QUILTER CHEVIOT

Responsible Investment Quarterly

Quarter 2, 2024

Approver: Quilter Cheviot Limited, 31 July 2024

QUILTER CHEVIOT

Contents

Welcome

With proxy season in full swing, our stewardship demands peaked across Q2. Kirsty, Greg and Ramón were instrumental in this area, with Kirsty managing our voting activity and Greg leading on reactive engagements. We also remained focused on our thematic engagement activity, with Nicholas leading on the health and safety engagement piece, engaging with five companies operating in high-risk industries. Additionally, we have been engaging with our third-party managers who have recently exited from CA 100+, to express our dissatisfaction and emphasise our expectations for the integration of climate risk moving forwards.

Regulatory reporting continued into the second quarter with TCFD reporting deadlines. Gemma and Margaret were particularly involved with this with the focus on both the entity and product reports, which were published in June.

Elsewhere, our active ownership extends beyond voting and engagement responsibilities, and Gemma continues to contribute to advisory workshops and charity roundtables. We are also in the process of producing Quilter Cheviot's first Climate Action Plan and reviewing ESG RFI (Request for Information) responses from our third-party managers ahead of targeted engagement planned for Q3.

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Thematic engagements

Our expectations for investment trust Boards

Phase Two – Investment trusts: Alternatives

This report covers the second phase of the investment trust thematic engagement. Last September, we reported on the first phase of this thematic engagement 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 manager led ideas where we hold a significant position.

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Click here for the full insight

Thematic engagements

Taking the temperature

Assessing progress on climate transition plans

In December 2023 we continued our ongoing engagement program on climate disclosure and transition planning with the largest emitters among our direct equity holdings. This systematic engagement process supports Quilter Cheviot's Climate Action Plan (to be released in 2024) and is conducted on a 24-month cycle. We initiated this program in 2021 and the first phase was very much engagement for information. This second iteration aims to assess progress against previously stated plans, assessing the quality of transitions plans and whether investee companies are taking (or not taking) appropriate measures to align with a future lower carbon economy.

Greg Kearney
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Thematic engagements

Woods for the trees

How companies are responding to EU Deforestation Regulation

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. As part of our engagement activities on the topic of natural capital, Quilter Cheviot has been working as part of the 'Forest Champions' program, run by the environmental non-profit organisation, CDP.

Within this we have:

- used CDP's repository of company reported data on deforestation linked commodity involvement to identify companies that are most exposed to deforestation;
- combined this with recent external analysis on companies most exposed to the upcoming EU regulation on deforestation;
- identified a group of companies where we have material holdings which are most exposed to deforestation linked commodities and have significant activities in Europe. This was a focused engagement, targeting a handful of material holdings with the aim to better understand how companies most exposed to deforestation linked commodity use are preparing for a changing regulatory environment.

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Thematic engagements

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

Several large US-based asset managers have recently withdrawn their membership of the Climate Action 100+ (CA100+) initiative. We were disappointed by this development, and wanted to better understand whether this was indicative of weakening climate stewardship practices in US markets.

Margaret Schmitt
Responsible Investment Analyst

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Voting highlights

Key voting activity: Environmental

The second quarter of the year is always our busiest and this year was no exception. From April to June, we voted at 290 number of meetings, a slight increase from 284 across the same time period last year. We saw a decline in the number of contentious voting items however, with 169 across the quarter compared to 216 last year.

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

Climate related voting activity amongst the oil and gas majors remain high on the voting agenda. Similar to last year, this year's proxy season saw Quilter Cheviot place a significant number of votes against management at high carbon emitting companies. We aim to ensure consistency in our voting approach and will determine the voting action taken based on a company's performance in managing climate risks relative to its peers. 2024 saw the continuation of companies, notably **Shell** and **BP** pairing back their climate targets, and this year we escalated our voting action to express our disapproval. Alongside engagement, this forms a key part of our stewardship process.

Shell and BP form the first group of our oil and gas majors. Both companies have committed to and have taken steps to achieve their climate targets. However, in recent years, progress has slowed. At Shell's AGM, in light of the weakening in the robustness of a climate transition strategy (in the context of achieving net zero goals), we voted against the re-election of the chair and (in line with last year) against approving the company's energy transition strategy. We also supported the shareholder proposal requesting Shell to align its Scope 3 reduction targets to the Paris Climate Agreement. While we recognise the specificity of this request, greater clarity on how medium-term goals align with the aims of reaching net zero emissions by 2050 would be welcome. At BP, the company elected a new chair to the board, so in this instance we did not feel comfortable voting against the director but will monitor developments moving forward.

For US based oil and gas companies, which continue to lag European peers in terms of the energy transition targets or disclosures, we largely followed a similar voting pattern as 2023. At **Chevron**, **Exxon** and **ConocoPhillips**, we voted against re-electing the chair of the board or the lead independent director as all companies have failed to set net zero 2050 target that covers all of Scope 1 and 2 and relevant Scope 3 emissions.

When voting, we will not support shareholder resolutions where we believe the requirements are too specific, un-realistic or poorly structured – even if we are generally supportive of improvements in the company's climate-related disclosure.

Voting highlights

Environmental voting activity by numbers:

6x votes in favour of reporting on climate lobbying (shareholder proposal)
We supported these requests where we consider shareholders would benefit from greater transparency of the company's direct and indirect climate lobbying, and how the company plans to mitigate any risks that might be identified.
Companies voted on: American Express, Bank of America, Boeing, Meta, NextEra Energy, Wells Fargo

5x votes in favour of reporting on fossil fuel financing activities (shareholder proposal)
We believe shareholders would benefit from greater transparency on how financial institutions are addressing any misalignments between financing activities and greenhouse gas emissions reduction targets.
Companies voted on: Bank of America, Berkshire Hathaway, Goldman Sachs, Markel Group, Royal Bank of Canada

4x votes in favour of reporting on GHG emission reduction targets (shareholder proposal)
Where we felt the current disclosure level was lacking, we supported calls for additional disclosures on how companies are assessing and managing climate related risks. This will help us better understand how these companies are managing the transition to a lower carbon economy.
Companies voted on: Boeing, RTX, Shell (x2)

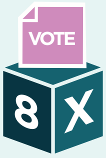
1x vote in favour of reporting on Just Transition (shareholder proposal)
We supported this request, filed at Amazon, as shareholders would benefit from additional disclosure on how the company considers human capital management in relation to the transition to a low-carbon economy.
Company voted on: Amazon.com

Voting highlights

Key voting activity: Social

This proxy season, companies faced increasing pressure to report on their human rights policies and practices, specifically in the context of gender and ethnic pay gap reporting. While reporting on the gender pay gap is a regulatory requirement for companies meeting a certain employee threshold in the UK, it is also becoming standard practice across our other largest voting markets, the US and EU. Increasingly, shareholders are requesting more granular pay gap data, and across Q2 we saw an uptick in calls for companies to report on their unadjusted pay gap statistics.

