RATHBONES

REPORT FOR 2023 ACTIVITY

# RESPONSIBLE INVESTMENT

**Welcome to our responsible investment report.**

As a UK wealth manager, we know it's important to adopt an active and thoughtful approach to responsible investment. By doing this, we seek to protect the value of our clients' investments over the long term.

This means:

— incorporating relevant environmental, social and governance (ESG) issues into our investment decisions

— encouraging companies to reduce their ESG risks, through engagement

— backing up this engagement by using our voting rights as shareholders.

**HOW TO USE THIS REPORT**
We've designed this report so that it can be read from start to finish. Alternatively, we invite you to use it to look at particular aspects of our responsible investment, such as our voting or our engagement. This report also includes many case studies of our work, as shown on the contents page.

Finally, if you don't understand any words or phrases, try the glossary. You can click through to it from the top of each page. You can also click through to other sections.

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## Our reporting suite

**This report is among several we publish each spring:**

**Annual report and accounts 2023**

**Responsible business update 2023**

**Task force on climate-related financial disclosures report 2023**

**Gender pay gap report 2023**

Throughout this report you'll see these icons. By clicking on them you can find out more

**Read more**

**Visit website**

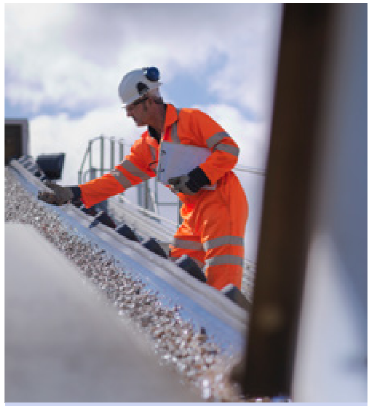
# OUR OVERALL APPROACH

We define responsible investment as:

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

- **'environmental'** relates to the quality and functioning of the natural environment
- **'social'** covers the rights, well-being and interests of people and communities
- **'governance'** includes the system of rules, practices and processes in place to manage and control a company.

## AS AN INVESTOR THAT HOLDS BILLIONS OF POUNDS-WORTH OF ASSETS ON BEHALF OF CLIENTS, WE BASE OUR APPROACH TO RESPONSIBLE INVESTMENT ON FOUR CORE PRINCIPLES:



### ESG INTEGRATION

We consider ESG factors in the evaluation of investments to help identify opportunities and risks.

Read more: See page 12

### ENGAGEMENT WITH CONSEQUENCES

We prioritise engagement where we can help make a difference in addressing systemic ESG challenges. We are prepared to escalate our engagement activity or reduce our holdings in companies that continue to present an ongoing ESG risk.

Read more: See page 17

### VOTING WITH PURPOSE

We actively vote in a manner that allows us to focus our resources where we believe we can make the most difference. This may involve voting against management to help drive positive change.

Read more: See page 26

### TRANSPARENCY

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.

Read more: See page 39

## FOREWORD FROM OUR GROUP CHIEF EXECUTIVE OFFICER

# ONE YEAR, TWO MILESTONES

In 2023 regulators approved our combination with Investec Wealth & Investment UK (IW&I), bringing our total funds under management and administration (FUMA) beyond the £100 billion milestone for the first time.

The enlarged group has a very similar culture and aspirations in respect of responsible investment. Moreover, our greater size brings us both new opportunities and greater market presence and purchasing power, which reaches much further as we strive to persuade global businesses and policymakers to work towards more sustainable outcomes. As we haven't yet integrated the two businesses, in this report we're not looking at IW&I's responsible investment activities.

Rathbones' stewardship professionals had another busy year. This included leading several high-profile engagements by investor coalitions on climate change, modern slavery and biodiversity. We recorded a record high 752 engagements with companies – another milestone.

### PROTECTING RETURNS, REDUCING RISKS

We also supported 231 shareholder resolutions on environmental, social and governance (ESG) themes and spoke in person at several annual general meetings (AGMs). We take voting very seriously, continually seeking to use it to protect returns and reduce the risks in our clients' investments.

Rathbones continued its progress in integrating ESG issues even deeper into its research process and investment decisions. We define our approach to responsible investment to include 'ESG integration', 'engagement with consequences', 'voting with purpose' and 'transparency'. We support each of these four principles with dedicated actions each year.

After a period of in which the UN-backed PRI was unable to produce scores for investors, we were pleased to be included in its Principles for Responsible Investment Benchmark Assessment once again this year. We received four stars out of five in the two areas most central to our responsible investment approach. One was policy, governance and strategy. The other, confidence-building measures, assesses how we review and verify the data we give the PRI. This confirmed that our policies were backed by sound processes and demonstrated that we had made good progress in our scores in other areas, including fixed income. We're pleased that IW&I also scored four stars in this category – indicating a strong common culture.

In this report we also look forward to the year ahead by setting out our engagement priorities for 2024.

This includes long-standing priorities that remain vital, such as pressing companies we invest in to move towards net zero carbon emissions. IW&I shares this focus on net zero. In 2023, it joined the campaign by the non-profit CDP to accelerate companies' adoption of science-based climate targets. In 2024, IW&I publishes its first report disclosing how climate change could affect its business.

Rathbones' engagement priorities for 2024 include new ones too, such as the risks to workers and local communities posed by the mining industry. We also have priorities to do with smaller companies, which are often full of potential for investors but may lack the checks and balances in the way larger companies are run.

We do hope you enjoy reading about our activities.

**Paul Stockton**

# PERFORMANCE SUMMARY

## HIGHLIGHTS OF THE YEAR

**NUMBER OF ENGAGEMENTS**

**752**

**NUMBER OF ISSUES WE ENGAGED ON**

**48**

**VOTES AGAINST MANAGEMENT – RATHBONES INVESTMENT MANAGEMENT**

**624**

**VOTES AGAINST MANAGEMENT – RATHBONES ASSET MANAGEMENT**

**421**

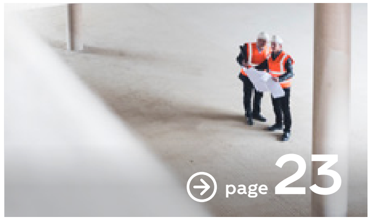
**VOTES AGAINST SLAVERY**

**£8.2 trillion**

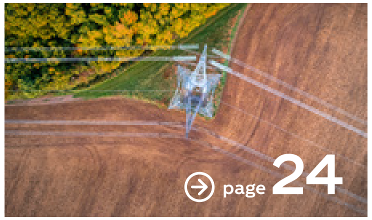
Assets under management of the 133 investors involved in this collaborative engagement led by Rathbones

## THE IMPACT WE'VE MADE: SOME EXAMPLES OF HOW WE USE ENGAGEMENT AND VOTING AS TOOLS WITH THE AIM OF PRESERVING THE LONG-TERM VALUE OF OUR CLIENTS' INVESTMENTS

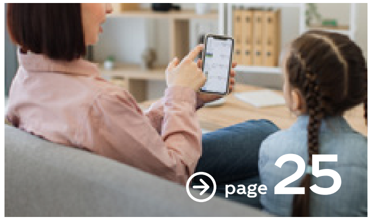
### FIND IT, FIX IT, PREVENT IT
Talked to housebuilder Persimmon about modern slavery




### SSE
Posed questions at the AGM about addressing climate change

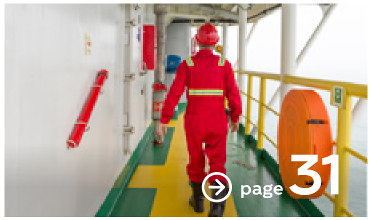



### APPLE
Signed a joint letter about risks to children

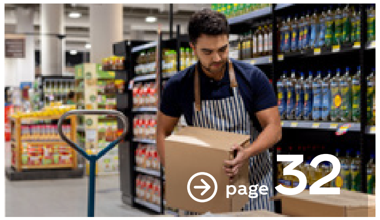



### UNILEVER
Joined revolt against CEO's pay

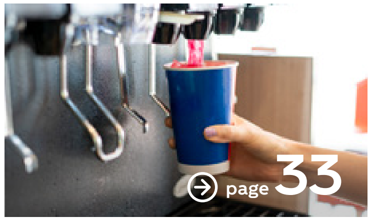

### BP
Asked at AGM why there was no vote on climate targets




### DOLLAR GENERAL
Backed widely supported vote over health and safety




### NICHOLS
Called for independent directors – management responded




### GLENCORE
Voted against management over climate


### BECTON, DICKINSON & CO
Voted for tighter shareholder control over severance pay


### STARBUCKS
Voted for oversight of workers' rights – management responded


### EXXONMOBIL
Supported report on methane emissions


### RHI MAGNESITA
Engaged with company over board diversity

## Q&A WITH OUR STEWARDSHIP DIRECTOR

# STEWARDSHIP: FROM NICHE TO MAINSTREAM

**Q: As you look back over stewardship across the investment industry in 2023, what do you think was achieved?**

**A:** This is my twentieth year in this field, which gives me an added sense of perspective. Stewardship itself is at a very interesting stage of maturity – I've seen it vault from a niche to a mainstream philosophy in a few short years. By 'stewardship' we mean the use of our investor rights and influence in an effort to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social and environmental assets their interests depend on.

