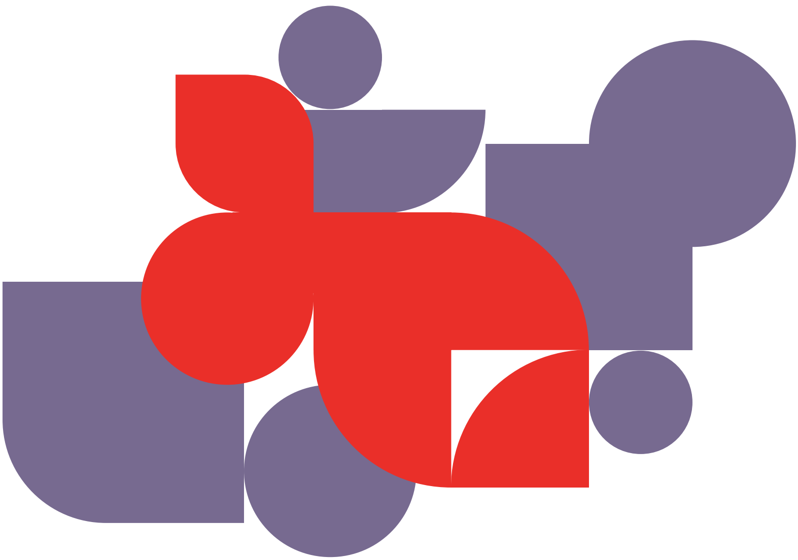
Responsible investment policy

How we define our investment approach and commitments

March 2021



Rathbones
Look forward

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Introduction

This policy sets out Rathbone Brothers Plc's responsible investment approach and commitments in line with the UN Principles for Responsible Investment (PRI) and the UK Stewardship Code (set by the Financial Reporting Council).

With regard to responsible investment, our position around 'thinking, acting and investing responsibly' is as follows:

"We see it as our responsibility to invest for everyone's tomorrow.
That means doing the right thing for our clients and for others too.
Keeping the future in mind when we make decisions today.
Looking beyond the short term for the most sustainable outcome.
This is how we build enduring value for our clients, make a wider contribution to society and create a lasting legacy. Thinking, acting and investing responsibly."

Background

Since its founding as a timber merchant in the 1700s, many prominent members of the Rathbones family have led the way in supporting progressive causes in the UK. From the abolition of slavery to workers' rights, universal suffrage and financial support for struggling families, Rathbones has always been an organisation seeking to think, act and invest responsibly.

Purpose

We have been trusted for generations to manage and preserve our clients' wealth – for private clients, charities, trustees and professional partners. Our tradition of investing and acting responsibly has been with us from the beginning and continues to lead us forward. As a responsible wealth manager, we know that investing for tomorrow and leading the way can take time – we have the discipline and resilience to see things through.

Our purpose to invest responsibly is intrinsic to our organisational culture and our investment process. Through a holistic appraisal of investment, opportunity and risk, we aim to take an informed and active approach to responsible investment. By incorporating a thorough consideration of environmental, social and governance (ESG) factors and continuing meaningful engagement with the companies in which we invest.

This policy defines our overarching approach to responsible investment within our investment framework. Its recommendations apply across all existing business segments and across all major asset classes.

Definitions

Our responsible investment committee defines responsible investment as:

"The purposeful integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices."

The committee has adopted the following, non-exhaustive definitions of the underlying components of ESG:[1]

- environmental: issues relating to the quality and functioning of the natural environment
- social: issues relating to the rights, well-being and interests of people and communities
- governance: issues relating to corporate governance and corporate behaviour

Additional definitions for key concepts in this space have been included in the Appendix.

Why have we committed to think, act and invest responsibly?

We expect the entities in which we invest to have strategies in place to manage ESG risks.

Responsible investment is fully aligned with our heritage and values, with our first formal commitment made in 2009 when we signed up to the UN PRI.[2] Our adoption of this policy marks a further step in our journey to align our business with the core principles of the PRI.

[1] https://www.unpri.org/download?ac=1453

[2] https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment

‘Thinking, acting and investing responsibly’ will help manage risk, support informed investment decisions and help to generate better long-term results for our clients.

