

RESPONSIBLE INVESTMENT

Stewardship priorities 2025

SPECIALISTS IN INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited, February 2025

Stewardship is a central pillar of Quilter Cheviot’s responsible investment approach. 2025 will be a critical year in driving forward our engagement priorities, whether that is holding high emitting companies to their interim decarbonisation targets or understanding how UK companies will begin to implement new recommendations on gender balanced boards. Below we outline our priorities for the year ahead and a review of our 2024 activities.

This applies to centrally monitored holdings only. Your Investment Manager has the flexibility, within a controlled framework, to tailor your portfolio with regard to asset allocation and security selection, in order to accommodate your investment requirements.

Our approach

Our stewardship process is comprised of two main approaches: engagement and voting. By engagement, we mean speaking directly to companies (including investment trusts) and funds about the issues that concern us and understanding their general approach to material environmental, social and governance (ESG) issues. This can be at board, executive or manager level. Engagements can be reactive or proactive. Where engagement topics are proactively set by the responsible investment team, potentially outside of AGM activity, we use numerous data providers to identify engagement targets and track the success of these efforts over time. Any thematic engagement proposals are approved by our internal Engagement Panel.

Voting is the formal expression of approval or disapproval related to items proposed by management and shareholders at general meetings. We vote on our global equity and investment trust positions¹ – this includes the monitored equity lists, the monitored issue investment trust list, our AIM portfolio service, MPS Building Blocks, funds managed by Quilter Cheviot², and where we own more than 0.2% or £2 million of a holding in the UK. This represents around 95% assets we hold that have voting rights. Voting is undertaken alongside engagement.

Many of our interactions with companies are related to governance issues and typically take place surrounding the general meetings. While most general meeting agenda items still relate to governance topics, we are increasingly seeing items on social and environmental issues put forward by shareholders.

In addition to more reactive activities, Quilter Cheviot has three broad thematic priorities that help to drive our approach to stewardship: climate change, human rights, and natural capital. Topics within these categories have been identified for several reasons, including:

Size: This relates to the relative size of the position and the likely access/impact we will have. This will be viewed on a total exposure and percentage of equity issued basis.

Geography: We will have more meaningful engagements in markets where we have expertise in legal processes and stewardship norms.

Research coverage: Our research teams are embedded into our engagement process. We will have more meaningful engagement where knowledge and relationships are deeper.

For more detail on our approach to stewardship or details of engagement and voting activities please visit [Stewardship | Quilter Cheviot](#).



¹ As far as reasonably possible given the local regulations regarding share voting.

² Climate Assets Balanced Fund and Climate Assets Growth Fund; Quilter Cheviot Global Income and Growth Fund for Charities; Quilter Investors Ethical Fund; Libero Balanced

Our thematic engagement priorities



Climate change

Through our stewardship process we commit to engage with companies and funds to understand their decarbonisation plans. We aim to encourage alignment with net zero pathways and disclosure against globally recognised standards such as the Science Based Targets Initiative.



Human rights

Through our stewardship process we commit to engage with companies and funds to better understand or improve performance on issues such as decent work and pay, human rights in the supply chain, and health and safety, as well as inclusion and diversity.



Natural capital

Through our stewardship process we commit to engage with companies operating, and funds investing in, high impact sectors to better understand how they are managing and mitigating risks related to deforestation, water usage and biodiversity. We commit to engage to improve company and fund performance where they are not meeting the standards we expect.

Engagement priorities 2025³

³ These descriptions represent prospective engagement designs, and may be adjusted as necessary.

Direct equities

Climate change

Greening algorithms: Artificial Intelligence and emissions

We will engage companies involved in cloud hyper-scaling to better understand the challenges faced in meeting their climate goals. Many of these companies score well on ESG factor assessments and have been early movers in committing to ambitious decarbonisation targets, but as the construction and use of new data centres continues some companies are either struggling to manage spiralling Scope 3 emissions or relying on future emissions reduction solutions that are not yet economic or scalable. Our engagement will focus on investee companies most exposed to cloud hyper-scaling activities, principally in technology and software industry groups.

Objectives

- Assess the quality of climate transition plans among high emitters.
- Encourage alignment and disclosure towards the goal of net zero emissions by 2050.

SBTi targets: meeting our Climate Action Plan

One of the key measures of our Climate Action Plan, released at beginning of 2025, is to engage equity holdings lacking a Science Based Target Initiative (SBTi) verified transition plan (where an industry relevant pathway exists). In 2025 we will be initiating the engagement process to encourage investee companies to committed to and achieve verified science-based transitions plans, of which the SBTi is the gold standard.

Objectives

- Meet our Climate Action Plan commitments by increasing the number of investee companies with SBTi validated targets where an industry-relevant pathway exists.

Human rights

Moral machines: Artificial Intelligence and ethics

As AI systems become more integrated into commercial processes, the ethical implications of its use have come under increasing scrutiny. We will engage investee companies to better assess the challenges and opportunities that arise when developing and deploying AI technologies. From issues of bias and fairness to questions of accountability, privacy, and transparency.

Objectives

- Explore measures companies have in place to address and manage the principles of AI use in terms of human values.
- Ensure companies have appropriate policies and practices in this area, as well as a robust standard of reporting incidents.

Natural capital

Disposable disclosures: consumer goods and single use plastics

In 2024 global efforts to reduce plastic waste stalled. The UN plastic treaty negotiations in South Korea failed to reach consensus while some large consumer goods companies either weakened goals to increase reusable packaging and reduce virgin plastic use or struggled to meet targets. Recent global plastic waste brand audits* have found that less than 60 companies are responsible for more than half the world's plastic pollution, with six companies responsible for a quarter of that total. We aim to engage investee companies in the consumer goods sector that can be identified as having the largest exposure to single use plastic pollution.