2023 saw several welcome developments marking this new maturity. Most notable was the final publication by the financial regulator of the Sustainability Disclosure Requirements. These stop funds from labelling themselves as more sustainable than they are in reality. With guardrails such as these in place I hope we ensure every business that offers some form of responsible investment is working towards everyone's best interests.

**Q: Rathbones votes on an increasing number of shareholder resolutions – in the majority of cases against management. What role can these resolutions play?**

**A:** Engagement can take many forms, but it's vital that investors are prepared to use all available options when things don't go as planned. Shareholder resolutions on ESG issues are an example of such escalation. These are resolutions to shareholders put not by the company's board but by fellow shareholders. They're a way of forcing the board to consider often highly specific issues that could, if they fester, eventually damage the revenue or assets of the company. Management often recommends that shareholders oppose such moves, but when done in the right spirit they can be constructive and help bring to the fore important issues that the company needs to look at.

We consider each such case on its merits, according to our voting policy. But broadly speaking, we support any call for better disclosure or for companies to start doing what's considered best practice. The majority of global companies still care what their shareholders think, and we've seen many good examples of boards listening to shareholder concerns in a far more attentive way after a large vote in favour of a shareholder resolution. For example, in this report we discuss how Becton, Dickinson & Co responded to a proposal about senior management's severance packages.

**Matt Crossman**

> **"The majority of global companies still care what their shareholders think."**

## Q&A CONTINUED

**Q: Rathbones voted against management on a higher number of social issues in 2023 – just as in 2022. Why?**

**A:** Certain issues catch the headlines, but all kinds of issues can have an impact on the long-term financial health of a company. While we take environmental topics seriously, we perceive that other shareholders tend to grant them primacy over social issues. The 'S', or 'society', in ESG has sometimes been treated as the poor relation. But in the modern world, the good management of internal stakeholders - work colleagues - and external stakeholders - local communities, suppliers and so on - is vital to a company's prosperity. Our voting on social issues has concentrated mainly on board diversity. We're prompted by evidence that more diverse boards and leadership teams do better over time. We want both leadership teams and the wider workforce to benefit from reflecting the diversity of the society around them.

**Q: You've been pressing companies on ESG issues for many years at Rathbones now. What have companies got better at?**

**A:** We've noticed over time that companies have been putting more resources behind ESG issues. This is especially the case for disclosures, where companies in the UK and rest of Europe are subject to increasingly demanding reporting regimes. For example, a new EU directive compels companies to report more on sustainability issues related not only to their operations but also to their suppliers.

But this doesn't always translate into more concerted action by companies to improve disclosure - sometimes we think that companies don't do a good enough job of involving specialist ESG employees in strategy development and getting them talking with senior leadership.

Companies have also become more interested in linking executive pay to good ESG outcomes. We embrace this, though with caution. It's important that the yardsticks used here are demanding - not just exploited as an excuse to inflate pay.

**Q: What future ESG challenges might the investment industry face?**

**A:** As the ESG industry has evolved, it's become all the more reliant on data. We use ESG data across our work - whether it be in our in-house ESG ratings system for companies or for our voting decisions. Just as we ask questions about the governance of companies, we're now asking about the governance of the ESG ratings and data industry, to make sure the data we rely on is of the best quality. That's why we applaud moves to regulate this specialist industry through a new code of conduct for companies providing ESG ratings and data.

# A RESPONSIBLE INVESTOR AND BUSINESS

## A RESPONSIBLE BUSINESS

In 2020, we put in place our responsible business framework. It's our blueprint for creating long-term, sustainable value for our range of stakeholders, including clients, shareholders, employees, the communities in which we and the companies we invest in work, and society as a whole. Within this framework, the responsible business committee, co-chaired by the group chief executive and the managing director of Rathbones Investment Management, oversees policies and checks progress for our four responsible business pillars: responsible investment, environmental impact, our people, and society and community.

## A RESPONSIBLE INVESTOR

Responsible investment is one of our four responsible business principles because we think it's one of the four ways in which we can contribute to society. They're the building blocks for how we create enduring value for our stakeholders. Responsible investment builds value for our clients and other stakeholders.

## RATHBONES AND THE STEWARDSHIP CODE

Stewardship is defined by the Financial Reporting Council (FRC), an independent regulator for the UK and Ireland, as "The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." This concept overlaps a great deal with our concept of what responsible investment is. Rathbones is a signatory of the UK Stewardship Code 2020, a set of principles for institutional investors developed by the FRC. In the FRC's words, the Code "sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them". Asset managers must pass a review process to earn signatory status. We've passed these reviews and been a signatory since 2021 – and continue to work at improving our reporting in line with guidance from the FRC.

## OUR APPROACH TO RESPONSIBLE BUSINESS

**Our purpose is to think, act and invest for everyone's tomorrow**

**OUR PILLARS**

**RESPONSIBLE INVESTMENT**
We will apply an active and thoughtful approach to responsible investment

**OUR ENVIRONMENTAL IMPACT**
We will play our part in the move to a net zero economy

**OUR PEOPLE**
We will work to become the employer of choice for the wealth management sector

**SOCIETY AND COMMUNITY**
We aim to be a trusted partner in the societies in which we operate

**OUR PILLARS ARE UNDERPINNED BY OUR CRITICAL FOUNDATIONS**

| | | |
|---|---|---|
| Robust governance | Positive corporate culture | Identified material issues |

**AND ACTIONED THROUGH**

| | | |
|---|---|---|
| Risk and opportunity -informed targets and actions | SDG-aligned outcome metrics | Executive non-financial strategy-linked remuneration |

# BUSINESS SEGMENTS

**Rathbones consists of two business segments: wealth management and asset management. Wealth management encompasses investment management and our financial planning & advice service.**

## WEALTH MANAGEMENT RATHBONES INVESTMENT MANAGEMENT

Rathbones Investment Management (RIM) carries out individual investment and wealth management for private clients, charities, trustees and professional partners.

It had £49.2 billion in assets under management at the end of 2023. Around £9 billion of this was in charity and non-profit funds, making RIM the UK's third largest investment manager in that sector.

RIM's investment managers seek to understand each client's situation and objectives. Once they've achieved this, they'll propose an investment strategy to match the client's needs. When constructing portfolios, our investment managers draw on recommendations from our investment committees, which pool the insights and expertise of our financial analysts and investment managers. They combine this with guidance from our stewardship and engagement specialists and our ESG integration and data analysts.

### GREENBANK

RIM has had a responsible investment team - now called Greenbank - since 1997. Greenbank creates bespoke ethical, sustainable and impact investment portfolios for private clients, trustees and professional intermediaries. Greenbank has specialist expertise to service the needs of clients with enhanced responsible investment preferences or ESG requirements. It had £2.2 billion in funds under management at the end of 2023.

## RATHBONES ASSET MANAGEMENT

Rathbones Asset Management (RAM) is the new name for Rathbone Unit Trust Management (RUTM). It's an active fund manager with £13.8 billion under management as of the end of 2023, running specialist and multi-asset funds designed for individuals.

These funds are distributed primarily in the UK, through financial advisers.

