

An aerial photograph of a rugged island with a lush green interior and a rocky coastline. A large, calm bay is visible on the left side of the island. The surrounding ocean is dark blue with white waves crashing against the rocks.

# A sustainable approach

Celebrating 10 years of investing responsibly

**Rathbones**  
Look forward

# Foreword

A lot has happened in the 10 years since we signed the UN-backed Principles for Responsible Investment (PRI). We're proud to have been an early mover in the UK market, and encouraged to see the membership grow well beyond 2,000 global firms last year, with everyone committed to pursuing a more responsible investment approach.

At Rathbones, responsible investment has always been about doing the right thing, for both our clients and wider society. The market is now beginning to demonstrate that more sustainable companies do better.\*

In 10 years of membership, we've seen our scoring on the PRI annual benchmarking improve steadily. Thanks to a lot of hard work, we now boast an A+ rating for our strategy and governance around responsible investment and we're more widely known for our active engagement on ESG issues.

From arctic drilling to cyber risk, by way of human capital management and deforestation, Rathbones has been encouraging companies to act more sustainably in order to protect long-term returns.

In this report, our stewardship director Matt Crossman reflects on what we've achieved in 10 years, and where we plan to go next. It's an exciting time for us as an organisation and there is much to do. We hope you continue to be encouraged by our conviction to walk the talk in this area and make a difference.

Paul Stockton  
Chief executive

\*From the stockholder to the stakeholder, Smith School of Enterprise and the Environment and Arabesque Asset Management (September 2014)

# A decade of investing responsibly

Our stewardship director Matt Crossman and governance and voting analyst Archie Pearson tell us about putting responsible investing into practice over 10 years under the UN-endorsed Principles for Responsible Investment and where we go from here.

## **Matt, how did Rathbones first get involved in the PRI? And why?**

Our involvement with the PRI goes back to 9 September 2009, when we wrote a letter to the UN marking our formal acceptance of the core six principles (see page 6). Our membership, in what was then a fledgling organisation, was something that very much resonated with Rathbones, given our history and culture, and that we very much wanted to be involved with.

When we signed up, Rathbones had around £10 billion in assets under management, compared to close to £50 billion today. Our membership was spearheaded by Rathbone Greenbank Investments, a team which has more than 20 years' experience in delivering specialist ethical and sustainable investment portfolios.

The decision to sign up to the PRI was a strategic one, supported by the wider organisation, to align with the principles and commit to building on our existing approach. The most important step was recognising that

governance and other non-financial risks can be material factors in the determination of investment risk and return outcomes for our clients.

Today we are committed to progressing the responsible investment agenda, interpreting this in the context of individual client objectives and needs and ensuring that we adapt our approach to new information as increased disclosure on environmental, social and governance (ESG) factors becomes available.

## **What have Rathbones' clients gained from our PRI membership?**

We've achieved a great deal over the past decade, during which time the signatories to the UN PRI have grown into their thousands, as we've sought to implement the core principles of responsible investment.

Our membership of the PRI has informed the evolution of our investment process in applying responsible investment. This has involved formalising our approach, first through the adoption of a formal stewardship policy and most recently the formation of a responsible investment committee.

We've worked on providing increased transparency and reporting on our progress in integrating ESG into the investment process, reflected for example, in the steadily improving PRI scoring (as you can see in the graphic on page 7). Our understanding of ESG risk has been enhanced through new

data and research inputs and dedicated specialists working alongside analysts and investment managers. Together they interpret and apply ESG risks and opportunities as part of our overall and client-specific investment decisions. We believe our clients have benefited from this more robust risk analysis.

As active investors, engagement with the companies we invest in has always been part of our process, meeting regularly with company management and boards. The formalisation of our stewardship process and an ongoing commitment to education has helped us develop our knowledge and a clearer structure and consistency to our active ownership approach.

Rathbone Greenbank in particular has pioneered engagement with global businesses on a wide variety of ESG themes and it is clear that engagement has had an impact, incentivising more sustainable corporate behaviour around the world and leveraging the influence of Rathbones as a group.

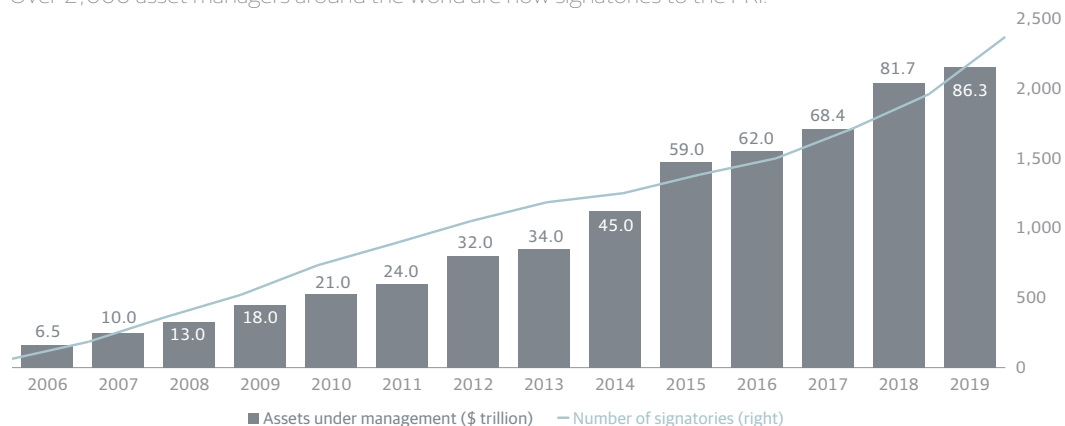
### What have been some of the challenges you've faced, and how have you responded?