Objectives

- Understand companies' processes and policies to minimise the risks associated single use plastics.
- Understand how companies' most exposed to plastic use are preparing for a changing regulatory environment.
- Identify gaps and encourage best practice

* <https://www.science.org/doi/10.1126/sciadv.adj8275>

Collectives

Where's the net? Third party managers and net zero ambitions

We will be continuing our third-party fund-alignment engagement initiated last year as part of our work with the Wealth Managers on Climate group. Following on from our letter, we will continue having discussions with our largest external fund managers outlining our expectations in addressing the climate impacts of their investments. Our engagements will include discussion of firms' rationales where they lack alignment targets, highlighting relevant barriers to setting targets (e.g. asset types lacking established alignment methodologies), and understanding what measures firms can reasonably take to mitigate the climate impact of investments.

ESG Risk And Exposure

We continue to work to enhance our ability to interrogate and analyse underlying holdings data within third-party funds. This enables us to identify holdings more easily that have higher ESG risk factors and then engage to understand how the risks are being managed and considered by the fund.

ESG RFI

We send our ESG (environmental, social and governance factors) Request for Information (ESG RFI) to our third-party managers annually. This ESG RFI asks for detail on the fund and firm level approaches to responsible investment. For Quilter Cheviot 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.

As mentioned, the ESG RFI enables us to analyse the approach taken at a firm and manager level, as well as identify areas of focus for engagement including holdings with significant climate, human rights, and natural capital related risks.

Year in review: engagement priorities 2024

Climate change: overview

Climate Change is the defining issue of our time, and we are at a defining moment. From shifting weather patterns that threaten food production, to rising sea levels that increase the risk of catastrophic flooding, the impacts of climate change are global in scope and unprecedented in scale. Without drastic action today, adapting to these impacts in the future will be more difficult and costly*.

SDG Alignment: 7 Affordable and Clean Energy, 13 Climate Action, 15 Life on Land

Thematic engagements

The elephant in the room: The exodus of US managers from Climate Action 100+

Taking the temperature - Assessing progress on climate transition plans

**Slipping through the net? Third party managers and net zero ambitions
Phase 1 - 2023/24**

Collaborations



**Part of Climate Action 100+
2023 onwards**



**Part of the IIGCC Net Zero
Engagement Initiative
2023 onwards**

**Wealth Managers on Climate
2024 onwards**

**IIGCC External Managers Working Group
2024 onwards**

**CDP SBTi Campaign
2022 onwards**



*United Nations

Human rights: overview

Human rights are 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*

SDG Alignment: 5 Gender Equality, 8 Decent Work and Economic Growth, 10 Reduced Inequalities, 16 Peace, Justice & Strong institutions

Thematic engagements

Investing in diversity disclosure

Safety is no accident: occupational health and safety practices

Defending data:
cyber security and critical infrastructure

Collaborative engagements



Fix the Exec
2023 onwards

Modern Slavery collaborations:

- Find it, Fix it, Prevent it
2022 onwards
- Modern Slavery in the UK
2021 onwards

Natural capital: overview

Natural capital can be defined as the stock of renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits and ecosystem services to society*. The purpose is to understand the impact that companies have on the natural world including water, deforestation and biodiversity. SDG Alignment: 6 Clean Water and Sanitation, 12 Responsible Consumption and Production, 14 Life Below Water, 15 Life on Land.

*Task-Force on Nature-related Financial Disclosures

Thematic engagements

Woods for the Trees: how companies are responding to EU Deforestation Regulation
2024

Collaborative engagements



Nature Action 100
2023 onwards



PRI Spring
2024 onwards

Governance: overview

We research governance related themes which inform our voting policy for direct equity holdings.

Thematic engagements

Succession: evaluating board tenure in the EU

State of Independence

Class inequality: the disparity between share ownership and voting power

Collaborative activity

Climate Action 100+

Quilter Cheviot is an investor participant of Climate Action 100+ and will continue the work in 2025. Climate Action 100+ is an investor led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Being an active participant in collaborative engagement initiatives is an important element of our overall stewardship agenda and we are pleased to be a member of the National Grid and Trane Technologies engagement working group.

Nature Action 100

Quilter Cheviot is a member of Nature Action 100. This is a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. The initiative engages companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030. Quilter Cheviot is part of the engagement working group for a global diversified mining company.

IIGCC Net Zero Engagement Initiative (NZEI)

The Net Zero engagement initiative aims to enable net portfolio alignment by supporting investor engagement and seeking the disclosures investors need from companies to determine if they are aligned with net zero. This engagement will therefore seek Net Zero Investment Framework (NZIF)-aligned transition plans from companies. We are part of the working groups for two target companies, Tesco and Siemens.

Spring

Spring is a PRI stewardship initiative for nature, addressing the systemic risks of biodiversity loss to protect the long-term interests of investors. Through this, the initiative aims to contribute to the global goal of halting and reversing biodiversity loss by 2030. Spring seeks to enhance corporate practices, ultimately generating positive, real-world outcomes, while protecting and enhancing investment returns. In its first phase, Spring will focus on tackling forest loss and land degradation in priority geographies, and encouraging responsible practices in corporate political engagement. We are an active participant in engagement groups for Reckitt Benckiser and BHP.

30% Club UK Investor Group: 'Fix The Exec'

Quilter Cheviot is a member of the UK investor branch of the 30% Club, a campaign to boost the number of women in board seats and executive leadership at listed companies in the UK. More specifically we are also member of the 'Fix the Exec' working group which will engage some of the worst performing listed companies in the UK in terms of women representation at executive and senior management level.



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