Engagement policy

How we incorporate ESG issues into our ownership practices

Rathbones
Look forward

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Background

Our responsible investment policy defines responsible investment as:

"The purposeful integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance."

In further expressing how we seek to be a responsible investor through our ownership practices, principle three of the responsible investment policy states:

Engagement

We prioritise engagement where we can make a real difference in addressing the world's systemic environmental and social challenges. We are prepared to reduce our holdings in companies that continue to present an ESG risk over time.

Further, as a signatory to the UN Principles for Responsible Investment since 2009, Rathbones strives to adhere to the six principles, and in particular principle two, which states:

"We will be active owners and incorporate ESG issues into our ownership policies and practices."

These two policy commitments form the background for this statement of engagement policy.

Our stance

As owners of the companies in which we invest on behalf of our clients, it is our responsibility to undertake dialogue with companies on a wide range of ESG issues.

We believe that such dialogue can deliver benefits to our clients in a number of ways, not least in its ability to gain the disclosure of better information on ESG risks. We also note academic evidence that engagement with companies on ESG issues can lead to better investment outcomes.[1]

We also believe that engagement on ESG issues with underlying companies forms part of our wider responsibility as a business to society. While the primary purpose of engagement is to enhance and protect assets in our portfolios, we also have a role to play in addressing and minimising systemic risks which may affect those assets.

Our responsible investment committee has adopted the following, non-exhaustive definitions of the underlying components of ESG, which shape the kind of issues on which we will engage:[2]

[1] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3209072

[2] www.unpri.org/download?ac=1453

Environmental (E)

Issues relating to the quality and functioning of the natural environment. These include biodiversity loss; greenhouse gas emissions; climate change; renewable energy; energy efficiency; air, water or resource depletion and pollution; waste management; ozone depletion; land use; ocean acidification; and changes to the nitrogen and phosphorus cycles.

Social (S)

Issues relating to the rights, well-being and interests of people and communities. These include human rights; labour standards; child, slave and bonded labour; workplace health and safety; freedom of association and expression; human capital management and employee relations; diversity; relations with local communities; activities in conflict zones; health and access to medicine; consumer protection; and controversial weapons.

Governance (G)

Issues relating to the governance of companies and other investment vehicles. For listed equities, these include board structure; size; diversity; skills and independence; executive pay; shareholder rights; stakeholder interaction; disclosure of information; business ethics, bribery and corruption; internal controls and risk management; and the general relationship between a company's management, its board, its shareholders and other stakeholders. This category may also include matters of business strategy, encompassing both the implications of business strategy for environmental and social issues, and how the strategy is to be implemented.

For unlisted asset classes, governance issues also include matters of fund governance, such as the powers of advisory committees, valuation issues and fee structures.

Source: UN PRI[3]

[3] www.unpri.org/Uploads/i/m/n/maindefinitionstoprireportingframework_127272_949397.pdf

We recognise that ESG engagement opportunities present themselves across a spectrum of severity. In order to maximise the effect of our engagements and deliver on our responsibilities to clients, we seek to be pragmatic while engaging on a range of issues. While the specific approach taken to engagement will be decided on an ad-hoc, case-by-case basis, the following principles guide the selection of an issue for more active engagement.

1. Exposure: across our portfolios we may hold stakes in smaller companies which, while small in terms of value, may be significant in terms of the proportion of voting rights. We are more likely to engage directly where we hold a material stake in the company, defined as holding in excess of 3% of a company's share capital, or where shares in the company are widely held across the business. We are also more likely to engage where the company is currently in receipt of a recommendation from our investment process.
2. Severity: we are more likely to engage on issues that present an immediate or severe threat to the best interests of our clients, or where the ESG issues in discussion are of a pressing and severe nature.
3. Location: we are more likely to engage with those companies where we have a deeper understanding of the local legal framework.
4. Expertise: we are more likely to engage where we have deeper experience of a company or issue. We select certain issues for proper action each year and develop specific policies for the most important ESG engagement issues.

Potential engagements are discussed by the responsible investment committee before implementation. Committee members and members of the stewardship team are able to nominate issues or companies for engagement.

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Methods

Active proxy voting

Proxy voting is an important avenue through which to express our views, and we have adopted a proportional approach to proxy voting at those companies where we have the most influence and the largest client exposure. This is dealt with in our responsible investment policy and through our bespoke proxy voting template. Where we determine to vote against management on an ESG issue, we engage with the board to communicate our stance.

Meetings with management

We make use of formal and informal dialogue with company management on a regular basis. We monitor planned company meetings against our list of priority issues and ensure that relevant ESG questions are asked.

AGM attendance

We consider AGM attendance to be an important stewardship activity. We aim to make formal statements and ask questions at companies' AGMs where we have an active dialogue in a given year.

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Shareholder resolutions

We have adopted a sustainability themed voting policy which commits us to supporting more ESG shareholder resolutions. Each resolution is discussed by our responsible investment committee in detail before a recommendation is made. However, our default stance is to support resolutions calling for higher standards of ESG risk management and/or improved information disclosure.

We are actively considering the potential for co-filing such resolutions, where deemed appropriate and where legally and technically possible. To this end, we have developed a procedure for approving involvement in such resolutions.

