Rathbones
Look forward

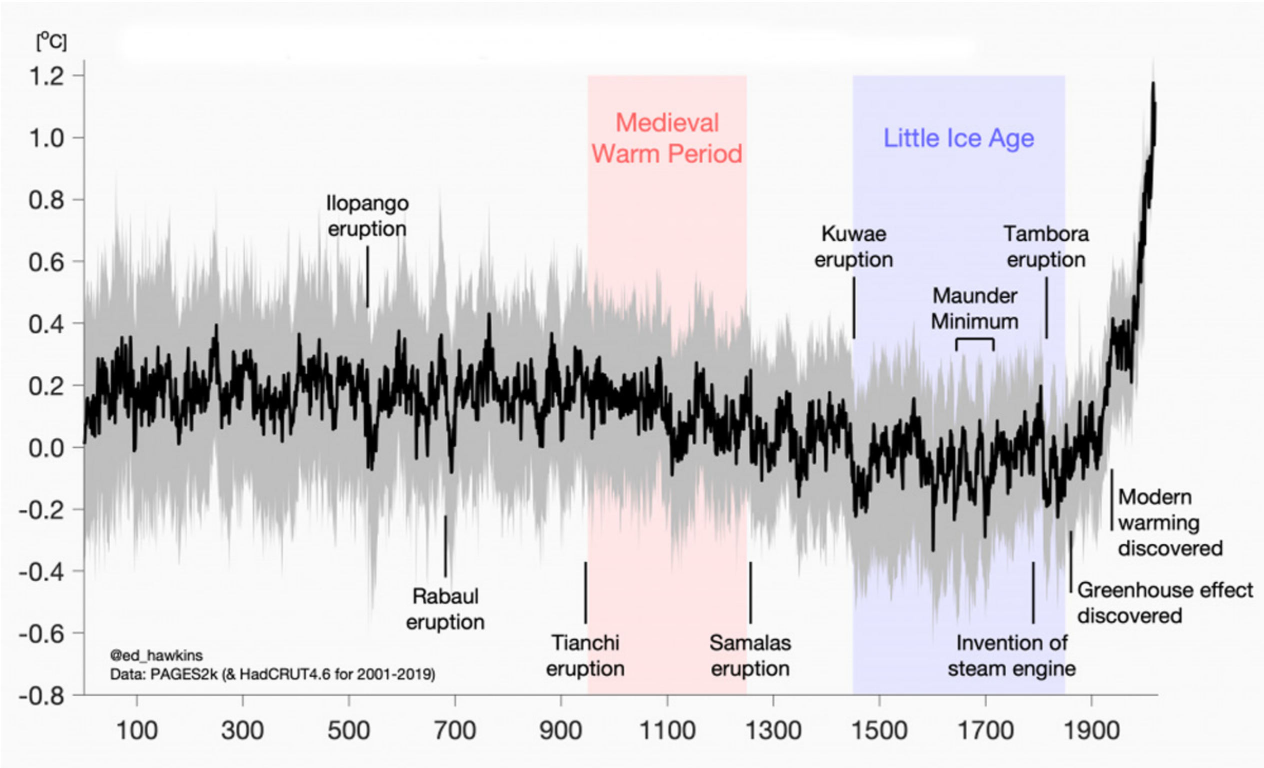
Rathbones' climate change statement

April 2021

The science is clear

The IPCC's (Intergovernmental Panel on Climate Change) fifth "Assessment report" presented evidence from the global scientific community that the Earth is warming at an unprecedented rate and that anthropogenic greenhouse gas (GHG) emissions are the main cause, in particular carbon dioxide. The likely impacts of climate change are well documented, and indeed some of the effects that had been predicted by science in the past are already occurring such as loss of sea ice and longer, more intense heat waves.

Global temperature change over the last 2019 years



Source: Hawkins, Ed (January 30, 2020). climate-lab-book.ac.uk/2020/2019-years

Achieving the Paris goals of limiting the increase in the global average temperature to well below 2°c above pre-industrial levels is essential, but not easy. Carbon dioxide emissions will have to be net-zero by 2070 to limit temperatures to 2°c, or by 2050 to keep the increase to 1.5°c, with similar reductions required in other greenhouse gases. This will require a complete transformation of the way the world produces and consumes energy, as well as radical measures to cut emissions from other key sources such as transport, land use and agriculture.

