

Quilter



Responsible Investment





1. Introduction

Quilter¹ provides financial advice, investment solutions and wealth management to customers in the UK and selected international markets. We give customers and financial advisers choice and flexibility over how they access our solutions and services and most importantly we put good customer outcomes first.

Our fundamental purpose is to help create prosperity for the generations of today and tomorrow. For customers, and their families, this means we aim to deliver long term investment value that enables them to have a secure financial future. We also have a wider impact and are committed to being a responsible business; our approach being set out in our *Shared Prosperity Plan*. This covers how we operate as a business but also how we invest responsibly. A wide range of factors influence long term value creation; increasingly the investment community recognises the relevance of sustainability-related factors, covering environmental, social and governance (ESG) topics, including climate change related risks and opportunities. We believe that growing awareness amongst investors, customers, advisers and other stakeholders will lead to a fundamental shift in how capital is allocated in future.

We have committed to integrate responsible investment principles across our business. This means we will enhance ESG transparency to inform customers' decisions, further integrate material ESG factors into our management of investment solutions and continue to undertake effective stewardship. We believe this helps to create more resilient investment portfolios and supports a sustainable investment industry and wider economy over the long-term.

2. Responsible investment definitions

Responsible investment is an evolving area with an array of terms and definitions which can act as a barrier to understanding and awareness by investors. We want to address this and believe there is benefit from common terminology. We will adopt the Investment Association's Responsible Investment Framework which promotes the following standard definitions for the different components of responsible investment:

- **ESG Integration** is the systematic and explicit inclusion of material environmental, social and governance factors into investment analysis and investment decision making processes.
- **Exclusions** prohibit certain investments at a firm, fund or portfolio level. Exclusions may be applied on a variety of issues, including to align with client expectations. They may be applied at the level of sector, business activity, products or revenue stream, a company, or jurisdictions/countries.
- **Stewardship** is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
- **Sustainability Focus** refers to investment approaches that select and include investments on the basis of their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcome(s). Investments are chosen on the basis of their economic activities (what they produce/what services they deliver) and on their business conduct (how they deliver their products and services).
- **Impact Investing** refers to investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.



3. Our approach to responsible investment

3.1 Financial advice

We help customers to access financial advice via financial planners employed by Quilter, financial planners who are members of our advice network and through our relationships with over 4000 third party IFA's. Financial planners support customers with all their financial planning needs such as investments, pensions, mortgages, estate and inheritance planning. Where customers have specific responsible investment preferences advisers support them, for example, to select investment funds with a sustainability focus or exclusions that meet their needs. We are working to embed responsible investment more systematically into our standard financial advice process and to promote these practices in the broader market to ensure all customers have the opportunity to consider their responsible investment objectives.

3.2 Integrating ESG into fund research and selection

Our specialist in-house fund research team is responsible for researching and monitoring over 300 closed and open-ended funds, of which the best are recommended for inclusion in discretionary wealth portfolios and the multi-asset solutions we manage in-house. The in-depth fund research process involves both quantitative and qualitative analysis, with significant importance placed on meeting the individual fund managers and their teams. The team seeks to understand how the fund manager's philosophy, process and consideration of risks, may impact fund returns. As part of our research we assess how the manager incorporates ESG into their investment process, looking to see if they take account of all potential investment risks, within their analysis, portfolio construction and ownership activity. For funds investing in public equity and corporate debt we also review their approach to stewardship – voting and engagement – relative to applicable best practice standards. We recognise that each fund is different, therefore our ESG assessment takes into account the asset classes, the investment style and strategy, and the applicable laws and best practice codes. The team's assessment of ESG and stewardship contributes towards its overall opinion of the fund manager's ability to deliver value, resulting in a buy sell or hold recommendation.

We also recognise we need to enhance the way we systematically integrate ESG factors within the investment process used for our multi-asset investment solutions run by Quilter Investors which are constructed using third party funds. This will be a key area of focus going forward as we aim to better understand, manage and disclose the ESG risk embedded in our investment solutions.

3.3 Integrating ESG into investment research and management

We recognise that the financial performance of companies will be influenced by ESG issues. A growing number of companies manage ESG issues as part of their business as usual model in order to mitigate risk and maximise opportunity. The investment research team within Quilter Cheviot carry out stock specific research including material ESG issues, raising these with company management where relevant. We will continue to work towards further integrating ESG in our discretionary investment process in a systematic way, in asset allocation, investment research, security selection and ownership, extending to a wider range of asset classes.

3.4 Responsible investment funds

Many customers serviced by our discretionary wealth management business – Quilter Cheviot – already choose to customise their portfolio to reflect their responsible investment requirements. This might involve a single exclusion or more complex requirements involving a sustainability focus or social and/or environmental impact. Customers also can invest in pooled funds managed in-house, such as the Climate Assets Fund or the Quilter Ethical Equity Fund.



Financial advisers and customers of our UK Platform business can also access a growing number of fundsⁱⁱ whose investment strategy explicitly combines social and/or environmental objectives alongside investment objectives. Referring back to the Investment Association definitions, these for example might apply specific exclusions, have a sustainability focus or be focused on social and/or environmental impact.

3.5 Enhancing ESG transparency

We're committed to creating more transparency for customers regarding ESG, including where we manage investment solutions in-house. However, funds managed by third party managers are available to investors on our investment platforms and we recognise that there's appetite for more information about how those funds are positioned on ESG. To enhance transparency we have introduced fund ratings, supplied by Morningstar, alongside existing information. These ratings provide customers and advisers with greater insight into how the companies within a portfolio are managing financially material ESG risks relative to their industry peers. These can be considered alongside a wide range of factors that should be considered when reviewing and selecting investment funds.