In practice, this involves one of two methods:

1. Enabling named clients in Rathbone Investment Management (RIM) as underlying shareholders to co-file a resolution in their own name in the UK market – this activity must be conducted with the involvement of fund management professionals
2. Co-filing as a bloc in Rathbone Unit Trust Management Limited (RUTM) or through discretionary holdings in RIM

Divestment

It is important to note that the final stage of this process involves potential divestment. While we consider engagement to be a powerful influence for change within companies, we recognise that it is not always effective despite our best endeavours, and that a failed engagement may ultimately require divestment.

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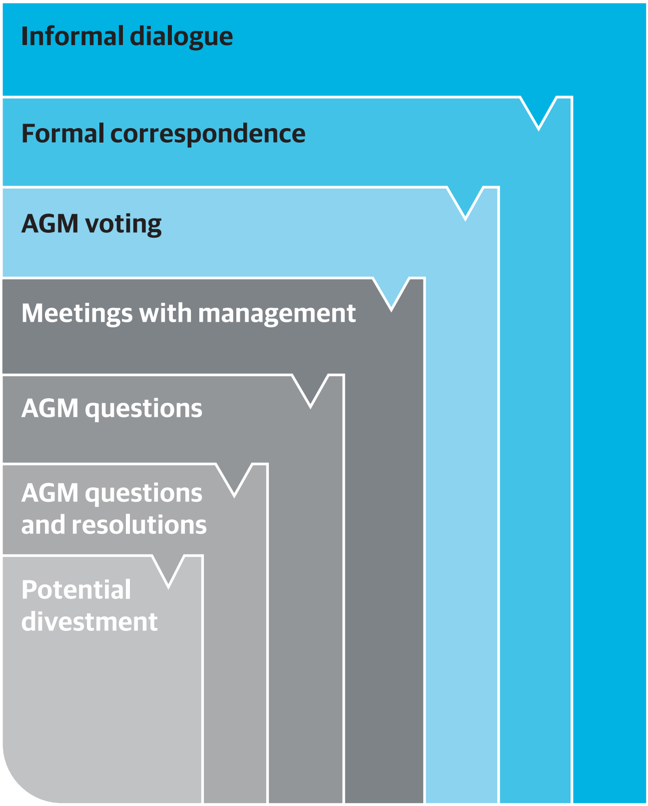
Escalation pyramid

While we reserve the right to respond as appropriate depending on the circumstances, our general approach to engagement is outlined by the graphic below, which shows how we view each of the engagement methods from least to most severe.



Collaboration

Where appropriate, in line with our conflicts of interest policy, we will seek to engage on a collaborative basis. We recognise that in some situations our concerns will align directly with those of other shareholders. However, our overarching aim is to act in the best interests of clients and this takes precedence over collaborative action.

We recognise that many ESG issues are systemic, and hence are more suited to coordinated, cross-sectoral action. We have therefore joined the following high-level collaborative organisations:

UN PRI	We have been members since 2009 and make full use of the PRI's collaboration platform, engaging with other members on a wide range of ESG issues each year.
IIGCC	We have been full members of the Institutional Investors Group on Climate Change since 2019. We sit on the resolutions sub-group and co-lead engagement with utilities companies.
Find it, Fix it, Prevent It	We are founder members of this investor coalition seeking to bring about a step change in company responses to modern slavery.

Full details of our collaborative ESG engagements can be found in our annual responsible investment report.

Ensuring effective engagement

It is essential that engagements be delivered in an effective manner. A procedure has been adopted whereby potential new ESG engagements are presented for review and approval by the responsible investment committee. As part of this process, every engagement must demonstrate compliance with this policy, but also state intended outcomes, setting 'precise and well informed objectives'.

Progress against these objectives is tracked regularly.

Further, we note that certain ESG issues are of a nature to involve systemic risks to multiple aspects of society. Therefore, we will develop detailed and specific engagement policies for these issues.

The responsible investment policy has instructed the following specific engagement polices to be drafted and implemented – it is expected that more will be added over time:

– group climate change engagement policy

– group human rights engagement policy

Communication

This policy will be communicated to fund managers on recruitment and annually as part of the group's review of engagement activities.

Conflicts of interest

Issues may arise from the fact that Rathbone Brothers Plc is itself a listed company and subject to the principles of the UK Corporate Governance Code.

The direction of our voting and engagement activities may, on occasion, not be consistent with the corporate governance arrangements of Rathbone Brothers Plc. The internal corporate governance of Rathbone Brothers Plc is outside of the remit of this policy and the stewardship committee.

Contact

For enquiries relating to engagement, please email engagement@rathbones.com

Review

The investment executive committee will review this policy annually.

Important information

Unless otherwise stated, the information in this document was valid as at March 2021. Rathbone Brothers Plc is independently owned, is the sole shareholder in each of its subsidiary businesses and is listed on the London Stock Exchange.

Rathbones is the trading name of Rathbone Investment Management Limited, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered office: Port of Liverpool Building, Pier Head, Liverpool L3 1NNW. Registered in England No. 01448919.

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rathbones.com
@Rathbones1742
Rathbone Brothers Plc
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