Social voting activity by numbers:



8x votes in favour of reporting on lobbying payments and policy (shareholder proposal)
We supported shareholder resolutions calling for additional disclosure on direct and indirect lobbying-related expenditures, where it would help shareholders better assess the risks and benefits associated with the company's participation in the public policy process.
Companies voted on: Alphabet, Amazon.com, Caterpillar, Eli Lilly, Goldman Sachs, RTX, Verizon, Wells Fargo

6x votes in favour of conducting human rights risk assessment (shareholder proposal)
Many of these resolutions were filed by shareholders at banks and technology-based companies. We supported these requests where the reports would allow shareholders to better assess the company's management of its human rights impacts.
Companies voted on: Amazon.com, Chevron, JPMorgan Chase, Tesla, Wells Fargo (x2)

5x votes in favour of gender pay gap reporting (shareholder proposal)
We supported these requests, specifically where there were calls for the company to report on its adjusted and unadjusted median pay gap statistics, as these would allow shareholders to evaluate and measure progress towards reducing pay inequities more fully.
Companies voted on: Amazon.com, Boeing, Exxon Mobil, Goldman Sachs, Marriott

Voting highlights

Key voting activity: Governance

Executive compensation was the most topical governance related voting item across Q2, with a rise in the number of UK based executive packages flagged due to concerns regarding excessive pay. Assessing the appropriate level of executive compensation is not an exact science, but assessing a company against its peers can be a useful aid. One issue becoming more prevalent, is companies attempting to bridge the gap between executive compensation in the US and the UK. The former typically comprises of much larger overall quantum. When engaged with companies on this topic, similar concerns were raised across industries: the requirement for companies to have a competitive executive package in order to attract and retain top talent. However, we appreciate companies striking the balance between remaining competitive and adhering to local market standards.

Governance voting activity by numbers:

VOTE 34X

34x votes against management on compensated related resolutions (management item)
We voted against remuneration reports, polices and financial statements where the short and long-term incentive performance metrics lacked transparency and were not sufficiently robust. Additionally, where inflight payments were awarded, in the absence of a compelling rationale, we consider opaqueness to be disadvantageous to shareholders. We also voted against remuneration reports, in instances where the company had failed to address shareholder compensation related concerns.
Companies voted on: adidas, Amazon.com, American International Group, Boeing, boohoo group, Dollar General, EssilorLuxottica (x3), Euronext, Glanbia, Hermes (x5), Kering, KION GROUP, LVMH (x6), Meta, Ocado Group (x2), Pearson, Salesforce, Smith & Nephew (x2), Tesla (x2), Walt Disney

VOTE 47X

47*x votes against electing / re-electing director (management item)
We voted against the re-election of directors owing to board independence concerns, the presence of multi class voting structures and lack of board diversity. Notably, we voted against the re-election of the chair at the AGMs held by Shell, Chevron, Exxon and ConocoPhillips as we had concerns either over the weakening of climate transition targets or lack thereof.
Companies voted on: Alphabet (x5), Berkshire Hathaway (x5), BMW, Chevron, Coca-Cola, ConocoPhillips, Exxon Mobil, Hermes (x3), LVMH (x3), Meta (x5), Pearson, Pershing Square Holdings, Shell (x2), Siemens Healthineers (x8), T-Mobile (x8), Walt Disney

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

Voting activity

Over the second quarter of 2024, we voted at :

290
COMPANY MEETINGS

Over the quarter we voted on:

5,051
RESOLUTIONS

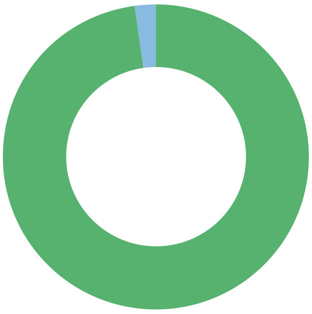
for X 169 resolutions we did not support management (this includes shareholder proposals).

We enabled clients to instruct votes at 21 meetings

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

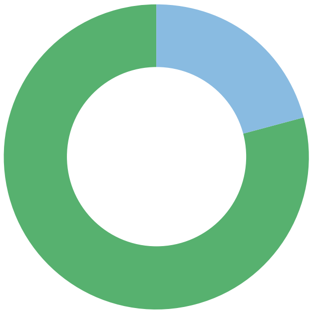
Voting activity

Management resolutions voted on in Q2 2024
(excluding shareholder proposals)



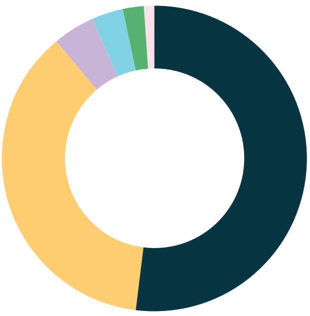
- With management recommendation **98%**
- Against management recommendation **2%**

Meetings with votes against management in Q2 2024
(including shareholder proposals)



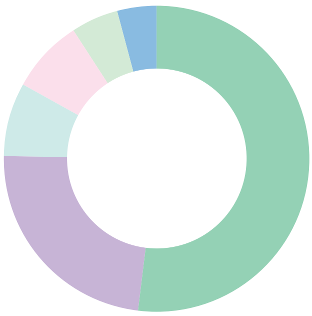
- With management recommendation **79%**
- Against management recommendation **21%**

Management resolutions voted against by topic in Q2 2024
(excluding shareholder proposals)



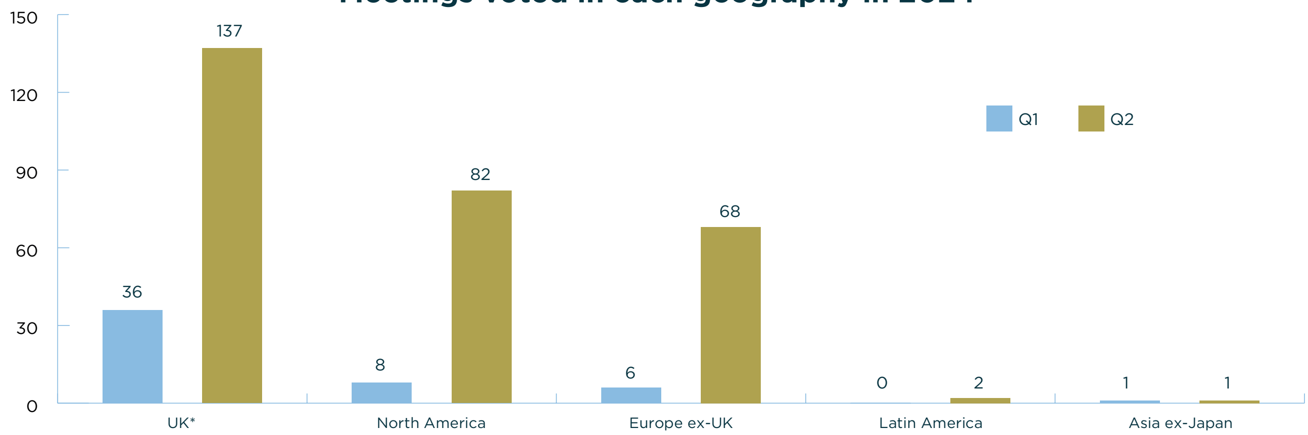
- Board related **48%**
- Remuneration **34%**
- Capital structure **4%**
- Other business **3%**
- Climate **2%**
- Corporate transactions **1%**

Shareholder proposals supported in Q2 2024



- Social and ethical matters **40%**
- Environmental matters **18%**
- Shareholder rights/ company articles **6%**
- Board related **6%**
- Other business **4%**
- Remuneration **3%**

Meetings voted in each geography in 2024



* Includes the Crown Dependencies of Jersey and Guernsey

Engagement activity

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

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

Environment: climate and natural capital

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

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

Environment

Markel - Environment

Objective: We engaged the company prior to the 2024 AGM to discuss a shareholder resolution related to disclosing greenhouse gas (GHG) emissions in investing, insuring and underwriting activities.

A shareholder resolution was put forward at the 2024 AGM requesting the company disclose GHG emissions from its underwriting, insuring, and investment activities. The company had concerns that these disclosure demands are not implementable and a distraction from core activities. As a parent company overseeing several distinct operating companies, Markel also believes pushing this demand onto the underlying entities could challenge their strategic autonomy. The company does not disclose Scope 1 or 2 emissions and does not disclose Scope 3 emissions from financed activities (i.e., investments). These are recommended disclosures in the Task Force on Climate-related Financial Disclosure framework (TCFD). On further analysis this type of disclosure is becoming a standard reporting output among peer companies, particularly related to investments, with some European peers also beginning to disclose emissions related to underwriting. These emissions disclosures are not yet a federal US regulatory requirement, but regulators in Canada, EU, UK, and California are beginning to ask for Scope 3 financed emissions reporting.