We were aware of the challenges of operating a detailed stance on ESG in private wealth management, where each client is treated as an individual, with their specific needs and requests met. It's quite a different approach to the founding PRI members, large pension funds who could take a top-down approach. In the first instance, we focused our time and energy on corporate governance, which we regarded as the most relevant area to most of our clients.

Our equity research analysts incorporate an evaluation of governance risk as part of their investment case, using non-financial data and information, and this is debated as part of our stock selection process. Interestingly over time various social and environmental issues have become governance issues, as governments have begun bringing in

### Investors are becoming more responsible

Over 2,000 asset managers around the world are now signatories to the PRI.



Source: UN PRI.

legislation in areas like carbon footprint and gender pay gap reporting and supply chain transparency.

### **How have Rathbones' responsible investing activities developed over the past 10 years?**

We've continued to build on our offering so clients can benefit from our research and insights into environmental, social and governance factors in portfolios. This has taken shape through the continued strength and growth of Rathbone Greenbank Investments, and our ability to screen out specific investment types where appropriate for clients. We have also established specialist fixed income and equity funds with clear and defined ethical and sustainability criteria.

We've been steadily increasing the proportion of our assets covered by some form of integrated ESG policy, reflecting the nature of our business. We are committed to build on our progress to date, and while we work on refining our processes further we'll continue to be involved in a wide variety of engagements under the PRI banner.

### **What other benefits have you seen from being a part of the PRI?**

Collaborative action is a key element of the PRI, which has invested time and resources in the initial development of an 'engagement clearinghouse'. Its successor still operates as the PRI Collaboration Platform.

The clearinghouse was a forum for members to post proposed ESG engagements and seek support, and we have sought to take advantage of this opportunity to engage collectively with global peers. Through the work

of the Greenbank team we became involved in a very wide range of topics and projects that we considered of interest to our clients. We were listed in 2014 and 2015 as one of the top 20 most active engagers on the PRI Clearinghouse, despite being relatively small compared with the others on the list. This reflects the energy and commitment of the staff involved in collaborative engagements.

### **Archie, what attracted you to Rathbones, and what should Rathbones be doing to ensure rapid progress in the next 10 years?**

I've joined at an exciting time for Rathbones, and really enjoyed grappling with some of the ESG issues facing global businesses. In my first year I've worked on projects covering the risks from cybercrime all the way to the environmental impacts of the mining industry. Rathbones has an excellent reputation for quality ESG engagement and I've loved getting involved in the big issues facing investors.

In the next 10 years we plan to build on the rapidly expanding interest in ESG and responsible investment internally and externally. Interest in joining collaborative engagements is growing across the business, our industry and the wider world. I'm excited to see the impact we can have by engaging more staff on these issues and the opportunities we have as investors.

The timelines on pages 8 to 13 show some highlights of our engagement in our first decade under the PRI. This work has been led by the Greenbank team but is of increasing importance and relevance to our wider client base.

# The six principles

Then-UN secretary general Kofi Annan convened a group of the world's largest institutional investors in early 2005, inviting them to start a process to develop the PRI. This panel drafted The Six Principles, which were launched in April 2006 at the New York Stock Exchange. When we joined the PRI, we asserted our belief in and commitment to the principles:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the principles.
6. We will each report on our activities and progress towards implementing the principles.

————— Rathbones was awarded a top A+ PRI rating for Strategy and Governance for the third year running in 2019.



## The evolution of our rating with UN PRI

### Today

2019

#### A+ rating for Strategy and Governance

This is an overall rating for PRI-related policy and activities.



2019

#### B rating for Listed Equity – Incorporation

This is a rating for strategies related to equity investment.

2017

#### A+ rating for Strategy and Governance



2018

#### A+ rating for Strategy and Governance



2016

#### A rating for Listed Equity – Active Ownership

This rating for equity investment includes engagement activity as well as strategy.