The transition is underway: the number of commitments to reach net zero emissions from local governments and businesses has roughly doubled in less than a year, as many prioritise climate action in their recovery from COVID 19[1]. Over 1,500 companies are now committing to net-zero by 2050, a threefold increase in less than one year[2]. Some major companies, including H&M, Ikea, and Microsoft have started issuing even more ambitious carbon-positive goals to eliminate more GHGs from the atmosphere than they emit.

Despite these actions, global emissions of carbon dioxide, methane and other greenhouse gases have continued to steadily increase over the past decade[3] and as a result, the global average temperature is already roughly one degree celsius higher than pre-industrial levels. So far, more than 126 governments around the world have pledged to achieve net zero emissions by

1. https://unfccc.int/news/commitments-to-net-zero-double-in-less-than-a-year
2. https://www.greenbiz.com/article/global-net-zero-commitments-double-less-year
3. https://www.npr.org/2019/11/26/782586224/greenhouse-gas-emissions-are-still-rising-u-n-report-says

mid-century or sooner, but very few have enacted robust enough policies or set legally binding targets to produce the desired effects[4].

Much more needs to be done by governments and the private sector to accelerate the carbon-neutral transition and to improve the resilience of our economy, society and the financial system to climate risks. Every year that emissions continue to increase means that deeper and faster cuts will be required to restrict the rise in temperatures to 1.5°c above pre-industrial levels[5].

Investors' duty to act on climate change

For the world's governments to limit the rise of global temperatures to less than two degrees, stem the climate damage that is already starting to occur, shift to a carbon-neutral economy and seize the economic opportunities of clean energy and other climate-related activities, trillions of dollars of investment are required over the coming decades.

The Organisation for Economic Co-operation and Development (OECD) estimates that nearly US$7 trillion per year is required up to 2030 to meet both the temperature targets of the Paris Agreement and the broader aims of the Sustainable Development Goals (SDGs)[6]. Much of this funding needs to come from the private sector.

As a wealth manager with over £54.7 billion in funds under management and administration (as at 31 December 2020), we have a responsibility to understand how climate change can impact our portfolios and allocate assets strategically to minimise those risks, be they physical or transitional risks[7]. Moreover, it is widely accepted that the climate crisis, like the current COVID-19 crisis, poses a systemic risk that threatens the stability of the financial system[8].

Its physical impacts, combined with changes in regulation and technologies as we transition to a carbon-neutral economy, are likely to manifest themselves in unexpected ways. Left unmanaged, these risks could have disruptive consequences on asset valuations, capital markets and global economic stability[9].

The transition to a carbon-neutral economy will require significant investment, research and innovation, new ways of producing and consuming, and changes in the way we work, use transport and live together. As investors, we must be prepared to act on these opportunities and look for companies that will aid or benefit from the transition to a climate-neutral economy.

For Rathbones, acting on financially material environmental risks such as climate change, and helping speed up the transition to a carbon-neutral society, is part of our fiduciary duty as stewards of our clients' investments and allocators of capital, as well as a duty as responsible members of society striving to build a better world for future generations.