Outcome: We supported this shareholder proposal. It is not time bound and would encourage the company to begin to align with peers and the evolving regulatory requirements.

Rio Tinto - Environment

Objective: We are an investor participant in Nature Action 100, a collaborative engagement focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. As part of this initiative, we are a member of the Rio Tinto working group and have been engaging alongside other investors to better understand the company's nature management strategy and communicate shareholder expectations on this topic.

We held our first collaborative engagement with the company as part of the initiative. At this stage we are unable to communicate the details of the meeting, given the early stages the dialogue and relationship, but it was a useful initial interaction where we set out the expectations of the initiative and learned about Rio Tinto's plans to build out a more comprehensive approach to nature management.

Outcome: The company was open to input from investors on expectations and shared learnings. We are in the process of establishing a regular dialogue on the progress of its nature strategy.

Shell - Environment

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, the company pared back 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 climate transition strategy beyond 2030, leaving a significant credibility gap in meeting any 2050 commitments. As one of Quilter Cheviot's largest emitters by financed emissions exposure, we engaged with the company in 2024 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 of transition risk. The board is responsible for governing the management of long-term risks. 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.

TotalEnergies - Environment

Objective: We recommenced our ongoing thematic engagement on climate transition plans and disclosures with the largest emitters among our direct equity holdings (Scope 1 and 2 emissions only). 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 be speaking with c.10 companies representing c.85% of direct equity Scope 1 and 2 emissions exposure within discretionary holdings. We will be reassessing the quality of transitions plans and whether they are taking (or not taking) appropriate measures to align with a future lower carbon economy. Total has announced a net zero commitment by 2050 and recently extended carbon intensity reduction targets. Headline ambition is to become an integrated energy company where renewables make up an increasing part of energy production and sales. This was the final engagement of this program.

Total's continued shift towards renewables generation and gas production is clear. The company has a detailed plan for reducing Scope 1 and 2 emissions (on an absolute and interim basis) and is making good progress towards meeting these goals. It was one of the first companies to set net zero targets for Scope 3 emissions. These targets are as comprehensive as any of the top climate performing oil and gas majors. More detail on the quality and permanence of carbon offsets used to mitigate residual operational emissions would be useful. The company has signalled aims to become a lower carbon company and provided high level strategic transparency on its direction of travel, notably, Total aims to generate 75% of the company sales from either low carbon molecules or electricity and renewables generation by 2050. At a third of total spend, the company's level of capital expenditure on developing low carbon solutions is high relative to peers.

Outcome: On balance, we are comfortable with progress made and welcome reporting in areas such as worldwide scope 3 emissions. We also welcome the 2050 sales mix vision the company has provided. Concerns remain over the increases in fossil fuel production relative to net zero commitments and how after an initial ramp up in gas production, this will be brought down to meet long-term targets. We will monitor progress moving forward but will vote to approve a management resolution on climate strategy progress at the 2024 AGM.

Markel - Environment

Objective: We engaged the company prior to the 2024 AGM to discuss a shareholder resolution related to disclosing greenhouse gas (GHG) emissions in investing, insuring and underwriting activities.

A shareholder resolution was put forward at the 2024 AGM requesting the company disclose GHG emissions from its underwriting, insuring, and investment activities. The company had concerns that these disclosure demands are not implementable and a distraction from core activities. As a parent company overseeing several distinct operating companies, Markel also believes pushing this demand onto the underlying entities could challenge their strategic autonomy. The company does not disclose Scope 1 or 2 emissions and does not disclose Scope 3 emissions from financed activities (i.e., investments). These are recommended disclosures in the Task Force on Climate-related Financial Disclosure framework (TCFD). On further analysis this type of disclosure is becoming a standard reporting output among peer companies, particularly related to investments, with some European peers also beginning to disclose emissions related to underwriting. These emissions disclosures are not yet a federal US regulatory requirement, but regulators in Canada, EU, UK, and California are beginning to ask for Scope 3 financed emissions reporting.

Outcome: On balance, we are comfortable with progress made and welcome reporting in areas such as worldwide scope 3 emissions. We also welcome the 2050 sales mix vision the company has provided. Concerns remain over the increases in fossil fuel production relative to net zero commitments and how after an initial ramp up in gas production, this will be brought down to meet long-term targets. We will monitor progress moving forward but will vote to approve a management resolution on climate strategy progress at the 2024 AGM.

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

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. This was the most recent engagement within this program. We will engage with any further managers which exit CA100+ where we are invested in their third-party funds.

Manager 1 - Environment

We learned of the manager's withdrawal from the Climate Action 100+ (CA100+) collaborative engagement through an addendum mentioned by one of the firm's fund managers. This information came during an ongoing email exchange with our funds research team. We were disappointed to find the firm has done nothing to publicly announce their withdrawal, in stark contrast to other withdrawing firms earlier this year.

Our questions centred around the firm's reasons for leaving and its timing. We spoke with the firm's Chief Responsibility Officer (CRO), who was clear that the firm did not object to CA100+'s Phase 2 – they did not see Phase 2 as asking the firm to do anything materially different from Phase 1. The firm's primary reason for withdrawing from the initiative is perceived legal risk around collaborative climate-focused engagement. The firm's CRO emphasised that their concerns were not around collusion or unclear governance within the initiative, as some anti-ESG proponents originally purported. The firm found the litigation concerning non-financial goals influencing consumer outcomes to be a more credible threat (they cited the ongoing State of Tennessee vs. Blackrock case). Because consumer protection statutes are much more subjectively interpreted and applied, the firm is concerned that these could be successfully used to sue asset managers participating in collaborative engagements with specific climate targets.

When asked about the delay in their withdrawal compared to peers, the firm asserted that it only recently reversed a previous decision to remain committed to the initiative made in February (when first wave of withdrawals took place). Since then, the firm believes the legal risks (of remaining a public member of CA100+) have increased meaningfully. The US presidential elections are, in the firm's view, heightening the anti-ESG rhetoric and resulting pressure, and increasingly meaning the risks of association with climate topics are no longer worth the benefits of collaborative engagement.

We challenged the firm's approach of 'quietly' exiting the initiative, with neither formal public statements nor direct communication of its withdrawal to clients. The firm maintained that it was too difficult to convey the nuances of its decision to withdraw in a press release, which can be misconstrued by media. While we acknowledge public media's capacity for misinterpretation, the firm is undoubtedly familiar with these challenges and has capable public relations staff. We do not accept this as justification for failing to be transparent about this decision. Even less acceptable is their failure to communicate this decision directly and clearly to the firm's clients. The statement that their reasons for withdrawing are 'nuanced' is clearly untrue: unlike other firms we met with on this topic, it was able to point directly to one reason (the threat of legal liability) as the reason driving its withdrawal.

The firm maintained that its approach to addressing climate risk in its investments remains unchanged, even considering this decision. It remains committed to applying the Net Zero Investment Framework (NZIF) engagement approach in its stewardship practices and are comfortable with the firm's climate commitments in the Net Zero Asset Managers (NZAM) initiative. The firm's ability to define the terms and scope of its committed assets is key, making the firm's NZAM commitments more easily defensible even in context of firm's risk aversion around climate-related engagement.