RAM has a range of ethical and sustainable funds that are supported by Greenbank. These funds include RAM's Ethical Bond Fund, one of the oldest in this sector, launched in 2004. It had assets of £2.1 billion on 31 December 2023, plus £0.2 billion in an offshore vehicle. RAM's sustainable funds cover fixed income, equities and multi-asset investments. They're invested to support the UN Sustainable Development Goals. As of the end of 2023:

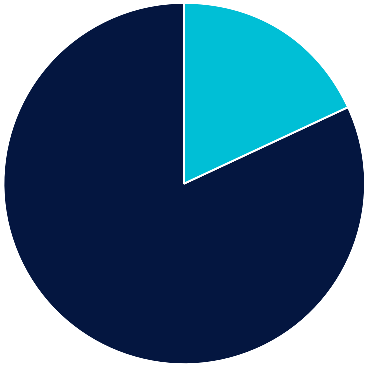
- the Rathbone Greenbank Multi-Asset Portfolios (RGMAPs) fund range, comprising four funds with different risk levels, had assets of £388 million
- the Rathbone Greenbank Global Sustainability Fund, investing in global equities, had £70 million
- the Rathbone Greenbank Global Sustainable Bond Fund, launched in November 2023, had total assets of £21 million.

## INVESTEC WEALTH & INVESTMENT

Following the regulators' approval of Rathbones' combination with Investec Wealth & Investment UK, we'll continue to integrate IW&I into Rathbones Group. At the end of 2023 IW&I had £42.2 billion in funds under management and administration. This report doesn't cover IW&I's responsible investment activities.

### RATHBONES FUNDS UNDER MANAGEMENT AND ADMINISTRATION

Rathbones Group carries out individual investment and wealth management for private clients, charities, trustees and professional partners, as well as fund management



**£63 billion**

- **Rathbones Investment Management:** £49.2 billion
- **Rathbones Asset Management:** £13.8 billion

> **"Rathbones consists of two business segments: wealth management and asset management."**

# RESPONSIBLE INVESTMENT: OUR PEOPLE

We seek to apply our responsible investment principles consistently across Rathbones Group.

This table depicts those with a senior-level responsibility for the delivery of responsible investment within their respective business areas. It also includes ESG specialists who spend a material amount of time delivering responsible investment.

Our teams complement each other. For example, the group as a whole benefits from the expertise of Greenbank in responsible investment.

Investment managers are free to include our teams' ESG analysis in their investment approach in the way they think serves clients' interests.

| GROUP RESPONSIBLE BUSINESS |
|---|
| **Paul Stockton**[1] Group chief executive officer, co-chair of responsible business committee |
| **Ivo Darnley**[1] Managing director of RIM, co-chair of responsible business committee |
| **Helen Wilson**[1] Responsible business manager |

| RATHBONES INVESTMENT MANAGEMENT |
|---|
| **CIO AND RESEARCH** |
| **Elizabeth Savage**[1] Co-chief investment officer, chair of group responsible investment committee |
| **Ed Smith**[1] Co-chief investment officer |
| **ESG INTEGRATION, POLICY AND DATA** |
| **Francesca Cherubini Stoughton**[1] Head of investment process implementation |
| **Venessa Parekh** ESG policy analyst |
| **Agnes McAfee** ESG integration lead |
| **Liberty Godfrey** ESG integration analyst |
| **Jamie Mill**[1] Research management analyst |
| **Fred Evans**[1] Research data analyst |

| RATHBONES ASSET MANAGEMENT |
|---|
| **FUND MANAGERS OF ETHICAL AND SUSTAINABLE FUNDS** |
| **David Coombs**[1] Head of multi-asset investments |
| **Will McIntosh-Whyte**[1] Fund manager |
| **Bryn Jones**[1] Head of fixed income, fund manager |
| **Stuart Chilvers**[1] Fund manager |
| **Christie Goncalves**[1] Fund manager |
| **David Harrison** Fund manager |
| **SUSTAINABLE INVESTMENT AND ESG SPECIALISTS** |
| **Rahab Paracha** Sustainable multi-asset investment specialist |
| **Neil Smith** Sustainable investment specialist |
| **Darren Wallace** Regulatory ESG implementation analyst |

| STEWARDSHIP |
|---|
| **Tilia Astell** Junior ESG and stewardship analyst |
| **Philippa Bliss** ESG and stewardship analyst |
| **Matt Crossman** Stewardship director |
| **Archie Pearson** ESG and stewardship analyst – voting lead |
| **Kazuki Shaw** ESG and stewardship analyst |

| GREENBANK |
|---|
| **John David** Head of Greenbank |

| ETHICAL, SUSTAINABLE AND IMPACT RESEARCH |
|---|
| **Kate Elliot** Head of ethical, sustainable and impact research |
| **Perry Rudd** Ethical, sustainable and impact adviser |
| **Sophie Lawrence** Stewardship and engagement lead |
| **Emma Williams** Senior ethical, sustainable and impact researcher |
| **Kai Johns** Senior ethical, sustainable and impact researcher |
| **Charlie Young** Ethical, sustainable and impact researcher |

| GREENBANK INVESTMENT RESEARCH |
|---|
| **David Cox** Head of Greenbank Investments |
| **Saleem Shivji** Senior investment analyst |
| **Kate Murphy** Investment analyst |
| **Cameron Rangel** Investment analyst |
| **Will Findlay-Wilson** Investment analyst |

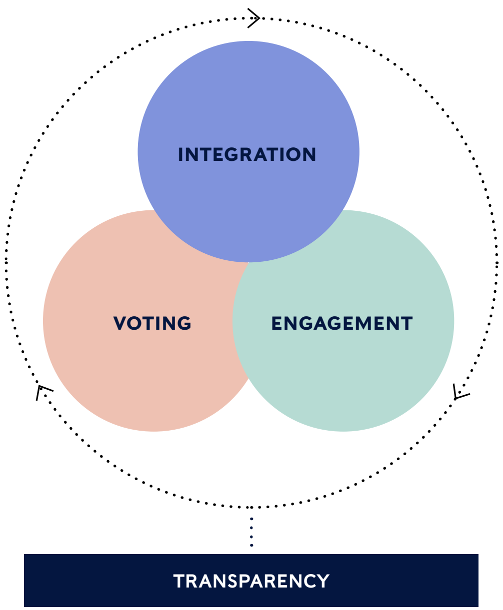
1 Don't spend 100% of their time on responsible investment

# RESPONSIBLE INVESTMENT: OUR PROCESS

We see it as our duty to be good stewards of our clients' wealth. We aim to deliver on clients' investment objectives while recognising that long-term returns depend on the continuing health of the overall economy. We understand the benefits to investors of identifying companies with sustainable business models with good business practices where revenue, profit and strong balance sheets can add value for investors as well as deliver benefits to society.

Our responsible investment policy governs how we manage assets to meet both our responsible business objectives and what's required by laws and regulation.

We seek to apply our responsible investment principles across all major asset classes: equities, fixed income and collectives.




Our responsible investment committee oversees the implementation of our responsible investment principles. It's chaired by RIM's co-chief investment officer Elizabeth Savage, supported by our stewardship director, Matt Crossman. It includes investment professionals from across the business, including RAM and Greenbank.

Reporting into the responsible investment committee, we have a RIM ESG integration committee, a group engagement committee, a group voting committee and Greenbank and RAM responsible investment committees.

Our four responsible investment principles complement each other.

For example, we might vote against a company's management if our engagement doesn't yield the results we'd like. If enough shareholders vote against management, this might prompt further engagement that does yield results after all.

Information we glean from engagement may also assist ESG integration, by informing our investment deliberations and decisions.

## TRANSPARENCY

We take account of our clients' varied views on ESG issues; we also focus on the issues that could have the greatest effect on the value of our clients' investments. As we work to achieve these twin objectives, transparency is critical in building trust in our approach – we want to be open with clients about what issues we're concentrating on and to what extent.

We expect transparency from others too, to enable us to steward assets to the best of our abilities. That includes the companies and collective investment vehicles we invest in.

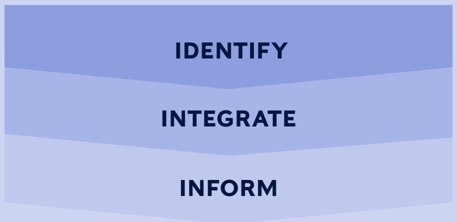
## ESG INTEGRATION

We integrate ESG factors into our investment processes and decisions to help us identify long-term trends, risks and opportunities.

We incorporate relevant insights from a variety of internal and external sources. This includes data from third-party providers on companies we invest in and standards set by regulators and industry bodies. It also encompasses insights from our stewardship and financial analysts, including experts at Greenbank.