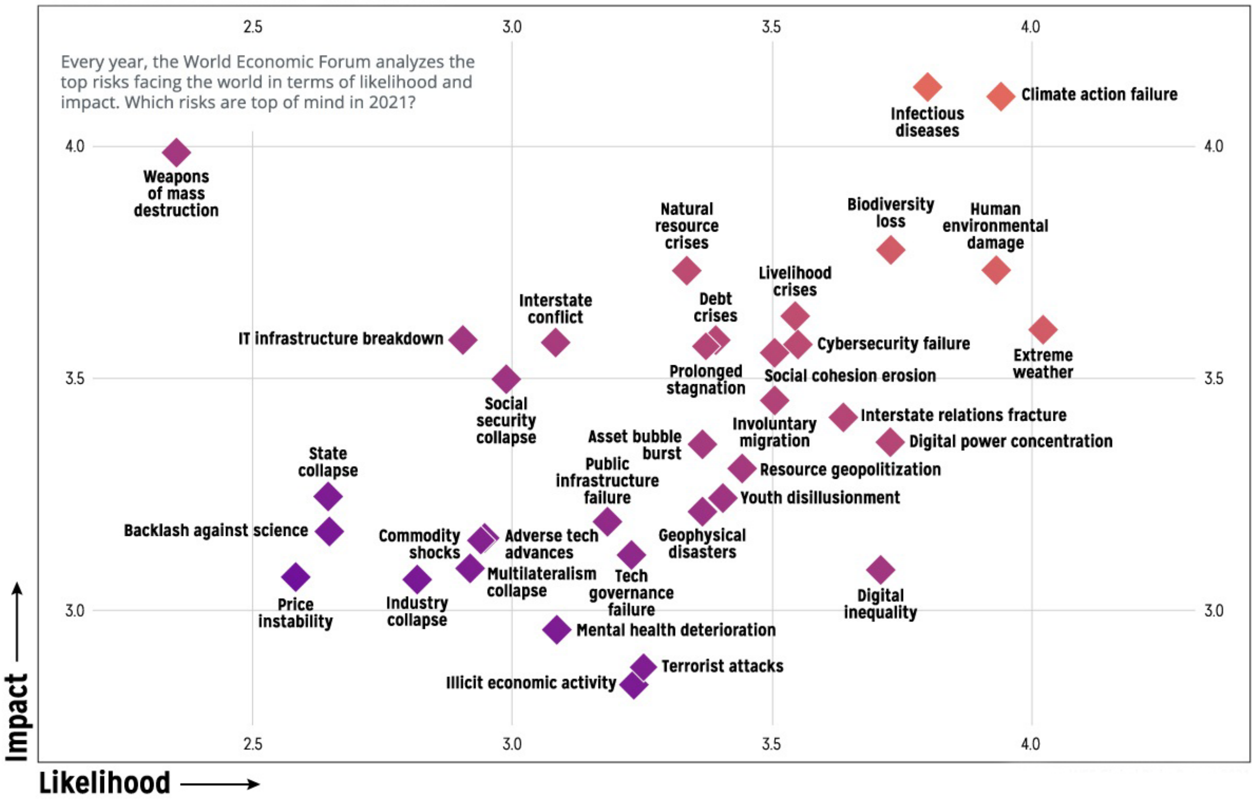
Climate risks and opportunities

The 2021 World Economic Forum's Global Risks Report lists climate action failure as the number two risk by impact (behind only infectious diseases) and likelihood (behind extreme weather conditions)[10]. The two main climate risks that companies and investors face are physical and transitional risks.

Climate change means we may face more frequent or severe weather events like flooding, droughts and storms. Physical risks may have financial implications for organisations, such as direct damage to assets and indirect impacts from supply chain disruption. Organisations' financial performance may also be affected by changes in water availability, sourcing, and

4. https://eciu.net/netzerotracker
5. https://wedocs.unep.org/bitstream/handle/20.500.11822/30797/EGR2019.pdf?sequence=1&isAllowed=y
6. https://www.climatechangenews.com/2020/02/27/net-zero-goal-greatest-commercial-opportunity-time-says-mark-carney
7. https://bit.ly/3vHPS2m
8. https://www.edie.net/news/11/Mark-Carney--Climate-considerations-must-be--embedded--in-every-financial-decision-for-a-truly-green-recovery
9. https://corpgov.law.harvard.edu/2020/06/28/addressing-climate-as-a-systemic-risk-a-call-to-action-for-financial-regulators
10. http://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2021.pdf

2021 global risks outlook



Source: World Economic Forum, The Global Risks Report 2021 weforum.org/docs/WEF_The_Global_Risks_Report_2021

quality; food security; and extreme temperature changes affecting organisations' operations, supply chain, and transport needs.