Outcome: We were disappointed to learn of another asset manager leaving CA100+, particularly in the manner that we learned of it (indirectly, as a side note) and for the reasons cited. What was particularly stark in our discussion with the firm was the distinction made how risks of litigation over climate engagement were perceived versus how credible they truly are. It was clear that the firm CRO does not believe it likely that the firm would face legal action over its CA100+ membership or activities, but the mere possibility was enough to move the firm to withdraw. It is interesting to note that the legal action cited by the firm was initiated back in December 2023, and has not yet been resolved. No other similar litigation cases have been brought forward since then, which draws into question what activity the firm viewed as a 'meaningful increase' in litigation risk between February and June 2024. Despite the firm's assurances that its NZAM commitment remains unchanged, it is worth watching for any further backsliding here or in the firm's in-house climate engagement approach.

Social

JP Morgan Chase & Co - Social

Objective: We engaged the company prior to the 2024 AGM to discuss several shareholder resolutions on topics including indigenous rights and severance agreements.

Several shareholder resolutions were put forward at the 2024 AGM for consideration, including one requesting the company report on the effectiveness of policies related to the management of indigenous peoples' rights. The proponent contends that the company has financed projects and provided services to several clients implicated in alleged human rights violations of indigenous peoples, particularly related to rights to 'free, prior and informed consent.' The item requests a report assessing the effectiveness of the policies, practices, and performance indicators in respecting these rights in its existing and proposed general corporate and project financing. The company contends that its approach is covered in its human rights policies and, despite having recently withdraw from the Equator Principles, does use this as framework for the approach to assessing and managing potential risks associated with client violations. In the human rights policy, JP Morgan does not make an explicit reference to Indigenous Peoples' rights to "free, prior and informed consent" or discuss processes that the company follows to make sure that those rights are respected. On engagement the company did highlight the robustness of its risk management process where an 'Environmental and Social' expert would be involved in examining the reputational risk of involvement with a potentially controversial project.

The second shareholder resolution discussed related to a request to put forward any executive severance package above market norms to a shareholder vote. JP Morgan outlined its current stance, whereby it does not have a policy of granting golden parachutes, particularly related to 'change in control events' (i.e. mergers and acquisitions), where such severance packages would be notably relevant. Additionally, following the 2008 financial crisis and JP Morgan's designation as a systemically important bank, it is extremely unlikely that a change of control event would occur. It should also be noted that a severance cap of c.$400,000 is maintained.

Outcome: We voted to support the resolution on further reporting on indigenous peoples' rights as we believe shareholders would benefit from increased disclosure. We voted against the proposal on severance agreements as the company's status as a systemically important bank and the lack of historic concerns related to this topic does not warrant a change in the current approach.

L'Oréal - Social

Objective: Following a BBC report into child labour used on jasmine farms in Egypt, we engaged the company to better understand what measures are being taken to mitigate the risks of child labour in the jasmine oil supply chain, an ingredient used in some of the company's perfume products.

An investigation into perfume supply chains by the BBC found jasmine used by Lancôme (owned by L'Oréal) was picked by minors. The presence of child labour was found in Egypt, a country that produces around half the world's supply of jasmine flowers. The report alleges that some luxury goods companies are facing pricing pressures, leading to lower sourcing budgets and greater use of children by families harvesting the crops. As part of their investigation the BBC has evidenced, at four separate harvesting locations, many workers on smallholder farms supplying jasmine oil factories, were under the age of 15.

We engaged the company to better understand the situation and learn more about the concrete actions being taking to address this issue. L'Oréal contends that prior to BBC contact, in October 2023, its human rights due diligence processes revealed the potential use of child labour in the harvesting of Egyptian jasmine by local suppliers. According to the company, it immediately set up a full-scale independent investigation to put in place a series of concrete actions to address child labour. As part of the investigation the company visited all processors as well as nine out of the ten sourcing villages. The company conducted interviews and focus groups with 323 stakeholders, including local workers and neighbouring communities. Since then, L'Oréal has worked with 11 non-governmental organisations (NGOs) and multi-lateral organisations as well as the Egyptian government and the largest jasmine processors to better assess the situation. The company is aiming to put in place specific measures ahead of the 2024 June harvest and is working with multiple entities including the Fair Labour Association to do this. As of now, L'Oréal has committed to buying jasmine in Egypt only from controlled farms belonging to responsible jasmine processors – whilst continuing to provide support to smallholders that it does not buy from, through the sectorial partnership with the Fair Labor Association, the International Labour Organization, the Egyptian government, and other local partners. Ahead of the June harvest the company is implementing a detailed action plan with suppliers and monitoring teams will be in Egypt to evaluate success.

More broadly, the company appears aware of the limits of certification and independent auditing systems used in an extremely fragmented supply chain. L'Oréal acknowledges the importance of collective effort to transform and deepen supply chain monitoring. It also recognises that current EU regulation on duty of vigilance for company's focuses on Tier 1 (primary) suppliers, but is likely to evolve, requiring better assessment of raw material producers.

Outcome: We welcome the company's acknowledgement of the issue and list of initial actions being taken and take some comfort that there is a short-term focus on monitoring and evaluating upcoming harvests. Recognising the severe fragmentation of global supply chains in commodities that are of low volume use in perfume supply chains, there are evidently gaps in the company's monitoring practices that are not sufficiently covered by independent auditing and certification. We will be monitoring developments moving forwards and allow for the maturing of the company response, we will re-engage the company in 2025 to assess progress of current remediation plans.

Republic Services - Social

Objective: We engaged the company prior to the 2024 AGM to discuss a shareholder resolution related to employee related impacts of the Just Transition.

A shareholder resolution was put forward at the 2024 AGM requesting the company prepare a report on how it is addressing the impact of the climate change strategy on relevant stakeholders. We engaged the company to better understand the current approach to reporting in this area. The company's sustainability report is relatively comprehensive on its approach to not only tackling wider sustainability issues but also how it is developing human capital whilst evolving business operations. The company recognises it is a worker centric business but has been bringing in several processes and enhanced technologies to improve the automation of some activities. A significant driver of greater automation in processes like waste collection is worker safety. Republic has created several technical training programs to upskill, particularly younger, workers to offer opportunities in areas of growth such as renewable natural gas and higher quality plastic circularity. On the latter point, the company has recently opened its high-quality polymer recycling centre, creating over 250 new jobs.

Outcome: We were comfortable supporting management and voted against the shareholder resolution. The company's current reporting approach to human capital development in the context of climate change is not significantly behind peers, although we did encourage Republic to directly address the concept of a 'Just Transition' in future iterations of sustainability disclosures.

Social Thematic engagement: occupational health and safety practices

Objective: As part of our 2024 thematic engagement on occupational health and safety practices we engaged with a number of companies within our investment universe. This is an engagement for information and the objective is to understand how investee companies operating in high-risk industries, are managing, and mitigating health and safety related risks.

Persimmon - Social

Quality and safety are some of the core values at Persimmon. To uphold these values, the company has created an internal health and safety department which is led by the Group Health and Safety Director and supported by a team of 30 advisers, working across all business units. These advisers are responsible for completing monthly audited site inspections and provide advice and guidance to the business on findings. The health and safety team reports into the Sustainability Committee which is chaired by the group Chief Executive (CEO) and has the primary responsibility for health and safety oversight across the business. There is also a quarterly group Health and Safety Committee chaired by the CEO and attended by all regional chairs and operational senior managers to cover discussions on how the business will achieve operational excellence.

To improve safety standards across the business and become an industry leader, Persimmon is on the verge of launching a behavioural safety campaign called target zero. This campaign will be launched by the end of year and aims to help the company achieve zero incidents, injuries, near misses and time lost from safety incidents. It has been approved by the board and will encompass at all operational employees and the contractor workforce. To ensure there is accountability for achieving this target, there is a new safety index included in the senior management bonus structure. The safety index covers fatalities and near misses, and each business unit is measured with its own target.

