	2.92	52 - 59
Balanced	5	6	3.7	3	3.25	64 - 69
Growth	6	7	4.5	4	3.88	70 - 80
Global Growth	7	9	5.3	4	4.50	81 - 100

Voting & Engagement

Quarter ended 30 June 2024

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 use ISS as our proxy voting service provider and based on our responsible investment principles, ISS provides recommendations on each resolution companies put forward to shareholders. We do not always follow the ISS recommendations as, we believe, it is important that as responsible investment is integrated into our investment process, Quilter Cheviot makes up its own mind.

In all cases where we have a concern regarding a company, we make contact to discuss the issues ahead of the AGM.

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

Over the second quarter we voted at:

87
COMPANY MEETINGS

Key voting activity:

- **10x** votes against electing / re-electing director
- **7x** votes against management on compensated related resolutions
- **3x** votes in favour of reporting on climate lobbying (shareholder proposal)
- **3x** votes supporting gender / racial pay gap reporting (shareholder proposal)
- **2x** votes in favour of reporting on lobbying payments and policy (shareholder proposal)
- **1x** vote in favour of reporting on Just Transition (shareholder proposal)
- **1x** vote in favour of reporting on GHG emission reduction targets (shareholder proposal)

The Quilter Group delivered TCFD compliant disclosures alongside the 2023 Quilter Annual Report and Account: https://plc.quilter.com/siteassets/documents/reports/annual-report-climate-related-financial-disclosures-2023.pdf

Quilter's climate change statement may be found here: quilter-climate-change-statement.pdf. More information on our engagement policy can be found here: Engagement process explained | Quilter Cheviot

CASE STUDY

Shell

Objective: Prior to the 2024 AGM the company released an updated climate transition strategy for shareholder approval. We engaged with the company in early 2024 to discuss the development of climate transition planning and have held further dialogue closer to this year's AGM.

Shell has committed to reaching net zero emissions by 2050, but in March 2024, they pared back their 2030 emissions reductions goals and completely removed the more ambitious goal of reducing overall carbon intensity of Scope 1,2 and 3 emissions by 45% by 2035. This not only slows the pace of overall emissions reductions but provides little visibility on their climate transition strategy beyond 2030, leaving a significant credibility gap in meeting any 2050 commitments. As one of Quilter Cheviot's largest emitters, we engaged with the company and concluded that Shell's climate transition plan is not robust.

The weakening of the transition plan ambition and clarity also raises concerns related to the board governance on transition risk. The level of transition risk facing oil and gas companies over the medium to long term is significant and this strategy does not provide a sufficient level of detail or ambition to assure shareholders that these risks are being well managed. In 2023 we did not support the re-election of the Chair at BP, following the paring back of the company's climate goals.

Additionally, a shareholder resolution asking Shell to align medium term emissions reduction targets with the goal of the Paris Climate Agreement has also been put forward at the 2024 AGM. The company believes its current targets and ambitions are in line with the Paris Agreement, but to many external parties and shareholders it is not clear how this is the case. More visibility on medium term goals and the credibility of the overall climate transition plan would be welcome.

Outcome: We voted against approving the proposed climate transition strategy. After extended assessment and engagement we conclude that Shell's climate transition plan is not robust. As a result of the weakening of the climate transition plan, we also voted against the re-election of the Chair. Additionally, we voted to support the shareholder resolution asking the company to align medium term targets with the Paris agreement as clarity on how the company aims to meet its net zero goal would be welcome.

Cost and Charges

Quarter ended 30 June 2024

The summary below takes into account Quilter Cheviot's annual management charge (AMC) and the weighted cost of the underlying collective funds held within each strategy.

These figures do not take into account your adviser's charge for their services, associated platform and/or wrapper fees or charges that may be applied by third parties. Costs and charges data for the underlying funds held within the MPS strategies is sourced from Morningstar. Where costs and charges data for a fund is not available from Morningstar, Quilter Cheviot will use alternative data sources or reasonable endeavours to estimate this figure. Please note that underlying fund costs and charges may differ dependent upon the platform on which the strategies are being accessed.

Please also note that a direct cost comparison between an MPS Strategy and a fund may not be a reliable indicator. Although Quilter Cheviot does not apply transaction charges when undertaking the rebalancing of strategy holdings, there may be external costs incurred when switching between funds.

Strategy	Quilter Cheviot AMC %	Weighted Cost of Underlying Collective Funds %	Total %
MPS Global Growth	0.75%	0.25%	1.00%
MPS Growth	0.75%	0.31%	1.06%
MPS Balanced	0.75%	0.32%	1.07%
MPS Income	0.75%	0.32%	1.07%
MPS Defensive	0.75%	0.29%	1.04%
MPS Conservative	0.75%	0.28%	1.03%
MPS Cautious	0.75%	0.20%	0.95%

Sources: MorningStar and Quilter Cheviot. All figures correct to 30/06/2024.

Service Literature & Updates

- In depth monthly factsheets, showing top holdings in each Building Block fund, as well as strategy performance
- Service brochure, responsible investment summary and detailed quarterly review documents
- Regular updates include investment and market commentaries, webinars, vlogs from our research analysts, events and much more.

MPS July Newsletter

Published: **12 July 2024**

June saw the re-emergence of US leadership across global equity markets.

MPS in the Loop – Transportation

Watch time: **5 minutes**

Equity Analyst, Tom Gilbey, takes us through recent geopolitical events that have impacted on supply chains. Tom talks us through what companies are doing to diversify their supply chains and the complexities that this can cause.

Our experts are here to help you

Contact us today to find out how we can support you and your clients.

+44 (0)20 7150 4000

enquiries@quiltercheviot.com

quiltercheviot.com

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

Disclaimer

The value of investments and the income from them can go down as well as up. You may not recover what you invest. There are risks involved with this type of investment.

Important Information: This document is for general information purposes only and does not take into account the specific investment objectives, financial situation or individual requirements of any particular person. It is not a personal recommendation and it should not be regarded as a solicitation or an offer to buy or sell any securities or instruments mentioned in it. Quilter Cheviot recommends that potential investors independently evaluate investments, and encourages investors to seek the advice of a financial advisor. Unless otherwise stated, all statistics have been supplied by Quilter Cheviot. Whilst we believe the facts to be correct, we cannot assume liability for any errors or omissions. Quilter Cheviot and Quilter Cheviot Investment Management are trading names of Quilter Cheviot Limited. Quilter Cheviot Limited is registered in England with number 01923571, registered office at Senator House, 85 Queen Victoria Street, London, EC4V 4AB. Quilter Cheviot Limited is a member of the London Stock Exchange and authorised and regulated by the UK Financial Conduct Authority and as an approved Financial Services Provider by the Financial Sector Conduct Authority in South Africa.

The following disclaimer is with regard to our distribution of data from MCSI indices to you, the recipient/user. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).

The following disclaimer is with regard to our permitted use of HFR indices: Any named HFRX index is being used under license from Hedge Fund Research, Inc. (www.hedgefundresearch.com), which does not endorse or approve of any of the contents of this report.

QUILTER CHEVIOT

quiltercheviot.com