

Rathbone Ethical Bond Fund

Ethical Criteria

In general terms, the fund defines 'Environmental, Social and Governance (ESG) investing as an investment strategy which believes that long-term growth can be achieved by companies which conduct their business and apply capital responsibly, giving full consideration to a range of social, environmental and ethical issues as they might affect interested parties (employees, customers, share/bond holders, etc) as well as wider society.

Exclusions

The master fund applies negative screening criteria to exclude from its universe any issuers of corporate bonds in breach of any of the exclusion criteria, before ensuring that issuers satisfy at least one of the fund's positive criteria requirements.

The master fund shall exclude bonds issued by organisations wholly or *materially involved in the following activities:

Alcohol

Manufacture of alcoholic beverages.

Animal welfare

Provision of animal testing facilities, or the use of animals in the discovery or development of pharmaceutical or healthcare products; manufacture or retail of cosmetic or household products without a fixed cut-off date policy for the testing of finished products (and their ingredients); production or retail of fur or fur products; rearing or processing of animals for food without evidence of policy, management or reporting on farm animal welfare.

Armaments

Manufacture or sale of strategic weapon systems, munitions or combat vehicles.

Environmental or high-carbon impact

Mineral or aggregate extraction, fossil fuel exploration and production, agrochemical production, production of genetically modified seeds or foodstuffs; unsustainable sourcing of commodities linked to habitat destruction; manufacture of vehicles based on hydrocarbon fuels. Also, issuers with convictions for serious or persistent pollution offences.

Gambling

Operation of betting or gaming facilities (including casinos, betting shops and internet-based services).

Human rights

Non-compliance with standards set by the International Labour Organization and United Nations Universal Declaration of Human Rights, including direct use of child, forced or bonded labour.

Nuclear power

Construction of nuclear power plants, generation of electricity from nuclear power, or handling or reprocessing of radioactive waste.

Pornography

Production or sale of pornographic material.

Predatory lending

Unfair lending practices imposing high-interest rates or fees.

Tobacco

Manufacture of tobacco or tobacco products.

Positive aspects

To qualify for inclusion in the master fund's universe, issuers should demonstrate progressive or well-developed practice or policies in one of the following key areas:

Corporate community investment

Long-term involvement in programmes of benefit to the community, either via cash donations or gifts in kind (e.g. staff time, use of buildings or office facilities) or membership of corporate community investment benchmarking groups.

Employment

Commitment to workplace diversity and equal opportunities; additionally they could facilitate employee work/life balance by offering flexible working arrangements, carers' leave and/or childcare facilities.

Human rights

Compliance with local and national standards in accordance with minimums set by the International Labour Organization and United Nations Universal Declaration of Human Rights. Alternatively, issuers may implement their own codes of conduct to ensure compliance with local laws covering child labour, working conditions and health and safety.

Management of environmental impacts

Publication of a clearly defined policy for managing environmental impacts. This should include monitoring and reporting on progress against key performance indicators in areas such as waste disposal and recycling, consumption of resources, emissions to air, and discharges to land and water.

Provision of beneficial products and services

Provision of products or services that offer social or environmental benefits. Such activities might include designing or implementing cleaner or more efficient industrial processes; enabling compliance with health and safety legislation; supplying educational products or services; providing waste recycling or acceptable forms of waste management; providing social housing; manufacturing, installing or operating renewable energy infrastructure; building or operating sustainable transport systems.

Green, climate, sustainability, social bonds

'Ringfenced' bonds, where proceeds are intended for a specific social or environmental purpose, will be approved subject to the following requirements: identifiable use of proceeds; third-party project evaluation; ongoing management of proceeds; and project reporting. Approval will be granted in the context of the specific use of proceeds rather than the issuer's principal activity.

Criteria do not vary according to sector, geographical zone or type of company.

Explanatory screening notes

Please note, as part of the screening process, issuers are also vetted for exposure to other potentially material ESG risks beyond the headline exclusion criteria. Additional exclusions may therefore be applied by the fund's ethical committee where an issuer is considered to be unacceptable on other grounds.

- * The fund does not use absolute thresholds to determine whether an issuer is "materially" involved in a particular activity; this is for the following reasons:
- 1. Commonly used indicators of activity involvement (for example, the percentage of revenue derived) only represent a snapshot in time and can quickly become out of date.

- 2. Falling fractionally on one side or other of an arbitrary cut-off point, where less than a certain percentage of revenue is acceptable and greater than is unacceptable, could mean that companies with little actual difference between them (for example, 9.99% versus 10.01%) are treated differently.
- 3. In absolute monetary terms, 1% of a company's revenue could be significantly more (and have a greater negative impact) than 10% of another's.

This is why the fund considers all factors as well as any changes over time that may indicate a "direction of travel", that is, whether the proscribed activity is a strategic or growth part of a company or represents a declining legacy business.

As a starting point, the fund's criteria are intended to be absolute (0% threshold) to meet the requirements of its ethical clients.



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The European SRI Transparency logo signifies that Rathbone Unit Trust Management Limited commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Socially Responsible Investment (SRI) policies and practices relating to the fund.

Detailed information about the European SRI Transparency Guidelines can be found on eurosif.org, and information of the SRI policies and practices of the Rathbone Ethical Bond Fund can be found at: rathbonefunds.com.

The Transparency Guidelines are managed by Eurosif, an independent organisation. The European SRI Transparency Logo reflects the fund manager's commitment as detailed above and should not be taken as an endorsement of any particular company, organisation or individual.

Rathbone Unit Trust Management meets the recommendations of the European SRI Transparency Guidelines excepting questions which we do not feel are appropriate for a fund of the type in question.

Important notes

You should be aware that the criteria in this document may be subject to change. Criteria do not vary according to sector, geographical zone or type of issuer.

N.B. As part of the screening process, issuers are also vetted for exposure to other potentially material ESG risks beyond the headline exclusion criteria. Additional exclusions may therefore be applied by the fund's ethical committee where an issuer is considered to be unacceptable on other grounds.

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