A core part of the company's risk prevention is its risk-mapping reports produced every two months. These reports enable the company to monitor trends and identify recurring issues. The recent findings have shown the incidents tend to be spread across the business and are mainly due to human error when operatives are not following the company's policies and standards.

The final discussion points in the meeting were on the use of technology and employee health. The company has completed an application called the Persimmon Way which is used for training its operational employees and contractor workforce. It is also used by new joiners as part of their induction training. Regarding employee health, the company has partnered with the British Safety Council on a being well together campaign. This campaign is intended to improve the standards of employee wellbeing and will provide data to monitor this.

Outcome: Persimmon is committed to being an industry leader in health and safety and this is exemplified through its target zero campaign. The campaign has been approved by the board and is targeting zero fatalities, injuries, and lost time to injury. In addition to its ambitious targets, Persimmon has board level oversight for health and safety and will use its risk-mapping report for continuous improvement.

SSE - Social

The primary responsibility for health and safety oversight at SSE sits with the Safety, Sustainability, Health, and Environment Advisory Committee (SSHEAC), and the Safety, Health, and Environment Committee (SHEC). These committees meet on a quarterly basis with the Chief Executive, to discuss key safety and health issues affecting each business area, and forthcoming legislation. The committee members are also required to visit operational sites and provide reports at quarterly meetings.

SSE's safety philosophy is underpinned by a culture of collaboration with contract partners and speaking up against wrongdoings. The company has prioritised working with contract partners as the total recordable injury rate per 100,000 hours worked, has failed to meet expectations. To address this concern, the company formed a contractor safety team which is supported by safety, health and environment managers who work across all business units. On the culture of speaking up, the company has internal reporting channels and an independent whistleblowing platform.

A core component of the company's commitment to safety is its training programme. The company completed a pilot of its new immersive training experience in 2022 and has since launched this programme for all employees and contractors working in operational roles. This training is expected to improve safety standards and is based on neuroscientific principles which support long-term learning. The final discussion point was on tracking employee health. Across the industry, there is a greater focus on tracking safety performance through metrics such as the total recordable injury rate. SSE does not track the health of operational workers but is committed to improving employee wellbeing through benefits such as mental health seminars, providing sanitary products, and establishing a community of wellbeing champions across the business.

Outcome: SSE is committed to building a strong safety culture through its board committees, immersive training programmes and contractor safety team. The company believes that the key contributors to a safety culture are collaborating with contract partners and speaking up against wrongdoings. This collaboration is being achieved through the contractor safety team and there is a whistle-blower platform to support the culture of speaking up. Overall, we are comfortable with the company's health and safety approach. We will continue to monitor the number of contractor incidents through our internal ESG evaluation model.

Taylor Wimpey - Social

Taylor Wimpey is one of the largest UK housebuilders by market capitalisation and has an impressive record as it has not been involved in any occupational health and safety controversies in over a decade. To achieve this, the company has made safety its topmost priority with the board and CEO engaged in monthly meetings on the topic. In the UK, there are 15 members of the safety team, and they are supported by an independent site advisor who visits all sites monthly. This process allows the company to monitor any safety related risks through an 'ABC' process. A score of 'C' is used to flag a minor risk, category 'B' is for any risk which requires all production to be put on hold, and an 'A' is the most significant where there is a risk of life-changing injuries. These risks are all reported directly to the company CEO who reports on this to the board monthly.

A core part of Taylor Wimpey's safety prevention is its risk-mapping. The company captures historical data and uses this to educate ground workers and supervisors on key areas of concern from previous years. This risk-mapping has enabled the company to identify small cuts to ground workers as being the most common injury. To support these workers, the company has made manual handling guides available at all sites. There is also an initial three-day training programme for new joiners, followed by yearly training on changes to regulation.

The final discussion points in the meeting were on the use of technology and executive remuneration. An emerging technology which will improve safety standards across the housebuilder industry is the use of artificial intelligence for scaffold inspection. This technology is still in its infancy, and it is expected to provide insights on whether scaffolds have been assembled to required standards. Regarding executive remuneration, the company does not set any health and safety related targets as part of executive remuneration. This is because it does not believe there should be a reward for ensuring the safety of all staff.

Outcome: Taylor Wimpey has an impressive record in occupational health and safety, and this has been achieved through its ongoing training, communication, whistleblower procedure, technology, and safety teams. Despite the company operating in a high-risk industry, it seems to be one of the industry leaders on this topic. We will use this meeting to benchmark against other housebuilders we will be engaging with to inform us on best practice.

Governance

Ashoka Whiteoak Emerging Markets Trust - Governance

Objective: The meeting aimed to address the concerns the fee structure the trust, especially in the context of the public offer to merge with Asia Dragon Trust, another emerging markets fund.

Ashoka WhiteOak Emerging Markets (AWEM) recently proposed a merger with the much larger Asia Dragon Trust, of which Quilter Cheviot is also a shareholder.

AWEM's fee structure does not have any fixed fees. Instead, it has a variable fee based on the trust's performance. We have several issues with this, the main one being that it lacks a threshold watermark. We think that this is not in line with best practice and can result in the fund underperforming and the manager still getting paid. We believe that the proposed format is skewed in favour of the manager. We point out that similar structures in the past have not led to good client outcomes.

Outcome: Given that we remain unconvinced by the merits of the proposed fee structure, we have requested additional information, specifically regarding what we see as a risk of payment for underperformance, considering the absence of a watermark.

Asia Dragon Trust (DGN) - Governance

Objective: We engaged with the board of Asia Dragon Trust (DGN) to discuss the recent bid launched by Ashoka WhiteOak Emerging Markets (AWEM) and the scope of the strategic review that was recently announced by the DGN's board. We also wanted to use this opportunity to provide feedback on the performance of the investment adviser.

Although the chair could not comment on the details of the strategic review, he did confirm that it would be a comprehensive review, so the board is open to options. The board will objectively review any of the offers that come though including AWEM. Although the board is not expecting any major changes in the investment strategy, it is open to changes in investment style.

We raised our concerns about the performance of the investment advisors. For many years, the manager has been underperforming their peers. In our view, the board has been slow to react to this underperformance. The chair replied that when he joined the board over six years ago, another review was conducted, and some changes were made to the investment advisor, which improved performance for a while. However, in recent years, the performance has been problematic.

Outcome: We shared our feedback on performance and concerns about performance fees with the chair. We will continue to monitor the outcomes of the strategic review.

BH Macro (BHMG) - Governance

Objective: To express concerns to the board regarding the recent underperformance, persistent discount and discuss potential solutions. We also discussed board composition and succession planning.

BH Macro is an investment trust that aims to generate consistent long-term capital growth through an investment policy of investing substantially all its assets, directly or indirectly, in the Brevan Howard Master Fund Limited. The trust has experienced a period of underperformance relative to its peers and the market, which has resulted in a persistent discount to its net asset value (NAV). If the discount continues at an average of 8% over a year, the trust will have a continuation vote at the upcoming annual general meeting (AGM) in 2025, as per its Articles of Association. The resolution will require a supermajority of 75% of votes.

The board of the trust is looking into various options to address the discount issue and to attract more institutional and retail investors.

We discussed the board composition and the tenure of the directors, especially the chair of the Audit Committee, who will reach the nine-year limit in 2025. We encouraged the board to adhere to the best practice of limiting the tenure of directors to nine years, and to ensure a smooth transition of this role, given the upcoming change in auditor.

Outcome: Although the discount has decreased to the low double digits in recent months, it is still a concern for us. Therefore, we will continue to monitor the performance of the trust and the effectiveness of any board actions to close the discount.