This is beneficial for several reasons:

– long-term stewards for a more sustainable world: we understand the benefits that society can reap from our ability to identify long-term, sustainable investments for our clients. Taking ESG factors into account will enable us to deliver positive financial and societal value to both our clients and the world around us.
– integrating ESG can enhance investment performance: there is clear evidence that integrating ESG analysis into the investment process brings no penalty. ESG integration is rapidly becoming embedded in ‘mainstream’ investment management as a means through which to identify material risks and opportunities. Better ESG integration can enhance our research insights and put us in a strong position to take advantage of opportunities.
– recognising our clients’ increased interest: there is a growing demand from society for companies to operate responsibly. Greater concern for environmental and social issues presents a need to provide more responsible solutions for clients. We are committed to developing the solutions that are right for our clients and aligned to the development of their evolving core areas of interest.
– regulatory change: UK and European regulators are noticeably tightening transparency rules around the delivery of financial products claiming to apply ESG factors. Across the industry, advisory bodies and associations are formalising approaches to responsible investment. The EU Technical Expert Group on Sustainable Finance (TEG), Financial Reporting Council (FRC) and Investment Association are all working to provide concrete definitions of responsible investment to ensure there is one global voice on the topic.

Our expectations across the business

This policy applies to all investment managers across each business unit. We expect the integration of ESG analysis into the investment processes to support and enhance risk-adjusted returns across all portfolios.[3] All Rathbones staff are expected to be familiar with the concept of responsible investment, supported by training which will ensure that they have the level of responsible investment knowledge required by their role.

[3] Requirements apply across Rathbones Investment Management (RIM), Rathbones Unit Trust Management (RUTM) and Rathbones Investment Management International (RIMI)

Our core responsible investment principles

We practice responsible investment through four core principles.

ESG integration

We consider environmental, social and governance (ESG) factors in the evaluation of investments to help identify ESG opportunities and risks.

Engagement with consequences

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.

Voting with purpose

We actively vote across over 95% of the value of our holdings in line with our responsible investment commitments. This may involve voting against management to help drive positive change.

Transparency

As a prominent participant in the financial markets, we are committed to being transparent about our approach to responsible investment. We will actively report on the progress of our responsible investment activities to our clients, shareholders and other stakeholders.

ESG integration

Responsible investment principle: we consider material ESG factors in the evaluation of investments to help identify opportunities and risks.

Background

As the industry moves to adopt more sustainable practices and support the global shift towards investing sustainably, we are making a stronger commitment to integrate ESG factors (both risks and opportunities) across our investment decisions.

Many ESG factors are considered financially material, with both positive and negative implications for the financial performance of companies. Poor management of material ESG-related risks can also lead to a material impact on the physical environment and communities. We consider both these aspects of materiality in our ESG integration process.

We use a range of information sources, which will aid with the identification and assessment of ESG risks and opportunities, and assist with our assessment of the suitability of management strategies applied by investee companies.

Implementation

In 2021 we will enhance our research and investment processes for all asset classes in order to provide relevant information that facilitates the integration of ESG considerations at all levels, including:

- research
- investment committees
- investment managers and portfolio decisions

With the support of our research analysts and various data providers, we will monitor ESG factors across portfolios as below:

- **environmental:** we examine the challenges and opportunities faced by companies through climate change, resource management, new regulations and other environmental challenges.
- **social:** we monitor the legal or reputational risks faced by companies to ensure they have strong policies and procedures in place to deal with issues such as employee relations, community impacts and human rights risks.
- **governance:** we review factors that illustrate the quality and robustness of a company's internal structure and practices for issues such as executive pay, board composition and audit, as well as standards of business ethics.

We expect detailed ESG research and analysis to form an increasingly important part of our investment process, covering the work of all our internal investment committees.

Voting with purpose

Responsible investment principle: we actively vote across over 95% of the value of our holdings in line with our responsible investment commitments. This may involve voting against management to help drive positive change.

Background

As proponents of responsible investment, we aim to lead by example, act with integrity and promote the desired culture within our investee companies. We believe it is in the best interests of our clients for the companies in which we invest to adopt best practice in corporate governance, and through our voting activities we will:

- **be long-term stewards for a more sustainable world:** mindful of our responsibilities to our clients, we seek to be good, long-term stewards of investments that we manage on their behalf, as expressed in our stewardship policy. Active, informed voting is a fundamental expression of investor stewardship.
- **protect returns:** our major responsibility is to make full use of shareholder votes and ownership rights to influence companies to adopt more long-term, sustainable practices. We aim to ensure that company boards provide appropriate and independent oversight of management strategy and company activities.
- **ensure ESG integration across investments:** we will also encourage companies to identify and manage ESG risks to protect long-term asset values, and as a result produce robust ESG disclosures.

Implementation

Our pledge to vote across around 95% of our holdings reflects our intention to focus our resources where we can make the most difference in addressing the world's systemic ESG challenges.

As a private client asset manager, we often hold securities for clients on a non-discretionary basis where we cannot exercise voting rights on their behalf. This means we are not able to state that we vote on 100% of our holdings. However, we are aware of our responsibilities in this area, and it is our ambition to progressively increase this proportion where possible.