We adopt a pragmatic and proportionate approach in our analysis. That means balancing qualitative information, such as our assessment of ESG risks, with quantitative information, such as income generated from the sale of renewable energy. This balancing enables a well-rounded evaluation of ESG factors.

ESG integration across Rathbones is based on common foundations but the practical integration of ESG factors within investment decision-making is tailored to fit the relevant investment service or mandate. This means that RIM, RAM and Greenbank may each take different ESG factors into account in their integration processes.




**For more detail:** See page 13

## ENGAGEMENT WITH CONSEQUENCES

### OUR PHILOSOPHY

The primary purpose of engagement is to protect and, in some cases, increase the value of particular investments in our portfolios. But engagement can also address and minimise 'systemic risks' that may impede the healthy functioning of society, ecosystems and the economy – and so may affect the prospects for investment risk and return.

We use our in-depth knowledge of companies whose shares or debt we hold on behalf of clients to undertake an open and continuing conversation with them, with the aim of building strong relationships.

### ENGAGEMENT TOOLKIT

We can wield a variety of tools: written dialogue, private dialogue, public engagement, outreach with companies to check on their progress, collaborative engagement, active ownership/voting, shareholder resolutions and exclusions.

### ENGAGEMENT PLAN

Every year, we review and update our engagement plan. This includes a list of themes for the coming year. Each theme includes clear objectives and a set of companies to target.

During the course of a year, however, other issues may emerge to which we need to respond. Our goal is to spend our time and resources in a way that allows us to focus on significant and systemic risks while remaining agile.

**RESPONSIBLE INVESTMENT: OUR PROCESS** CONTINUED

## ENGAGEMENT WITH CONSEQUENCES CONTINUED

### IDENTIFYING PRIORITIES

When we identify an opportunity for engagement, we follow a formal approval process, which considers:

**Exposure**
We're more likely to engage directly where we hold a material stake in the company, which we define as holding more than 2.5% of a company's share capital or where the security is widely held across the business.

**Severity**
We're more likely to engage on issues that present an immediate or severe threat to the best interests of our clients, are material to our holdings or are related to ESG issues that are pressing and severe.

**Location**
We're more likely to engage directly with those companies located in places where we have a deeper understanding of the local legal framework. Globally diverse companies may be better suited to collaborative engagements.

**Expertise**
We're more likely to engage where we have deeper experience of the issue at hand.

### ESCALATION TOOLKIT

We retain flexibility in our response to engagements that are not progressing in line with expectations, recognising that no one-size-fits-all escalation template is suitable for all issuers, sectors or asset classes. Escalation may involve joining collaborative initiatives to apply greater pressure to companies.

INFORMAL DIALOGUE
FORMAL CORRESPONDENCE
AGM VOTING
MEETINGS WITH MANAGEMENT
AGM QUESTIONS
AGM QUESTIONS AND RESOLUTIONS
CANDIDATE FOR DIVESTMENT PROCESS

## VOTING WITH PURPOSE

### OUR PHILOSOPHY

We seek to make full use of shareholder votes and ownership rights to influence companies to adopt long-term, sustainable practices and good corporate governance with the aim of protecting our clients' returns. Our voting policy applies even more rigorous standards in some areas than generally accepted best practice. We tap into external expertise where necessary. This includes using the sustainability-themed voting service and voting consultancy services of the specialist provider Institutional Shareholder Services, which provides recommendations based on our voting policy. But we make our own voting decisions rather than outsourcing voting to a service provider, as some investment managers do.

**Read more** on our voting activities

| THROUGH VOTING, WE ENCOURAGE BOARDS TO: | | |
|---|---|---|
| Embed clear values and standards throughout the organisation | Develop a culture of transparency and accountability | Concentrate on strategic issues rather than short-term performance |
| Maintain systems of internal control and risk management | Create fair remuneration at all levels that rewards achievement | Responsibly manage impacts on all stakeholders |

| TO DELIVER THESE GOALS, WE BELIEVE THAT BOARDS SHOULD, AS A BARE MINIMUM, HAVE: | |
|---|---|
| An independent chair | Separate people for the roles of chair and CEO |
| The necessary balance of experience, knowledge and independence, including an adequately diverse range of people, for the board and its committees | Independent non-executive directors filling at least half the board seats at larger companies |

# ESG INTEGRATION

**WE CONSIDER ESG FACTORS IN THE EVALUATION OF INVESTMENTS TO HELP IDENTIFY OPPORTUNITIES AND RISKS.**

# HOW ESG INTEGRATION WORKS AT RATHBONES

Noting that certain ESG factors could have a material impact on investment performance, we have enhanced our investment process by adding an additional ESG-focused lens to our financial analysis.

Integrating ESG factors into our considerations allows us to take a nuanced view of a company's approach to risk management. Effective governance often correlates with prudent management of environmental and social challenges, enabling us to identify companies that present investment risks and opportunities.

Our analysis includes the concept of 'double-materiality': the consideration of ESG through two lenses. The first examines a company's management of ESG issues and the resulting effects on its products, services and operations. The second perspective looks at how, and to what extent, a company's activities influence the world around it.

## OUR APPROACH TO ESG INTEGRATION

### IDENTIFY

- Data from third parties
- Materiality frameworks and analysis
- International frameworks, UK and EU legislation, market-led initiatives
- Insights from specialist ESG and stewardship teams
- Sectoral, thematic and company-specific insights from financial analysts

### INTEGRATE

- Client and policy-led exclusions
- Higher ESG risk and controversies monitoring
- Sustainability alignment assessment
- Climate risk monitoring
- Greenbank ethical screening, sustainability and impact assessments

### INFORM

- ESG, sustainability and engagement insights included in research analyst's evaluation of investments alongside financial information
- Investment managers consider ESG, in addition to their market assessment and client-focused decision-making

## EXAMPLE: POLICY EXCLUSIONS

**DATA SCREENING ON ESTABLISHED EXCLUSIONARY THRESHOLDS**

- The manufacture of whole cluster munitions
- The manufacture of whole anti-personnel landmines
- Activities involving thermal coal from which the company generates at least 10% of its revenue[1]

**QUALITATIVE ANALYSIS**

Research from ESG integration, stewardship and financial analysts comprising consideration of company profile, including sustainability journey, industry developments, market trends and forecasts, and past engagement outcomes

**REVIEW BY GOVERNANCE COMMITTEES**

- Review by ESG integration, engagement and group responsible investment committees
- Confirmation provided by group executive committee

**IF INVESTMENT IS CONFIRMED AS AN EXCLUSION**

- Application of an embargo restricting future purchases[2]
- Targeted engagement
- Consideration for divestment[3]

1 See 'Our approach to investing in fossil fuels, including thermal coal'.
2 Rathbones has discretionary authority over most but not all clients' assets invested with it. Purchase embargoes will be applied where possible in the context of the client mandate.
3 To date, Rathbones has made no central decisions to divest from any investments designated as exclusions.

## HOW ESG INTEGRATION WORKS AT RATHBONES CONTINUED

### ESG INTEGRATION AT RATHBONES INVESTMENT MANAGEMENT

Within investment management at Rathbones, we include the consideration of ESG factors across the investment decision-making process, from strategic asset allocation to individual investment recommendations.

When assessing investments, we use the Sustainability Accounting Standards Board (SASB) framework to help us identify material ESG issues, such as carbon emissions, biodiversity, labour and human rights management, and board independence. This helps us to understand which ESG factors are relevant to individual sectors or applicable on a more general basis.

We have developed our own models to analyse third-party data alongside insights from our specialist financial, ESG integration and stewardship analysts. This enables us to compare investments across sectors and to determine the degree of a company's effect on the environment and society. When conducting an ESG assessment, our specialist analysts consider relevant legislation, international frameworks and market best practice, outcomes from previous engagements and their own knowledge of the market, the company and the investment. While available data may provide a snapshot of a company's management of ESG issues, the overlay of an analyst's insight can help to account for any gaps in the data. It also reflects consideration of a company's progression and future aspirations.

A summary of the ESG assessment is included within the research note made available to investment committees and to investment managers. This ensures that the consideration of ESG factors is integrated into every step of the investment decision-making process.