BMW - Governance

Objective: To discuss concerns related to the independence of the remuneration committee.

Fewer than 50% of the Remuneration Committee members are independent, which falls below our voting policy guidelines. The Remuneration Committee comprises of three members, with only 33% being categorised as independent by our proxy advisor. The company responded to our concerns by outlining its approach to assessing the independence of its directors. It considers the chair of the supervisory board to be independent, despite the director was previously employed by the company. We categorise the chair as non-independent and as the chair sits on the Remuneration Committee, this results in the committee being insufficiently independent.

Outcome: While the overall independence of the board is in line with market practice, the independence of the Remuneration Committee falls below these expectations. Given we disagree with the categorisation of the impacted director, we voted against their re-election.

Bristol-Myers Squibb Co (BMY) - Governance

Objective: To discuss the shareholder request for the board to adopt a share retention policy for its senior executives.

The proponent believes that adopting a more stringent stock ownership requirement would better align the executives with the long-term interest of shareholders. While we agree with the sentiment, the request is overly prescriptive, outlining the condition for senior executives to hold a significant amount (around 25%) of acquired shares until their retirement or until they are 60 years old. This requirement goes beyond the scope of a typical share retention policy, and it is difficult to see how it would benefit shareholders. The company also states that its existing share retention policy requires senior officers to hold either six, three or two times their base salary, which is standard market practice.

Outcome: Given the company's current share retention policy is in line with its peers, and appears sufficiently rigorous in nature, we voted against this request.

EssilorLuxottica - Governance

Objective: To raise concerns related to remuneration and the election of the CEO/chair.

Our proxy advisor has recommended voting against several compensation-related items. During the last AGM, the board proposed a sharp increase in the CEO's remuneration policy despite opposition from shareholders. However, the board neglected to engage with the shareholders and is now proposing the same increase again. Additionally, our proxy adviser recommends voting against re-electing the CEO as the company has combined the roles of the CEO/chair. We contacted the company via email to get more information, and it responded with a rebuttal letter outlining its case for the remuneration resolutions.

Outcome: After reviewing the company's letter, we have decided to vote against the remuneration-related resolutions and support the re-election of the CEO. While share the concerns related to changes to executive remuneration, we do not believe this significant step of removing the CEO is warranted at this time.

Euronext - Governance

Objective: We engaged the company to discuss concerns related to increases in executive remuneration prior to the 2024 AGM.

Our proxy advisor recommended voting against the remuneration report at the upcoming AGM. We share concerns related to the additional one-off share award being granted to the CEO and COO in connection with the integration of Borsa Italiana. According to the company, the executives were granted performance shares worth 100% of base salary as a reward to recognise specific Borsa Italiana integration milestones, to reinforce retention, and to support the next phase of growth of Euronext. It should be remembered that the executive team were granted a one-off bonus related to the acquisition in 2021. The one-off award pay-out is linked to performance criteria under the existing long-term incentive plan. The company proposed a new remuneration policy at the 2023 AGM. It was unclear why the Remuneration Committee did not integrate any reward for further integration of the combined entity through the formal policy structure, rather than granting a discretionary one-off award.

Outcome: While we do not necessarily disagree with the rationale for increasing executive remuneration or the transformational nature of the successful integration of Borsa Italiana, we do not typically support discretionary one-off awards that sit outside of the remuneration policy. We voted against the remuneration report.

Geberit - Governance

Objective: To discuss the details of the short term and long-term incentive portion (LTI) of the remuneration plan.

There are concerns regarding the performance metrics and targets of both the short-term and long-term incentive plans. We contacted the company for more context, and it considers disclosing specific performance targets to be commercially sensitive information; however, this opaqueness makes it challenging to assess how pay-outs are linked to performance achievements. Moreover, Geberit only includes one performance metric (return on capital) under the LTI plan. While we appreciate a single metric can provide for a simple way to assess performance, in this case additional disclosure on how management has performed against the benchmark would benefit shareholders.

Outcome: We voted against the remuneration report as the lack of disclosure makes it difficult to evaluate the link between performance and pay-out.

IWG - Governance

Objective: To discuss the board composition and non-executive directors (NEDs) re-elections at the upcoming shareholder meeting.

At the 2024 Annual General Meeting, two non-executive directors will have a tenure exceeding nine years. As per the UK Corporate Governance Code best practice, over tenured directors are not considered independent. We have taken a stricter approach to assessing board tenure over the past 18 months. Moreover, the chair of the board has been serving for 15 years, which reduces the overall independence of the board to 50%, a crucial threshold that influences our voting decisions.

We engaged the company for more information on succession plans and the pathway to a fully independent board. The company states that there is a plan in place to expedite the refreshment of the board, including the chair, in accordance with anticipated short to medium-term strategic developments.

Outcome: We acknowledge the board's efforts to devise a succession plan and the recent addition of two non-executive directors in the last 24 months. However, we have requested the company provide additional information regarding the timeline for the plan by next year's AGM. Based on the updated information presented and any potential board composition changes, we will provide cautionary support in this instance but will reassess at the 2025 AGM.

JPM American (JAM) - Governance

Objective: At this engagement we discussed succession planning for the board and portfolio management team, as well as the quality of communications from the investment adviser, and the responsible investment disclosures.

The fund is managed by Jonathan Simon, who plans to retire in early 2025. His co-manager, Timothy Parton, left in March. Meanwhile, Felise Agranoff has joined as the new growth manager (an investment style focusing on investing in companies with high growth potential), but the new value manager, Jonathan's replacement, has not yet been announced.

The chair is stepping down at the AGM, at which point Robert Talbut will be appointed chair. We have identified this as an issue due to Robert having already served on the board for seven years and would only be able to be the chair for two years (or at least that is as long as we would support given our strong views on tenure).

Another issue we addressed with the board was the lack of monthly portfolio commentary. We suggested it would be useful to receive commentary on why the manager decided to buy or sell certain stocks, as this information was not currently disclosed. We discussed the responsible investment disclosures and observed that the previous year's report had included examples of proxy voting rationale, which were missing in this year's annual report. We suggested that including this information in the next report would be helpful. Besides this, the annual report had good examples of ESG-related engagement.

Outcome: The incoming chair discussed his plans to extend his tenure over nine years, and we were informed that it would be a 12-month extension that would be clearly disclosed to investors. Although we believe that this deviates from best practice, setting a hard deadline for the extension helps to mitigate our concerns. Additionally, we recognise that the ongoing succession of the fund manager team is a unique situation, which would benefit from board continuation.

Kering - Governance

Objective: To raise concerns relating to the restricted stock plans and related party transactions of a director.

Our proxy advisor recommended voting against approving a payment made to director shortly before joining the board. This payment was made for consulting services and lacks sufficient disclosure. The company has not disclosed any information on the price-setting or selection processes, which does not allow us to determine whether the consulting agreement is in line with shareholders' best interests or whether it affects the independence of the incoming board member.

Our proxy advisor also recommended a vote against authorising share capital for use in restricted stock plans with performance conditions attached. We were inclined to vote against this item due to the lack of disclosure regarding the performance conditions pertaining to beneficiaries other than the CEO.

Outcome: We contacted the company for additional context. Ultimately, we were not convinced by the rationale provided by the company and voted against both resolutions.

Learning Technologies - Governance

Objective: We responded to a letter from the company formally announcing changes to its board membership and structure.

Despite the extension of tenure for some board members, we are pleased to see other positives changes. We appreciate the inclusion of a Senior Independent Director (SID) and a Nomination Committee, which aligns with best practices. With regards to the chair, despite relinquishing an executive chair role, the current chair still holds three non-executive chair roles, which could potentially classify them as over boarded. However, we supported the chair after engaging the company last year, believing they were dedicating sufficient time to the role despite their other commitments. Therefore, we will continue to support them this year as well.