2016

#### B rating for Listed Equity – Incorporation

2014

#### B rating for Strategy and Governance

2014

#### C rating for Listed Equity – Active Ownership

2014

#### D rating for Listed Equity – Incorporation

9 September 2009

PRI Membership begins



2009

# 10 years of engagement with the PRI

Led by Greenbank and growing through Rathbones

## Environmental

Examining how a company's business activities impact the planet. Key areas include environmental policy and management practices; energy efficiency; climate change strategy; carbon intensity and greenhouse gas emissions; and disclosures.

2009

2014



### **Challenging deepwater drilling**

Wrote to oil and gas companies requesting improved management of the risks of deepwater offshore drilling and gas development.



### **Carbon Disclosure Project (CDP)**

Joined with other PRI members engaging with laggard companies not reporting to the CDP.



### **Fracking**

Joined Steering Group of the PRI co-ordinated engagement on fracking.



### **Corporate lobbying**

Signed Investor Expectations document where investors stated that companies should be consistent in climate change policy engagement across all regions to help protect long-term portfolio value.







### **Offshore Arctic oil exploration initiative**

Joined an initiative that aims to provide a strong signal from investment community about the need to protect the Arctic region from oil exploration.



-  **Company meeting**
-  **Education**
-  **Policy influence**
-  **Partnership for change**
-  **Landmark event**

2019

-  **Water risk disclosure for oil and gas companies**  
The PRI and PGGM created an investor statement on the importance of consistent water risk disclosure by oil and gas companies.
-  **Methane risk**  
Joined efforts to create 'An investor's guide to methane risk' in 42 oil and gas companies. Joined Climate & Clean Air Coalition.
-  **Deforestation in cattle supply chains**  
Engaging with companies to prevent deforestation in agricultural supply chains.
-  **Climate change transition for oil and gas**  
This initiative asks companies to outline the risks they face due to constraints on oil and gas use.

## Social

Looking at how a company's activities impact society. Key issues include working conditions, such as slavery and child labour; local communities, such as indigenous populations; health and safety; product safety and governance; and labour relations and diversity.

2009

2014



### UN business and human rights initiatives

Part of the PRI investor coalition supporting Special Representative John Ruggie's Guiding Principles on Business and Human Rights. Implementing the 'Protect, Respect and Remedy' framework.



### Arms Trade Treaty

Joined 21 investors with more than \$1.2 trillion in combined assets under management to call for an Arms Trade Treaty (ATT).



### Human capital management

Spoke with 27 global retail companies to better understand their employee relations strategies and encourage better disclosure and performance on this issue.



### Access to nutrition

Participated in a webinar hosted by the PRI about access to nutrition.



### Inequality roundtable discussion

Participated in a discussion organised by the PRI's academic network on the topic of inequality.



### Clinical trials

Participated in an investor briefing on efforts to improve pharmaceutical industry transparency on clinical trials data.



**Company meeting**



**Education**



**Policy influence**



**Partnership for change**



**Landmark event**

**2019**



**Food security conference**

Attended an investor education session hosted by the PRI on food security.



**Labour practices in the agricultural sector**

Signed a PRI statement establishing the expectations on company policy, practices and disclosures, as well as risks related to labour in agricultural supply chains.



**Australia Modern Slavery Act**

Signed a statement supporting an inquiry into the establishment of a Modern Slavery Act in Australia.



**Modern slavery engagement – letters to FTSE 100 companies**

PRI signatories were invited to co-sign letters aimed at companies who were failing to report in line with the UK's Modern Slavery Act 2015.

## Governance

Addressing issues related to how a company is run. Key areas include executive pay; board diversity and structure; capital allocation record; bribery and corruption; shareholder rights; political lobbying and donations; and tax strategy.

### 2009

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#### **Big banks and political lobbying**

Part of a PRI webinar called 'How is corporate political influence wielded by the banking sector?'



#### **Anti-corruption engagement**

Joined a collaborative engagement on anti-corruption and anti-bribery with major multinational companies.



#### **Corporate tax responsibility**

Part of an engagement steering group on responsible tax through Rathbone Greenbank, providing guidance to PRI members on engaging with companies to enhance corporate income tax disclosure and encourage responsible corporate tax strategies.



#### **Presented to the Global Compact Working Group on Anti-Corruption**

Communicated investor expectations to senior leaders from global business.

-   
**Company meeting**
-   
**Education**
-   
**Policy influence**
-   
**Partnership for change**
-   
**Landmark event**

2014

2019



**Director nominations**

One of 17 investors in dialogue with 24 companies in the US and France on this critical issue. Director nominations and elections represent some of the most fundamental ownership rights for shareholders – namely the right to appoint and remove board members to represent their interests in promoting long-term value creation.



**Cybersecurity**

Joined steering group of PRI engagement on cybersecurity. Responsible for leading engagement with Vodafone and helped write the investor expectations of companies on cyber risk.



**Audit compliance**

Submitted evidence to the UK Government review of the Audit Industry. The role of the auditor required re-invigorating following scandals including Carillion. We advocated for increased competition and better audit quality.

# Important information

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# Rathbones

Look forward

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