### INTEGRATING SUSTAINABILITY ANALYSIS AT GREENBANK

Greenbank's specialist investment philosophy is driven by a dual mandate to deliver both sustainability and financial outcomes for its clients, aligned to a comprehensive understanding of its clients' needs. Investment analysts work in close collaboration with a dedicated ethical, sustainable and impact research team to deliver a holistic, joined-up understanding of companies across financial and sustainability factors.

A framework of eight sustainable development themes, closely aligned to the UN-backed Sustainable Development Goals (SDGs), guides this analysis and forms the basis for Greenbank's sustainable investment approach. The SDGs are a set of 17 goals set out by the United Nations, which are designed to make life better for people without harming the ability of future generations to meet their needs. Minimum thresholds of sustainability performance must be met prior to any investment being added to Greenbank's investment universe.

We have developed alignment frameworks for each of our sustainable development themes that guide decision-making. These set out elements of company performance, strategy, targets and disclosure that would indicate the degree of alignment to a given theme. Where applicable, these draw on existing, widely accepted methodologies and frameworks such as the UN Guiding Principles on Business and Human Rights.

Sustainability considerations are factored into decision-making in Greenbank's investment committees. Research notes combine financial and sustainability commentary to enable investment managers to construct portfolios that align with their clients' sustainability and financial objectives.

### ESG INTEGRATION AT RATHBONES ASSET MANAGEMENT

Within Rathbones Asset Management, significant progress has been made in ESG integration across all strategies managed. We use data from external providers and track each strategy's trajectory with regards to SBTi commitments and variance vis-à-vis group-level targets. SBTi commitments are intentions to reduce corporate carbon emissions that are examined and validated by a body called the Science Based Targets initiative. Independent oversight of each fund means that adverse changes in ESG metrics are visible to both the risk function and fund managers in real time.

Consideration of ESG factors is implicitly incorporated into our bespoke research process, which is specific to each strategy, and across all relevant asset classes, drawing on a close collaboration with Greenbank. We have added to our suite of sustainability-focused strategies with the launch of the Rathbone Greenbank Global Sustainable Bond Fund.

We have also enhanced our responsible investment committee structure to ensure input from all fund manager teams, compliance and risk, with the aim of consistently improving our ESG practices with a focus on client outcomes.

# CASE STUDIES

## Managing climate risk: understanding companies' long-term exposure to thermal coal

### WHAT'S THE ISSUE?

Physical impacts from climate change, and governments' responses to it, such as to support the transition to a net zero economy, have the potential to impact the economy in numerous ways.[1] This may have knock-on effects on investment returns.

To limit global warming to 1.5°C above pre-industrial levels, as set out in the Paris Agreement on climate change, it's imperative to reduce greenhouse gas emissions drastically. Coal is the most polluting way of producing energy, emitting significantly more carbon dioxide when burnt than natural gas or diesel. Given the development of cleaner energy substitutes for thermal coal, Rathbones has taken the decision gradually to limit its exposure to it, aiming for a complete phaseout by 2030. To achieve this, we've established thresholds against which we assess companies' exposures to thermal coal and analyse their commitments to reducing this.

While screening our holdings against established thermal coal thresholds, our data and ESG integration analysts discovered that a Hong Kong conglomerate with a complex holding structure might be in breach of our threshold. Our equities analyst reviewed the data and publicly available company information but was unable to validate the data results. Upon discussion with our ESG integration and responsible investment committees, it was agreed that further investigation was necessary.

### WHAT DID WE DO?

Members of our equity research and stewardship teams arranged a phone call with the company to discuss their exposure to thermal coal. Upon questioning, it was determined that the company had a 'just transition' plan and minimal exposure to thermal coal, which wouldn't breach our thresholds. 'Just transition' means moving away from fossil fuels while minimising the economic hardship involved. The company's group structure had made it difficult to ascertain the exact degree of exposure to thermal coal. The company agreed to publish more detailed disclosures in due course.

### WHAT DID WE DECIDE?

In this context, we decided not to embargo future purchases of the company's stock. Although committed to ending financial support to thermal coal, we recognised the need to support companies on a journey to net zero emissions. Having held a successful conversation with the conglomerate, our stewardship team planned to engage with them further at their AGM, including by monitoring disclosures and raising other issues for discussion.

Our experience with this company demonstrates the nuance uncovered by integrating ESG factors into the investment research process. It also demonstrates our thoughtful approach to the use of ESG data, which can often be patchy, lagging or biased towards larger companies and certain jurisdictions. In recognition of this bias, we emphasise qualitative verification and input from our research analysts.

1 'Climate change: possible macroeconomic implications', Bank of England

**CASE STUDIES** CONTINUED

## ESG opportunities: green technology leads to revenue growth

Through our ESG integration activities, we hope to identify investment opportunities in businesses transforming to support, or in response to, climate change mitigation.

Our equities analyst has followed the gradual transformation of a multinational technology conglomerate, over the past decade, from being associated with heavy industrial machinery such as gas turbines and oil and gas processing equipment to a focus on electrification and digitalisation of industrial processes and infrastructure.

The analyst has noted the company's ability to meet the increasing demand for electric trains and rail infrastructure solutions. This has helped national and regional governments transition to low-emission, customer-friendly transportation networks.

The company also offers digital solutions that improve the energy efficiency of commercial buildings, one of the largest contributors to global carbon emissions. This has been welcomed by companies that have committed to emission targets and are seeking to improve the energy efficiency of their building stock. Additionally, the company develops flexible grid solutions that are key to addressing the challenge of intermittent energy supply as renewables become a larger part of the mix.

The wide range of products and services offered by the company that enable customers to drive energy efficiency and lower carbon emissions suggest an alignment with global climate goals. The analyst observed that the company's revenue growth and profitability over the past few years indicate the focus on greener technologies has been highly beneficial to it. The stock has been recommended to investment managers.

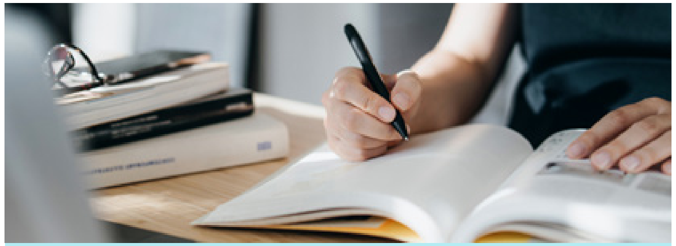
## Asset allocation: accounting for industry-level climate risk

Rathbones' clients are typically long-term investors, who require us to maximise returns, with an eye to their risk tolerance, over several years or even indefinitely. To forecast returns over the long term, we strategically consider the risk and returns involved in investing across various asset classes, making certain reasonable assumptions about the economy and capital markets.

We account for alignment with net zero goals in our long-term capital market assumptions. Specifically, we use MSCI's Implied Temperature Rise (ITR) scores to inform our 10-year equity return forecasts for each sector in each major region. The scores, measured in degrees Celsius, are designed to show companies' alignment with global temperature goals, based on current emissions and a forward-looking analysis of their emissions reduction plans. Our approach is motivated by the idea that, over our forecast horizon, the most polluting companies and sectors are at greater risk of policy-induced changes to their business models than the least polluting ones.

We apply a penalty to forecast returns from sectors with high ITR scores. These are sectors associated with a temperature change of above 2°C. Conversely, a boost is applied to those sectors with low scores (below 2°C). In each case, our adjustment is proportional to the difference between the score and 2°C.

In every major region, this approach leads us to penalise returns from the energy and basic materials sectors. Conversely, sectors such as healthcare and technology generally benefit. This quantitative approach provides a starting point, which we supplement with systematic qualitative judgments.



## After the fraud: limiting investment risk from poor governance

Corporate governance is the system by which companies are directed and controlled. A board of directors is responsible for the governance of a company, issuer or fund manager. We believe that poor management or weak corporate governance represents a substantial risk to investment performance. During the research process, we assess the board structure, ownership, accounting practices and management capabilities of potential investments. Once we are invested in companies, corporate governance issues are also central to our stewardship program.

When the US-based subsidiary of a large investment manager pleaded guilty to fraud, prompting a significant fine for misrepresenting hedge fund risks, our collectives analyst recognised the potential governance and social implications for the manager's UK-based investment trust, which the team had previously recommended. The analyst, who covers the investment trust, initiated efforts to engage with the parent company. However, despite multiple rounds of investigation, doubts persisted regarding the adequacy of the parent company's forensic analysis of the risk control failure and the lack of substantial improvements in their global risk control framework post-incident.