The chair of the Audit Committee is set to exceed the recommended tenure after the upcoming AGM. Additionally, the chair is also not considered independent, which (if taking the chair into account) reduces the board's overall independence to 50%, a crucial threshold that can influence voting our decisions. If there was a clear timeline for the succession of over-tenured directors, it could help alleviate this concern. A point that we have communicated to the company.

Outcome: As this is the first time this issue has been raised, and considering the reduced size of the board, we have supported all proposals. We will keep monitoring changes to the board and the transparency of succession timelines prior to the 2025 AGM.

London Stock Exchange - Governance

Objective: To discuss the remuneration policy being put forward at the 2024 AGM.

LSEG is proposing a new remuneration policy which significantly increases the potential total compensation package for the CEO and CFO. The policy increases salary provisions, as well as annual bonus and long-term incentive plan (LTIP). These measures include raising the maximum LTIP opportunity from for the CEO from 300% to 550% of salary. Overall, the potential total opportunity for the CEO could place his remuneration towards the top of UK peer comparators. The structure of the policy is traditional and echoes the previous executive package. The proposed changes to the pay opportunities are significant but the company's rationale is detailed and well expressed. The company has developed under the current CEO, transforming into a larger, global financial infrastructure and data company. We also note that the pay arrangement does not break UK norms, despite the increases, and keeps a simple structure rather than adding layers of complexity. It is also noted that the company generated a total shareholder return (TSR) of 124% between 2018 and 2023 (in comparison to the FTSE 100 TSR of 10% across the same period) In the last fiscal year, the CEO's pay ranked at the 7th percentile of sectors peers versus and earnings per share performance in the 93rd percentile when compared to the same peer set. This disparity is further highlighted by the fact that the CEO of the company's US subsidiary, Tradeweb, is paid more that the group CEO despite being a simpler business with approximately a third of the market capitalisation of LSEG.

Outcome: We are comfortable supporting the remuneration policy. We recognise that this is a material increase in the overall package but acknowledge that the company has changed over the tenure of the current CEO. It is more global, complex and has delivered significant shareholder returns over this period. LSEG has also delivered a detailed, well signposted, and convincing rationale for the changes, while not positioning the policy outside of UK remuneration norms.

Newmont Corporation - Governance

Objective: To explore the context of the Compensation Committee chair's pay, which has been highlighted as excessive for several years.

The Compensation Committee chair has benefited from high director pay without a justifiable rational provided. The company highlights that the pay package is formulated to ensure it supports recruitment and retention efforts, while taking into consideration the role and workload of the director. While we appreciate the need for a competitive pay package, the Compensation Committee chair's total pay package sits considerably higher than its peers, in some cases exceeding 200% of its peer. However, prior to the meeting, in response to shareholder feedback, the board reassessed their overall pay package, reducing it significantly.

Outcome: The company responded to shareholder concerns by reducing the annual retainer of the committee chair. As a result, we supported the re-election of this director.

Salesforce com - Governance

Objective: To discuss concerns regarding the executive officer's compensation.

The main concern surrounded the company granting the CEO an additional equity grant based on one-year goals during the year in review. We prefer equity grants to be subject to a multi-year performance period, to better align with shareholder interests. The company highlights two factors which contributed to the in-flight adjustment to the CEO's compensation: strong company performance and significant transformation. However, we do not consider this a compelling enough rationale.

Outcome: While we recognise the company has outperformed expectations, the equity component of the CEO's remuneration, notably the overall quantum and short performance period, is not in line with best practice, therefore we voted against this item.

Smith & Nephew - Governance

Objective: We engaged the Chair of the Remuneration Committee to discuss concerns regarding the remuneration policy and share plan being put forward at the 2024 AGM.

The company is proposing to introduce a Restricted Share Plan (RSP) award of up to 125% of salary to US-based executives (including the CEO). This is in addition to increasing the maximum Performance Share Plan (PSP) award opportunity from 275% of salary to 300%. The primary aim of these changes is to ensure the company's pay structure more closely aligns with the long-term incentive design found in the US market and medical technology peers. On analysis the company found that 18 out of 22 US based med-tech peers have a similar RSP structure. The new policy would place CEO total pay opportunity at the lower quartile of this comparator group but is a generous policy relative to the FTSE 100. The company highlighted that, while its primary listing is in London, less than 4% of its revenue is derived in the UK and over 40% is in the US. The current CEO and key senior operational leaders are based in the US; and 40% of its global employees are based in the US while 8% are based in the UK. Smith & Nephew has experienced significant CEO churn in recent times, having four CEOs in five years, at least one of which departed for reasons related to remuneration. We recognise the effort to find a middle ground between US and UK remuneration packages with inclusion of some UK best practice mechanisms such as the quantitative performance underpin to the RSP, an increase in executive shareholding requirements and a continuation of annual bonus deferrals for US executives. These are measures that are broadly absent from US peer pay packages. We communicated to the company that we would have liked to see this pushed further with inclusion of a formal two-year holding period into US executive long-term pay.

Outcome: We placed on abstention vote on approving the policy and share plan. We do not typically use abstention votes but recognise that the company has majority exposure to US revenues and executive talent. We appreciate the rationale behind the changes and see merit in some movement on pay but are unable to fully support the new policy without the inclusion of a full suite of UK corporate governance best practice norms, including a five-year cumulative vesting and holding period for long-term pay.

Sonoco Products - Governance

Objective: To assess the company's level of disclosure on its political spending activities.

A shareholder filed a request for the company to report on its political spending. Typically, we expect companies to provide a publicly available list of its trade member associations and list both its direct and indirect political activity. The company states it does not make any monetary or non-monetary contributions or political expenditures, and any participation in trade associations is non-political. In this instance, given the company engages in minimal political activity, meeting the request would provide little value to shareholders.

Outcome: Given Sonoco typically does not engage in policy activity, we voted against this shareholder request.

Stellantis - Governance

Objective: We engaged the company to discuss concerns related to the CEO's realised total remuneration for 2023.

Our proxy adviser raised concerns related to the CEO's realised pay package in 2023, recommending a vote against the remuneration report. The excessive quantum of the package is largely driven by the 'transformation incentive' which is a one-off cash incentive awarded in addition to the annual bonus and long-term incentive plan. The total remuneration for the year is above the mainly European, proxy advisor selected peer group and (to a lesser degree) above company selected global peers. The company contends that this additional incentive award is designed to drive executive execution of the successful post-merger transformation of the company over a five-year period. The existing LTIP covers a three-year period. The company also notes that the European peer group comparison is not necessarily helpful as, although European listed, it is a global company with over 70% of revenues derived from North America. We tend to agree. The history of large automotive mergers is complicated and often unsuccessful.

However, the company has been relatively successful in electrifying its product range, with over half its model now falling into that category. Share price performance has also been positive in the medium term. The company notes that although peer companies may not have similar five-year incentives in place, it has been using profits to execute larger share buy-backs. Stellantis prefers to improve company and share performance by incentivising a successful transformation and move to electric vehicle product portfolio.

Outcome: We voted to support management on all items as we believe the executive team is delivering a strong transformation strategy. In this instance, we believe the proxy advisors 'realised' pay calculation which includes awarded remuneration and that which vests in the fiscal year (having been awarded in previous years) – may be inflating the total annual remuneration assessment.

Tesla - Governance

Objective: To discuss a several concerns related to share pledging and executive remuneration prior to the 2024 AGM.