3.6 Stewardship

We are committed to being an active steward of customers' assets to protect and enhance long-term returns upon which they rely for their future financial security. Where we invest directly in companies our stewardship involves shareholder voting and engaging directly with company management. Stewardship activity may focus on a wide range of topics relevant to the company including corporate governance, capital structure, risk, strategy and performance, stakeholder impacts, diversity, remuneration and workforce interests, human rights, audit, environmental issues, such as climate change, energy consumption, waste and pollution.

By exercising our voting rights we can express our views to company management with the aim of protecting the economic interest of our customers. We use the services of a specialist third party proxy voting provider but often reach our own voting conclusions, particularly where we have a material holding or where a potentially controversial issue is subject to a vote. Further information about our voting policy and our voting and engagement activity can be found at quiltercheviot.com and quilterinvestors.com

We recognise the UK Stewardship Code as best practice, which aims to enhance engagement between investors and companies. Our Stewardship Code Statements can be found at quiltercheviot.com and quilterinvestors.com

3.7 Exclusions and controversial weapons

We believe customers should decide whether they want to apply ethical constraints to their investments and as such we do not apply any ethically motivated exclusions to the portfolios we manage unless we're instructed to do so by clients.

However, we do apply one exclusion to the portfolios we manage directly and that relates to controversial weapons. Antipersonnel minesⁱⁱⁱ and cluster munitions^{iv} are classed as controversial weapons and are subject to international and national law due to the humanitarian consequences and the unacceptable harm caused to civilians through their use.

The Anti-Personnel Landmines Convention 1997 bans the use, stockpiling, production and transfer of anti-personnel mines and prohibits assisting others in these prohibited acts. Over 160 countries, including the UK, have signed the Convention which has been implemented in the UK through the Landmines Act 1998.

The Convention on Cluster Munitions 2008 bans the use, production, stockpiling and transfer of cluster munitions and became legally binding on 1 August 2010. Signatories commit "never under any circumstances to assist, encourage or induce anyone to engage in any activity prohibited". This has been implemented in the UK via the Cluster Munitions (Prohibitions) Act 2010.



Where Quilter has discretion over security selection we will not knowingly invest in securities (equity or debt) of listed companies involved in the manufacture, development or trade of anti-personnel mines or cluster munitions or components or services of the core weapon system which are considered to be tailor-made and essential for the lethal use of such weapons^v. Information regarding companies' involvement in anti-personnel mines or cluster munitions is provided by an independent third party research provider. This policy does not apply to funds managed by third party managers; however we welcome disclosure by them with respect to their policy regarding controversial weapons^{vi}.

3.8 Collaborating with the Industry

We work with others in the industry to advance responsible investment. For example, Quilter is a signatory to the **Principles for Responsible Investment (PRI)**. This is a global investor-led, UN backed, initiative which commits signatories to incorporate ESG issues into their investment and ownership activity. We are also members of the UK Sustainable Investment and Finance Association (UKSIF) and participate in a number of industry working groups focused in ESG issues. We do this to promote best practice and seek to address issues which require collective effort and action.

4. Governance

The Quilter Board oversees the organisation's approach to responsible business, which encompasses responsible investment, and has delegated this to the Corporate Governance and Nominations Committee which is chaired by Quilter's Chairman, Glyn Jones. Within executive management, Quilter CEO, Paul Feeney, has overall accountability for responsible business and he is supported by the Responsible Business Forum which is a management group that provides oversight, direction and challenge with respect to Quilter's approach to responsible business. In addition, the Quilter ESG Working Group works to embed responsible investment principles across the business. Further detail about our responsible investment activity, including voting and engagement, can be found at quiltercheviot.com and quilterinvestors.com.

This statement is intended to summarise Quilter's overarching approach to responsible investment. As such it will be reviewed at least annually and updated as necessary. If you have any queries regarding this document please contact responsiblebusiness@quilter.com

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- i. *Quilter group companies include Quilter Financial Planning, Quilter Private Client Advisers, Quilter Financial Advisers; Quilter Investors; Quilter Cheviot, Quilter Wealth Solutions (this will be the new name for the Old Mutual Wealth UK Platform); Quilter International.*
- ii. *As at January 2020 there were over a hundred responsible investment funds available on the UK Platform.*
- iii. *An "anti-personnel mine" is a landmine which is designed to be detonated by the presence, proximity or contact of an individual and is capable of incapacitating, injuring or killing an individual.*
- iv. *"Cluster munition" means a conventional munition that is designed to disperse or release explosive sub-munitions each weighing less than 20 kilograms. "Prohibited munition" means a cluster munition, or an explosive bomblet that is specifically designed to be dispersed or released from dispensers affixed to aircraft ("a relevant explosive bomblet").*
- v. *The policy covers long and short positions in companies that manufacture develop or trade in core weapon systems which are components/services that are tailor-made and essential for the lethal use of the weapon, e.g. warhead, propulsion system. The policy does not apply to supporting systems or technical/ administrative support that whilst essential are not tailor made for the core weapon system. In the event of exposure via a parent/subsidiary company relationship we apply a 20% ownership threshold.*
- vi. *Given the nature of funds that track or replicate indices, policies relating to controversial weapons are not generally applicable to them.*