Transitioning to a carbon-neutral economy will entail policy, legal, technology and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature and speed of these changes, transition risks may pose varying levels of financial and reputational risk to organisations.

Such transitions could mean that some sectors of the economy face big shifts in asset values or higher costs of doing business. One example is energy companies who are still reliant on carbon assets. To restrict the rise in temperatures to 1.5°c above pre-industrial levels in line with the Paris Agreement, over 80% of hydrocarbon assets may need to remain undeveloped[11]. For banks, insurers and asset managers continuing to lend to, underwrite or invest in fossil fuel companies, particularly fossil fuel expansion projects, the material risk is substantial: the cost of writing down stranded assets could amount to US$890 billion[12]. The move towards a greener economy could also impact companies that produce cars, ships and planes or use a lot of energy to make raw materials like steel and cement.

At the same time, delivering on a net zero economy creates numerous opportunities for growth, with positive impacts for sectors beyond just pure-play clean technology and renewable energy infrastructure. It will require innovation in products, technologies and services such as packaging, batteries, green buildings, protein alternatives for food and animal feed, and many other companies attuned to the challenge of reducing emissions and minimising the impact upon earth's natural capital.

11. https://www.ft.com/content/95efca74-4299-11ea-a43a-c4b328d9061c
12. https://www.ft.com/content/17b54f60-5ba5-11ea-8033-fa40a0d65a98

Rathbones' climate strategy

At Rathbones, we are undertaking several steps to increase our understanding of climate risks and opportunities. Along with robust management of our direct operational risks, we believe it is in our clients' best interests for the companies in which we invest to adopt best practice in managing environmental, social and governance risks.

We recognise not only that our business and those businesses in which we invest are impacted by climate change, but also that the choices we make as stewards and allocators of capital could exacerbate or alleviate the climate crisis.

We are committed to playing a positive role in the transition to a carbon-neutral economy. This may involve increasing our exposure to businesses aiding or benefiting from the transition to a carbon-neutral economy, whilst at the same time decreasing our exposure to high-carbon businesses unable to demonstrate adequate management of climate risks or transition plans in alignment with the Paris Agreement.

Rathbones have provided further details about our approach to climate change, including an updated responsible investment (RI) policy, a first report aligned with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and an enhanced voting policy taking climate requirements into account, to name just a few.

Our operational approach

With regards to our own operations, we have been pursuing efforts to reduce our carbon footprint and have offset residual emissions since 2013[13]. Our office buildings and business travel account for the most material areas of our operational footprint. To date, we have reduced our carbon intensity by 79% and are committed to continued reduction.

In 2021 we will be working with our landlords to green our office energy supply, along with continued reduction in paper use and removing plastic from our direct supply chain. To support us in setting targets we will increase our data collection to ensure a better footprint on which to base our target setting and planning.

Although relevant, we are conscious that the real impact from climate change, and where we can make the biggest difference in contributing to a carbon-neutral economy, lies not on the operational side but through our investments.

Our investment approach

Our investment approach means all investment managers are accountable for investment decisions utilising a range of resources to inform their view. We consider now to be the right time to integrate practices to manage climate risk and broader environmental, social and governance factors more closely into our investment approaches.

In line with that, our overarching approach to climate change within our investment framework is comprised of the following pillars:

1. Climate change integration

   We recognise that climate risks can be material to the performance and valuation of our investments. Fulfilling our fiduciary duty to clients involves taking account of financially material environmental risks and opportunities that could affect current and future investment returns, such as climate change. Our research team and investment committees are defining methods and developing systems to fully embed climate change considerations in the investment process across all assets classes. This will lead to updated internal policies and procedures, training, and client-facing documentation relating to risk-opportunity assessments.

   Achieving a whole economy transition involves not only investing in the so-called green businesses but also moving away from high-carbon businesses

13. https://www.rathbones.com/about-us/responsible-business/environment
14. https://www.netzeroassetmanagers.org/#

which fail to align with the Paris goals. As we continue to embed climate change considerations into our investment approaches we will define parameters and processes for reducing our exposure to high emissions intensity investments over time. In 2021, we will collaborate with investor initiatives as we move towards the growing group of asset managers who have committed to aligning their investments with net zero emissions by 2050 or sooner[14].