Concurrently, concerns mounted about the actions of the trust's board, with doubts arising about their commitment to shareholders' best interests. In light of these findings and driven by their fiduciary duty to clients, the analyst made the strategic decision to downgrade his investment recommendation for the fund. This move reflects our commitment to mitigating reputational risks and aligning investments with robust ESG principles.



# ENGAGEMENT WITH CONSEQUENCES

**WE PRIORITISE ENGAGEMENT WHERE WE BELIEVE WE CAN HELP MAKE A DIFFERENCE IN ADDRESSING SYSTEMIC ESG CHALLENGES. WE ARE PREPARED TO ESCALATE OUR ENGAGEMENT ACTIVITY OR REDUCE OUR HOLDINGS IN COMPANIES THAT CONTINUE TO PRESENT AN ONGOING ESG RISK.**

# COLLABORATIVE ENGAGEMENTS

**We often engage with companies on our own. It can be an effective way for us to pursue our own particular priorities – especially if we're a large shareholder. But there are also cases where the collective power of investors can be all the more powerful.**

We're members of several investor initiatives, including:

## INSTITUTIONAL INVESTORS GROUP ON CLIMATE CHANGE/CLIMATE ACTION 100+

We've been full members of the IIGCC since 2019. We sit on the resolutions sub-group and co-lead engagement with utilities companies. The IIGCC plays a significant role in CA100+. In signing up to CA100+, investors commit to engaging with at least one of 167 companies earmarked as important to the transition to a net zero global economy. They ask companies to:

- implement a strong governance framework for climate change
- take action to reduce greenhouse gas emissions across the value chain
- improve corporate disclosure.

In 2023, we remained lead investor for the engagement with UK energy company SSE. We've also become a new lead for the engagement with international mining group Glencore.

## NET ZERO ENGAGEMENT INITIATIVE

Set up to build on the investor engagement with companies on the CA100+ list, the NZEI includes more companies that are heavy users of fossil fuels. NZEI asks companies to create robust net zero transition plans. In 2023, letters went out to 107 companies, co-signed by 93 investors.

## NATURE ACTION 100

In 2023, we joined this initiative pressing to reverse nature and biodiversity loss by 2030. On behalf of NA100, in 2024, Rathbones Group will engage with four companies: three in mining and one in agricultural chemicals. Greenbank is engaging with two consumer goods businesses and a pharmaceuticals company.

## INVESTOR INITIATIVE ON HAZARDOUS CHEMICALS

This aims to reduce the harm caused by hazardous chemicals - and, by doing so, its members' exposure to the financial risks to which they are linked. We signed the investor letter calling on companies to:

- increase transparency about what proportion of revenue and production volume is for products that are hazardous chemicals or contain them
- publish a phaseout plan, including timings, for these products
- ramp up research & development and investment for the development of safer alternatives.

## GLOBAL INVESTOR COMMISSION ON MINING 2030

The commission seeks to make the industry more environmentally and socially responsible. We hold many mining companies widely across the business. Mining will be one of our nine engagement priorities for 2024.

## FIND IT, FIX IT, PREVENT IT

This was set up to encourage companies to find any existing slavery within their supply chains, support the victims and put measures in place to prevent this from occurring again. Please see our case study on page 23.

## WORLD BENCHMARKING ALLIANCE

This is a non-profit organisation, working with investors and other stakeholders, which holds 2,000 of the world's most influential companies accountable for helping the world achieve the Sustainable Development Goals. We joined in 2022. In 2023, we identified a target list of 12 companies with which to start engaging, in 2024, on human rights in their operations and supply chains.

# VOTES AGAINST SLAVERY

## Votes Against Slavery

**Modern slavery isn't just a terrible phenomenon that imposes untold suffering; it's also a pervasive risk to supply chains.**

Votes Against Slavery (VAS) is an investor coalition, run by Rathbones Group, which encourages companies to be more aware of the risk of modern slavery in their supply chains and take steps to prevent it. After running a pilot scheme on our own in 2019, we launched VAS as a collaborative engagement in 2020. By 2023, this coalition harnessed the collective power of 133 investors with £8.2 trillion in assets.

We set up VAS in response to both a breakthrough and a problem.

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

In a landmark piece of legislation, section 54 (s54) of the UK Modern Slavery Act 2015 created a duty for companies to publish a statement annually and have it approved by the board, signed off by a director, and uploaded to a prominent place on the homepage of the UK website. The statement must set out the steps they've taken to ensure modern slavery isn't taking place in their business or supply chains.

But despite the Act's good intentions, it contains no mechanism for enforcing s54. To fill this vacuum, investors have a crucial role in advancing protection for fundamental human rights.

Responding to this, we identify companies in the FTSE 350 that haven't met s54's reporting requirements. We write to them, explaining that we'll vote against the adoption of their annual report and accounts at their AGM unless they become compliant. The FTSE 350 consists of the 350 most valuable companies on the London Stock Exchange.

This has proven an effective tool to accelerate action. In 2023, we identified 29 companies that had fallen short of the reporting requirements. By the end of the year, 27 had become compliant or explained to our satisfaction that no statement was required (and committed to make this clearer in future reporting).

Moreover, in 2023 we sought for the first time more general direct meetings with as many target companies as possible, to encourage more effectively the integration of human rights risk management in company policy and practice.

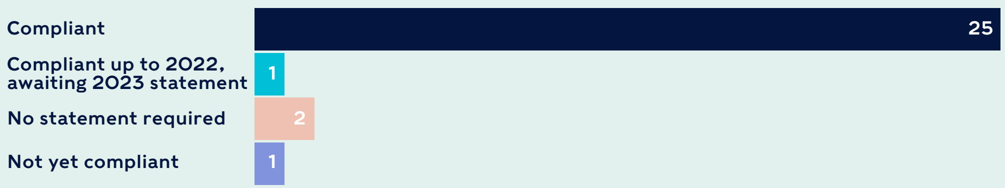
We held meetings with 19 companies: Airtel Africa, Bluefield Solar Fund, Centamin, Direct Line Insurance Group, Grafton Group, HarbourVest Global Private Equity, Hill & Smith, ICG Enterprise Trust, JD Sports, JTC, NCC Group, Personal Assets Trust, Polar Capital Technology Trust, Supermarket Income REIT, Syncona, TP ICAP Group, United Group, Videndum and Warehouse REIT Plc.

Although we were unable to have meetings with all 29 companies, the 19 we did have were incredibly insightful. We're also confident they'll lead to stronger modern slavery reporting at the target companies.

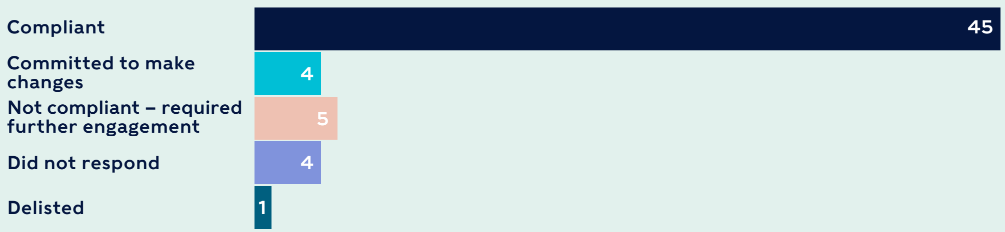
Separately from VAS, Rathbones pursued its own engagement project after perceiving that several companies on the London Stock Exchange's AIM market for smaller businesses were covered by the legislation but not meeting the Act's reporting requirements. We wrote to 59 AIM companies about this, highlighting the issue and calling for compliance. Fifty-five responded; of these, 45 became compliant and four pledged to make changes. In 2024, we plan to incorporate our engagement with these smaller companies into the broader VAS engagement.

> **"We set up VAS in response to both a breakthrough and a problem."**

**VOTES AGAINST SLAVERY – 2023 OUTCOMES FOR FTSE 350 COMPANIES WE ENGAGED WITH**




**VOTES AGAINST SLAVERY – 2023 OUTCOMES FOR AIM COMPANIES WE ENGAGED WITH**



# WHAT WE ENGAGED ON IN 2023

Tracking our engagement activity – which we've made great strides in doing this year – is an important discipline. It keeps us on track towards our objectives by giving us a sense of our impact.