Our proxy advisor recommended voting against management on several items including the re-election of James Murdoch to the board and the ratification of performance-based stock options for Elon Musk. The recommendation to vote against Murdoch is related to his position on the Audit Committee and concerns regarding the board's risk oversight function in light of some directors and executives pledging of a significant amount of the company's stock. Share pledging is a practice where stock is pledged as collateral for person loans. The company has a share pledging policy in place, and having engaged with the company previously on the items we were pleased to see additional safeguards brought in during the engagement period that limited the total loan value to 25% of shares pledged. We are comfortable with the current position of the company.

In re-ratifying the 2018 performance related pay for CEO, Elon Musk, shareholders have been presented with the unusual opportunity to re-approve an already granted pay package with the full benefit of hindsight in determining if the award was closely aligned with shareholders' interests and if it accomplished the goals the board set out to achieve. The proposal of this item is closely related to a recent Delaware court ruling which has deemed the pay package excessive and in violation of shareholders' best interests. The board believes that passing this resolution will help in nullifying this ruling. In support of the item, the board contends, that it would be unjust for Musk not to receive the full award, which was previously approved by shareholders, and after achieving the high-performance hurdles. The company also points to an unstable situation, if the award is not re-ratified, whereby Musk would not be sufficiently incentivised moving forward and potentially less focused on the company.

This proposal, in combination with the quantum of the package itself, are unprecedented. The potential $55 billion award would create, by far, the largest pay-out ever seen in the US (and indeed the world). We recognise that the structure of the award and its performance incentives may well have contributed to the company's growth since 2018. However, it is difficult to escape the extreme magnitude of the award and its excess. Additionally, it could be argued that the award has failed to achieve one of its main aims, to secure Musk's attention, which is spread across a wide array of other high-profile positions and projects. It should also be noted that Quilter Cheviot did not participate in the original approval of the incentive award program.

Outcome: We voted to support the re-election of James Murdoch but voted against management on several other items, including the ratification of performance-based stock options to Elon Musk which we deem excessive.

Thematic engagement – REITS and Open-Ended Property Funds

This quarter we finished the third and last phase of the investment trust thematic engagement. This phase focused on real estate investment trusts (REITs) and open-ended property funds.

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

- board composition
- board effectiveness
- responsible investment disclosures

Objective: As part of our Real Estate Investment Trust (REIT) engagement, we extended the remit include open-ended (OE) property funds. We wanted to test the hypothesis that closed-ended funds have more robust governance oversight and responsible investment disclosure standards. Additionally, we wanted to investigate the governance structures of these vehicles, especially regarding the quality of governance oversight.

The Property Income Trust for Charities - Governance

The Property Income Trust for Charities, commonly referred to as PITCH Fund, is a Common Investment Fund, which is an open-ended investment vehicle similar to a unit trust but designed specifically for charities. The Fund's objective is to invest in property throughout the UK to provide a diversified portfolio.

The responsible investment disclosures are notably superior to those of the open-ended investment company (OEIC) counterparts. This is influenced by the nature of the fund and its target market – the charity sector.

The Investor Committee's role is to oversee the fund's operation on behalf of the unitholders. The main responsibilities include approving the investment strategy, determining the fund's broad strategy, deciding to what extent to invest in third-party funds, debt, and alternative investments.

The Investor Committee also approves decisions to buy or sell assets. Owing to the time sensitive nature of investment decisions, these are usually made by circulating documents outside of the committee, while most sell decisions can wait until the quarterly meetings. The Investor Committee also challenges the manager on ethical considerations. For example, the committee recently had to decide whether a new tenant's business matched the fund's ethical guidelines.

The fund holds periodical webinars to provide fund updates but admits there is little interest shown by unitholders in engaging with the Investor Committee.

Outcome: The Investor Committee appears to have a strong oversight role, and the fund's ethical investment policy helps ensure high transparency standards. The committee wields significant influence over the fund's investment decisions. We found that the Investor Committee was receptive to meeting with us, although, as we were told, there is not a widespread appetite to engage among the broader unitholder base.

Charities Property Fund - Governance

The Charities Property Fund is a Common Investment Fund, which is an open-ended investment vehicle, similar to a unit trust, but designed specifically for charities. The Fund's objective is to invest in property throughout the UK to provide a diversified portfolio. The portfolio is managed by Savills Investment Management.

Malcolm Naish is the chair of the Advisory Committee, which sees its role as being a critical friend. The committee reviews the manager's actions and decisions regarding purchases and sales, although the manager ultimately has the discretion to make those decisions. It's important to note that the Advisory Committee is not a board and does not have all the powers that the board of a REIT would have.

The chair highlighted that the Advisory Committee is good at pushing back when needed and that the committee does have influence. When it comes to purchase decisions, the manager and the committee tend to be aligned as the latter is already familiar with the property by the time it reaches a sell or buy decision. Other roles of the committee include ensuring that the investments align with the ethical policy. For example, it was recently decided to sell an asset after the new tenants did not align with the fund's ethical policy. The committee also reviews progress with regards to ESG-related targets as well as financial metrics such as the performance of rent collection.

The chair believes that having nine members is a good size, as it allows for some members to be absent during meetings without impacting effectiveness, although this is a rare occurrence. There are no formal limits to tenure or term limits, so once a member is added to the board, they stay on it indefinitely. Additionally, unit holders do not vote on who is on the Advisory Committee.

Outcome: This was a helpful discussion to understand the role and responsibilities of the Advisory Committee. Although the committee does not have overriding power over the investment advisor, it does have good oversight of the activities within the portfolio. Additionally, we expect to see some improvements regarding the formalisation of tenure and member recruitment, which is a move towards best practice. With in our small sample, we found Unit Trusts to have better disclosure than other open-ended disclosures such as open-ended investment companies (OEICs).

Aberdeen Standard UK Real Estate Share Fund - Governance

The property Fund is an open-ended fund that invests in UK REITs and other property-related shares. It is a sub-fund of OEIC I, an umbrella fund that includes 32 different funds. The fund is managed by the authorised corporate director (ACD) and appoints the investment advisers and other service providers.

The ACD's board consists of five directors, two of whom are independent, as required by the FCA. The board meets formally once a quarter and oversees the administration and operation of the funds, as well as ensuring compliance with the rules and regulations of the Collective Investment Schemes Sourcebook. The board does not have a significant role in fund disclosures, especially regarding responsible investment factors, which are undertaken at the fund house level.

The investor engagement with the ACD board is extremely limited, as the board's role is mainly regulatory and not subject to intense scrutiny. The fund house stated that it was the first time that an investor had asked to meet with the independent directors of the ACD, and that it was not their responsibility to do so.

Outcome: Closed-ended funds, which have an equivalent size or market cap, have a fully independent board. From an investor's perspective, this is an obvious advantage as it provides a more independent and rigorous level of oversight. Overall, the boards of open-ended funds tend to be more constrained by regulatory requirements and limited in its remit. This is not a judgment on how well the fund is being run but rather a comparison to closed-ended equivalents.

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

Cyber security

Kirsty Ward is joined by Nicholas Omale to discuss his latest thematic engagement piece on cyber security.

Watch vlog

Consumer goods and the apparel sector

Kirsty Ward is joined by Research Equity Analyst, Mamta Valechha to discuss the behavioural pattens in the luxury goods space.

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.

UK STEWARDSHIP CODE

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

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

Responsible Investment at Quilter Cheviot

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

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

A Direct Equity Approach* - DPS 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

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

Source: IPCC

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

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

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

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

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

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

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

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

Source: PRI

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

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

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

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

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

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

Source: Financial Reporting Council (FRC)

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

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

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

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

Source: EU Directive

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

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

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

Source: United Nations

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

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Our experts are here to help you

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QUILTER CHEVIOT

SPECIALISTS IN INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited 31 July 2024

QC000364_1 (07/2024)