2. Engagement with consequences
We actively engage with companies on climate-related issues, either on an individual basis or in collaboration with other investors. We believe in the power of coordinated efforts and are active members of the Principles for Responsible Investment (PRI), the Institutional Investors Group on Climate Change (IGCC), and Climate Action 100+. Evidence shows that when a firm responds to engagement, shareholders respond positively and its share price rises in the following year[15].

In our climate engagements, we expect progress in several areas, from enhanced corporate disclosure and board accountability, to setting Paris-aligned science-based targets (SBTs) and transition pathways, along with corresponding capital expenditure plans. With many companies committing to net zero 2050 targets, our focus is now on engaging investee companies to set credible targets and metrics to demonstrate they are acting on their ambition. Although we favour engagement over divestment to influence corporate behaviour, we are prepared to reduce our holdings in companies which continue to present severe climate risks over time.

3. Voting with purpose
We make use of shareholder votes and ownership rights to influence companies to transition to a carbon-neutral economy. We are prepared to file shareholder resolutions and vote against management if we believe a company is not managing climate risks appropriately. This can include, among other things, issues related to the alignment of executive remuneration with climate change targets, boards' accountability and oversight of climate risks, climate-related lobbying activities and credible pathways to reach net zero by 2050 with near-term adjustments in capital expenditure.

Where appropriate in high risk sectors, we are also advocates for companies giving investors an annual 'say on climate' at their AGMs, and will look to encourage our target companies to adopt this approach as a matter of regular business.

We source advice from an independent proxy voting consultant and maintain a bespoke voting policy. The scope of the guidance provided by the proxy voting consultant includes an enhanced focus on sustainability issues. We have also developed more detailed voting recommendations on climate-related issues.

4. Transparency
We are committed to improving the quantity and quality of our climate-related financial disclosure by endorsing and implementing the TCFD framework. We are also supportive of efforts to make TCFD-aligned disclosures mandatory across the UK by 2025, with a significant portion of mandatory requirements in place by 2023[16].

Our first TCFD report was disclosed in our 2020 Annual Report and Accounts which was issued in April 2021, with a commitment to full implementation and disclosure in 2022. This process covers all four thematic areas (governance, strategy, risk management, and metrics and targets) and brings together representatives from the following business areas within the group: risk, finance, stewardship and responsible business.

Reporting in line with the TCFD recommendations goes beyond regulatory compliance: we believe it can inform strategic asset allocation by revealing a range of plausible futures, and guide strategy development

15. https://www.rathbones.com/knowledge-and-insight/can-investors-change-world
16. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933782/FINAL_TCFD_REPORT.pdf
17. https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law

by identifying opportunities or threats that we may not have previously considered. Undertaking climate scenario planning as recommended by the TCFD and integrating the findings in our investment process and risk management frameworks is a top priority for Rathbones. This forward-looking assessment will allow us to truly understand our exposure to climate risks - way beyond the static carbon footprinting approach - and to make informed decisions to manage and mitigate risks, and tap into opportunities. We are currently working to identify the tools, methodologies and scenarios we will use to support our approach.

Looking forward

In 2021, we will continue to develop our understanding of climate change and enhance our commitments across both our operational and investment approaches. Increasing the coverage of our footprint to include a broader selection of scope 3 emissions will aid us in setting appropriate targets across our operational and investment footprints. Aligned with this, we will continue to take steps to deepen the integration of climate-related issues in our investment approach, improve the quantity and quality of our climate-related disclosure to clients and the wider public, and scale up voting and engagement efforts in line with that. These are essential steps as we investigate our pathway to net-zero business in line with the Paris Agreement and UK net zero legislation[17].

More details on the issues raised here can be found in our RI Reports, TCFD disclosure, Annual Report and Voting Policy.

For more information, please email us on stewardship@rathbones.com or responsiblebusiness@rathbones.com

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