But there's a balance to be struck. A great deal of our engagement is on priorities we've set for the coming year – 94 directly related to our net zero priority engagement in 2023 for example, and 91 to the overlapping topic of emissions. But we also need to be agile in responding to issues that suddenly emerge. After all, events – and public sentiment – are unpredictable. This explains why we engaged on no fewer than 48 topics over the year – each of them important. For example, taking a couple of issues we engaged on only once, we pressed McDonald's over antimicrobial resistance and the US snack company Mondelez over child labour.

Altogether, we engaged with companies 752 times in 2023. The total number of times we raised an issue in 2023, at 1,317, was higher than the number of engagements. That reflects the fact that we often raise more than one issue at the same time.[1]

## GOVERNANCE COMES TOP

Breaking down by the broad themes of E, S and G, we engaged most of all on governance.

In part this reflects the fact that the most important determinant of whether a company is managed in the long-term best interests of clients and society is the performance of the people running that company. That performance tends to be better if the way they're paid incentivises them to do well – which explains why remuneration was our single biggest engagement topic. It's also helped by the presence of independent directors and committees to oversee what they do – the second most common topic. Board diversity – topic number three – can also improve the quality of management by reducing narrow groupthink.

## ENGAGEMENT AND VOTING: HAND IN HAND

The dominance of governance also reflects the fact that we can do a good deal about it, through our power as shareholders. For example, if we use our engagement to say we'd like a new chair of a particular committee, we can follow that up by voting against the incumbent. We applied this approach – engagement and voting on the same issue – to companies accounting for about £24.5 billion of AUM in 2023.

In short, it makes sense for the number of governance engagements to be high – we should be spending most of our time making the most of the influence we have and the rights we can use.

## ENGAGEMENT ON THE ENVIRONMENT

The E in ESG comes next. Although difficult to solve, environmental issues are often easier to understand, and more quantifiable, than social concerns, which are more open to subjectivity and don't lend themselves to data-driven approaches. But we still consider them highly important – we engage heavily on priority social issues such as modern slavery.

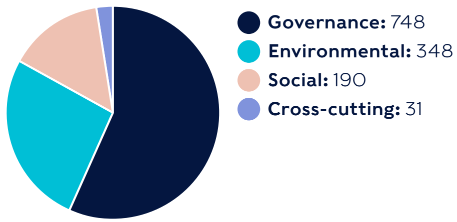
## WE ENGAGED ON A WIDE RANGE OF ISSUES IN 2023

| | E, S or G | Number of times issue raised |
|---|---|---|
| Remuneration | G | 144 |
| Independence of directors and committees | G | 128 |
| Board diversity | G | 127 |
| Net zero | E | 94 |
| Modern slavery | S | 93 |
| Emissions | E | 91 |
| Audit | G | 85 |
| Climate risk | E | 84 |
| Governance structure | G | 82 |
| Combined chair and CEO | G | 60 |
| Biodiversity | E | 53 |
| Shareholder rights | G | 47 |
| Director overboarding | G | 26 |
| Capitalisation (share issuance) | G | 21 |
| ESG integration | E,S,G | 21 |
| Diversity and equal opportunity | S | 20 |
| Human rights | S | 15 |
| Lobbying activities and political contributions | S | 15 |
| Labour-management relations | S | 13 |
| Say on Climate | E | 8 |
| Occupational health and safety | S | 8 |
| Climate lobbying | E | 7 |
| Routine business | G | 7 |
| ESG controversies | E,S,G | 7 |
| Tax | G | 6 |
| Pollution | E | 5 |
| Plastics | E | 4 |
| Access to medicine | S | 4 |
| Economic performance | G | 4 |

| | E, S or G | Number of times issue raised |
|---|---|---|
| Animal welfare | S | 3 |
| Customer health and safety | S | 3 |
| Freedom of association and collective bargaining | S | 3 |
| Local communities | S | 3 |
| Non-discrimination | S | 3 |
| Board, management behaviour | G | 3 |
| Just transition | E,S | 3 |
| Water | E | 2 |
| Military and defence | S | 2 |
| Privacy and security | S | 2 |
| Disclosure and transparency | G | 2 |
| Succession planning | G | 2 |
| Antimicrobial resistance | S | 1 |
| Child labour | S | 1 |
| Rights of indigenous people | S | 1 |
| Anti-competitive behaviour | G | 1 |
| Directors' meeting attendance | G | 1 |
| Experience of directors, management | G | 1 |
| Mergers and acquisitions | G | 1 |

## WE ENGAGED MOST ON GOVERNANCE IN 2023

Number of times we raised an issue when engaging




1 An email, call and meeting with the same company about the same issue counts only once towards each of these numbers.

# OUR 2024 ENGAGEMENT PRIORITIES

### CLIMATE CHANGE: NET ZERO

Increase the proportion of our investments that are in companies with robust net zero targets. Encourage companies to make good on their targets by moving closer in reality towards net zero.

### UK ENERGY MARKET REFORM

Working with non-governmental organisations (NGOs), other investors and companies, persuade the government to make the energy grid readier for net zero, and to address bottlenecks in connecting renewable energy projects to the grid.

### MINING

Work with the Global Investor Commission on Mining 2030 to help make the industry more environmentally and socially responsible.

### NATURE AND BIODIVERSITY

Persuade companies to protect and restore nature and biodiversity, working through our membership of the Nature Action 100 investor coalition.

### MODERN SLAVERY

Press companies in the FTSE 350 and AIM markets to set out properly the steps they've taken to ensure modern slavery isn't taking place in their business or supply chains. Meet FTSE 350 target companies to address the content of their modern slavery statements.

### CORPORATE HUMAN RIGHTS

Press companies in the clothing, mining and fossil fuel industries to protect and advance human rights.

## SMALLER COMPANIES

### ANNUAL DIRECTOR RE-ELECTION

Engage with smaller companies on the AIM market to make all directors subject to annual re-election by the time of their 2024 AGMs.

### SAY ON PAY

Call on AIM companies to give shareholders a chance to vote on companies' pay arrangements at their 2024 AGMs.

### FULLY INDEPENDENT REMUNERATION COMMITTEES

Ask AIM companies to have remuneration committees free from potential conflicts of interest.

# CASE STUDIES

## Barclays: turning off the funding tap for new oil and gas projects

**"In February 2024 Barclays published a new energy policy. This committed the company to stop financing new oil and gas projects and related infrastructure."**

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

### WHAT'S THE ISSUE?

The International Energy Agency has said that energy groups must stop all new oil and gas projects if the world is to reach net zero by 2050. However, many energy companies are continuing to develop new fields. To do this, they need bank funding because of the huge up-front costs.

The UK bank Barclays has, over a number of years, taken steps to reduce its fossil fuel financing. For example, it has set 2025 and 2030 targets for lending to this sector and strengthened elements of its energy policy.

However, research by responsible investment NGO ShareAction found that even this revised policy would leave the bank well out of kilter with the Paris Agreement's target to limit global warming to only 1.5°C. The bank didn't exclude financing for new oil and gas production projects. Moreover, it didn't require clients in sectors with high emissions to have climate transition plans, which outline how companies will cut emissions.

### WHAT DID WE DO?

In the autumn of 2023 we began discussing, with ShareAction and other investors, filing a shareholder resolution for 2024 calling on the bank to stop funding new projects that would increase oil and gas production.

### WHAT HAPPENED?

In late November, Rathbones joined with a group of 18 other investors in co-filing a resolution intended for the 2024 AGM. Barclays signalled its willingness to negotiate with the co-filers, and representatives of the co-filing group entered into discussions with senior management of the company. Having shared its terms with the co-filing group beforehand, in February 2024 Barclays published a new energy policy. This committed the company to stop financing new oil and gas projects and related infrastructure. At the level of entire companies rather than particular projects, it said it wouldn't provide financing to new energy company clients if more than 10% of their total planned oil and gas capital expenditure was used to expand production. The co-filers agreed to withdraw their resolution because of these significant concessions from the bank.

In common with our fellow co-filers, we share a number of concerns over the fine print in Barclays' new policy; ShareAction concludes that "the bank retains significant discretion over its continued support of oil & gas expansion activities that are incompatible with 1.5C scenarios". We've told Barclays that we'll closely monitor the way it implements the new policy. We've made it clear that we're prepared, along with the rest of the investor group, to escalate our engagement if the bank doesn't close some of these loopholes.