We source advice from an independent voting consultant, which provides recommendations based on a bespoke voting policy. This in-house policy goes further than established best practice and is updated by our responsible investment committee on an annual basis. In addition, we subscribe to a dedicated sustainability themed voting service which enables a thorough understanding of ESG issues as they present themselves in AGM voting.

From 2021, we will enhance the public reporting of our voting activities on our website, and in summary form in our annual voting report, where we also provide further detailed rationale around the specific holdings that are excluded from the process (around 5%).

Engagement with consequences

Responsible investment principle: 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.

Background

It is our responsibility to undertake dialogue with companies on a wide range of ESG issues with the goal of producing better investment and societal outcomes.

We believe that purpose-driven engagement on ESG issues with underlying companies forms part of our wider societal responsibility as a business. We have a role to play in addressing and minimising any systemic risks that may affect the assets in our portfolios. We do this through deep, meaningful and long-term engagement on a variety of topics.

Engagement on ESG issues has formed an important part of our stewardship activities for many years. When coupled with active voting and set within a clear escalation framework, we believe engagement can be a powerful force for change. In addition, engagement on ESG issues can lead to improved corporate performance and hence add value for client outcomes.

Implementation

While we reserve the right to respond as appropriate depending on the circumstances, our general approach to new and ongoing engagement is outlined by the graphic below.

Engagement with the companies in which we can invest takes several forms, including regular and ad-hoc face-to-face meetings with management and formal written correspondence. Engagement may cover a wide range of issues, including but not limited to environmental issues (including climate change), social issues (including diversity) and governance issues (including leadership and remuneration).

Please see our other reports for examples of our outcomes-driven approach to engagement: https://www.rathbones.com/knowledge-and-insight/decade-investing-responsibly

In order to maximise the effect of our engagements and deliver on our responsibilities to our clients, we have a pragmatic and focused approach to engaging on a range of issues. The following principles guide the selection of an issue for more active engagement (definitions provided in our engagement policy):

- exposure
- severity
- location
- expertise

Engagement must have consequences to be effective. Following our best efforts made through a campaign of focused engagement for change, we are prepared to reduce holdings in companies that continue to present a materially poorly managed ESG risk over time.

Please take a look at our separate engagement policy for more information about this responsible investment principle.

Transparency

Responsible investment principle: as a prominent participant in the financial markets, we are committed to being transparent about our approach to responsible investment. We will actively report on the progress of our responsible investment activities to our clients, shareholders and other stakeholders.

Background

We believe that clear and ongoing communication to clients on the ESG characteristics of our investments is important. Integrating ESG factors into our research, engagement and investment process has limited value if we are not transparent about our progress. As outlined, we plan to adopt responsible investment in a gradual and structured way, ensuring that commitments or promises we make can be substantiated with clear evidence of action.

We aim to be authentic in our responsible investment approach and will continue to communicate regularly with our stakeholders about our progress on making our business more responsible. In addition, we aim to develop and publish various policies and statements around our key engagement topics as part of our commitment to being transparent with our progress (such as climate change).

Implementation

It is vital that we produce annual reporting for our clients and other stakeholders, while also making a detailed submission to the annual PRI reporting cycle. We will publish a responsible investment policy and report on an annual basis to provide our clients with an update on the progress made in meeting our responsible investment commitments. Alongside this, we will develop and publish our climate risk strategy, which will include details around how we plan to meet our goals around environmental concerns (such as TCFD reports).

We will also develop and publish specific ESG strategy documents and periodic thought leadership pieces discussing pertinent issues in the environmental (particularly climate change and climate-related risks) and social spheres aligned to our responsible investment commitments. We review our policies and reporting cycles on a yearly basis to make sure we are in line with industry standards. We will evolve our reporting in this area in line with expected regulatory developments.

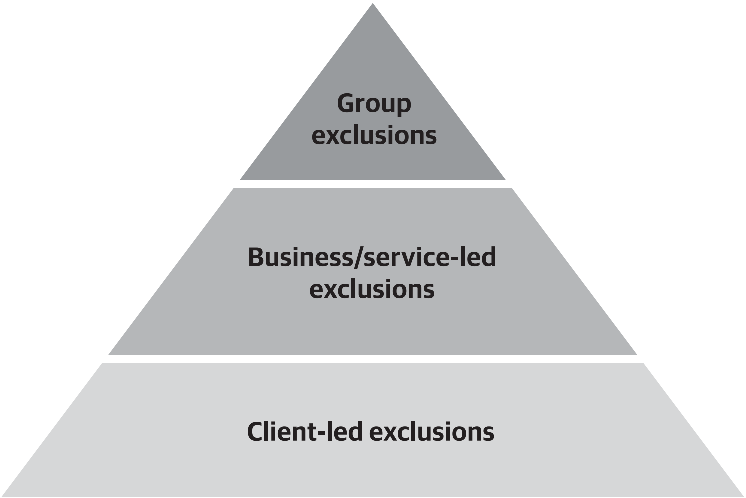
Please see the Rathbones group website for the most up-to-date information about these topics.

Exclusions

The choice of not investing in a particular company or sector is known as an exclusion. Exclusions that filter out investments on ESG grounds are a critical part of our responsible investment process.

Our exclusions policy is designed to complement our wider responsible investment programme, and avoid activities that may represent an unmanageable and unacceptable investment risk and are not aligned to our responsible investment vision. By combining integration, engagement and exclusions, Rathbones enables clients to reach better investment outcomes.

To reflect the nature of the Rathbones group, we have adopted a three-tiered approach to exclusions as highlighted below.



Group exclusions

Group exclusions will apply across all of the assets managed by Rathbones. These exclusions will be applied to investments that do not align with our responsible investment commitments due to the significance of their ESG impact and our belief that the majority of clients would share similar concerns. We expect the number of group exclusions to be limited. Initial group exclusions will be approved at board level.

Business/service-led exclusions

Rathbones group is made up of separate business units that each provide a different range of services to their clients. Due to the nature of the services provided, each business unit will implement our responsible investment principles and respective exclusions in the most appropriate way.

Client-led exclusions

We recognise that our clients hold diverse views, and that in addition to the group and business/service-led exclusions, bespoke clients with discretionary and non-discretionary investment portfolios may wish to exclude additional sectors from their portfolios on the basis of their own personal beliefs and values.

During 2021, using datasets sourced from ESG data providers, we will offer clients the choice to set exclusions relating to the most common concerns across the ESG spectrum.

Exclusions review process

While Rathbones has offered exclusions on an ad-hoc basis for many years, this policy represents a formalisation of that process.

We will review exclusions across all three tiers, considering if any should be added and/or removed on an annual basis (at minimum). Before adopting any additional exclusions at group level, we will undertake a comprehensive research process. Following this, any suggested exclusions will be reviewed and approved by both the group's investment committees and the Rathbones board prior to implementation. We will publish a comprehensive list of our exclusions on our group website in due course and commit to providing transparency around the process and outcome of exclusions reviews.

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Developing our stance on ESG issues

As we promote our responsible investment principles, we will look to develop and publish a more detailed stance on systemic ESG challenges to reflect our position as a prominent participant in the financial markets.

All investments are made with a long-term view in mind and we recognise the systemic risks, opportunities and complex challenges that topics like climate change can bring. As we invest in our ESG integration capacity, our voting activity and engagement projects, we expect to develop specific policy stances on the most material ESG issues, guiding our investment and stewardship activities. These policy stances will be published on our website.

Implementation

As an example of how this process is intended to develop, in 2021 we will publish a climate risk strategy that will look to understand the nature of climate risks to our clients' investments and establish practices for managing these risks, both in the investment management process and in our stewardship activities. Climate change is an excellent example of the kind of systemic challenge facing society and hence our investment activities.

This project is linked to important work at group level, where we are committed to communicating our progress on tackling climate change. To do this, we will begin the process of voluntary disclosures set out by the task force on Climate-Related Financial Disclosures (TCFD) – one of the most widely used and recognised sets of guidance for companies when reporting their climate-related risks. We will release our initial TCFD statement as part of our year-end 2020 annual report and accounts (published in 2021).

Further details can be found in our climate risk strategy document.

Conflicts of interest

Responsible investment supports our vision to think, act and invest responsibly to become one of the leading ESG players in the wealth market. It aligns with our core values and purpose as a company.

However, conflicts may arise from our responsibilities as a listed company under the principles of the UK Corporate Governance Code, those of ESG disclosure and the best practice of peers. The direction of our voting and engagement activities may, on occasion, be inconsistent with our own internal ESG management arrangements as we manage a proportion of our assets on a non-discretionary basis. In particular, we note that the following risks may arise in the execution of our responsible investment activities.

Conflicts may arise as a result of:

- ownership structure
- business relationships between asset owners and asset managers, and/or the assets they manage
- differences between the stewardship policies of managers and our clients
- cross-directorships
- bond and equity managers' objectives
- client or beneficiary interests diverging from each other

We are confident that our existing conflicts of interest management systems address these issues in sufficient detail. The policy is available on request.

The internal management of ESG risks by Rathbone Brothers PLC is outside of the remit of this policy and the responsible investment committee.

Appendix

Full PRI definitions

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
- 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
- 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

Important information

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@Rathbones1742

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