**CASE STUDIES** CONTINUED

# Find it, Fix it, Prevent it: tackling modern slavery

### WHAT'S THE ISSUE?

Some 50 million people are trapped in modern slavery, including 28 million in forced labour, according to the International Labour Organization, a UN agency. The number of people trapped in modern slavery has in fact grown over the past five years because of Covid-19, conflict and climate change. By harming people's ability to earn a living, these have left them more vulnerable to exploitation.

The risk to our investments from this crime has never been greater. Companies with poor oversight and management of human rights issues can suffer irreparable reputational damage. Business has a huge role to play in eradicating modern slavery, and the UK's landmark 2015 Modern Slavery Act sought to bring the business community into the fight. However, there still aren't many examples of slavery being discovered in the supply chains of premium listed companies. Some might think this is because modern slavery doesn't exist in these supply chains; we think, rather, that it's under-reported.

### WHAT DID WE DO?

In 2020, Rathbones joined fellow investment manager CCLA's 'Find it, Fix it, Prevent it' investor campaign. It was set up to engage with companies listed in the UK, encourage them to identify cases of slavery within their supply chains, support the victims and put in place more robust processes to prevent this from occurring again. The campaign concentrated at first on hospitality companies. Rathbones was the lead investor for the engagement with Mitchells & Butlers, which runs pubs, bars and restaurants. We were also the supporting investor for the engagement with Greggs, the bakery chain.

In 2022, Find it, Fix it, Prevent it moved into the construction sector too. We chose to be the lead investor for the engagement with housebuilder Persimmon and the supporting investor for the engagement with fellow housebuilder Bellway. We also continued to sit on the supervisory committee for Find it, Fix it, Prevent it.

### WHAT HAPPENED?

In January 2023, Rathbones had a meeting with Persimmon, along with CCLA as co-lead and several supporting investors. The company gave an overview of its approach to tackling slavery and the process taken to find, fix and prevent it. It also discussed its goals - short, medium and long-term - for building a stronger framework for spotting and tackling modern slavery. We commended the company for uncovering and reporting to the Group a suspected case of slavery and rectifying the situation. We were encouraged to hear how seriously the company approached this issue.

> **"We commended the company for uncovering and reporting to the Group a suspected case of slavery and for rectifying the situation."**

### TIMELINE

**2020** — We join Find it, Fix it, Prevent it, to engage with UK hospitality companies over modern slavery.

**2022** — Find it, Fix it, Prevent it begins dialogue with construction companies. We engage with housebuilders Persimmon and Bellway.

**2023** — We and other investors meet Persimmon, which takes us through its approach to modern slavery.

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

**CASE STUDIES** CONTINUED

# SSE: continuing progress over climate change

**Over the ten years that we've engaged with SSE, we've seen noticeable progress in addressing climate change."**

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

### WHAT'S THE ISSUE?

SSE generates, transmits and distributes electricity in the UK and Ireland. Our investment in the company is a significant source of embedded emissions in our group carbon footprint, which we're committed to reducing. Embedded emissions are those associated with our investments in companies, each with their own carbon footprint. We're the lead investor for the Climate Action 100+/Institutional Investors Group on Climate Change engagement with the company. Over the ten years that we've engaged with SSE, we've seen noticeable progress in addressing climate change.

### WHAT DID WE DO?

In early 2023, we wrote to the company on behalf of the other SSE CA100+/IIGCC lead investors. Our letter encouraged the audit committee to ensure that material climate risks associated with the transition to net zero by 2050 were fully incorporated into SSE's financial statements. Financial reporting that's aligned with the Paris Agreement to limit climate change helps investors understand the economic resilience of the business to the physical and transition risks associated with climate change. This disclosure of climate risk helps inform their investment and stewardship decisions.

### WHAT HAPPENED?

The chair of the audit committee said the company agreed with us on the importance of reflecting climate factors in financial statements. SSE pointed to its latest annual report, which showed in detail how SSE measured up to each of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), an international body. However, the company acknowledged the room for improvement. Because of this, during the past year SSE had been building on its earlier analysis of how the company would be affected by different climate scenarios, to meet more fully both the TCFD recommendations and growing investor expectations. The company expected the disclosures in the 2023 annual report to show this progress.

At the company's 2023 AGM, our stewardship director Matt Crossman made a statement to senior management and the board on behalf of CA100+. He commended SSE for actions already taken to address climate change, in particular the adoption and submission to the AGM of a formal transition plan. This plan explained how the firm expected to meet its science-based targets, approved by the SBTi. It included, too, a revised version of its net zero acceleration plan.

Matt also asked the board several questions. One was about how the board would continue to ensure the right balance between short-term energy system demands and long-term goals for reducing its carbon emissions. Another asked if more detail was possible on the emissions reductions which SSE judged necessary to meet its emissions targets.

SSE responded by setting out the challenges involved.

**CASE STUDIES** CONTINUED

# Apple: keeping children safe

> “Tech companies that fail to address risks to society face the risk of a more hostile regulatory environment.”

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

### WHAT'S THE ISSUE?

Investors and NGOs have criticised Apple, arguing that the company's safety tools are not doing enough to protect children from online sexual exploitation. The company chose not to move forward with its planned child sex abuse material (CSAM) detection tool, instead concentrating its anti-CSAM efforts on improving its existing two safety tools for online communication. Some investors have asserted that Apple needs to provide more information on how it's measuring the effectiveness of these tools.

Critics also say the company is at risk of falling behind peers that have taken commendable steps to understand and reduce the risks to children across their businesses. For instance, US telecoms companies Verizon and AT&T have conducted child rights impact assessments, reported the findings and revealed plans for implementing recommendations arising from the reports. Meta, which owns Facebook, completed a human rights impact assessment in 2022 that included risks to children.

Tech companies that fail to address risks to society face the risk of a more hostile regulatory environment.

### WHAT DID WE DO?

We co-signed a joint letter, co-ordinated by Christian Brothers Investment Services, asking the company to assess where the greatest risks of online sexual abuse and exploitation of children lie across Apple's platforms and services. It also called on Apple to disclose how well its child protection tools were working to prevent this. The letter called on Apple to perform a child rights impact assessment, which would help the company identify and reduce the risks Apple's products and services might pose to children.

### WHAT HAPPENED?

After receiving the letter from investors, Apple met a small group of them. But it once again refused to disclose any data evaluating the success of its child protection efforts, or any information about the risks to children. In response, Christian Brothers and several other investors filed a resolution on the topic for the company's 2024 AGM. While we were unable to co-file on this occasion, we hope to support this resolution.

# VOTING WITH PURPOSE

**WE ACTIVELY VOTE IN A MANNER THAT ALLOWS US TO FOCUS OUR RESOURCES WHERE WE BELIEVE WE CAN MAKE THE MOST DIFFERENCE. THIS MAY INVOLVE VOTING AGAINST MANAGEMENT TO HELP DRIVE POSITIVE CHANGE.**



# HOW WE VOTED IN 2023 – RATHBONES INVESTMENT MANAGEMENT

**The year 2024 will be the biggest year for democracy in history, if judged by the raw numbers of people with a right to vote.**

Countries with a combined population of more than four billion people - over 40% of the world's population - will go to the polls in around 50 national elections. People have, for centuries, fought for the right to vote in free and fair elections - and in many countries, are still doing so.

We believe in the power of constitutional democracies to improve the lives of people. Less momentously, we also believe in the power of shareholder democracy, an important though sometimes poorly understood building block of our responsible investment approach. We make sure we put time, effort and resource into exercising the votes we have at listed companies.

We believe it's in our clients' best interests that portfolio companies adopt good practice in managing ESG risks and in corporate governance. We press for this through our votes. As shareholders in companies we invest in on behalf of clients, we have the right to vote on how companies are run (a process known as proxy voting) - and by whom. This is primarily at AGMs. Through voting, we seek to protect returns. In many cases, this means pressing companies to act as long-term stewards for a more sustainable world.

## MAKING UP OUR OWN MINDS ON VOTES

The voting committee is responsible for our voting policy. It's customised: we determine what matters to our clients, rather than purely applying the views of an external proxy voting consultant. The voting committee's bespoke policy applies to Rathbones Investment Management. It also informs voting at Rathbones Asset Management, although we leave RAM's fund managers free to make up their own minds after hearing our recommendations.

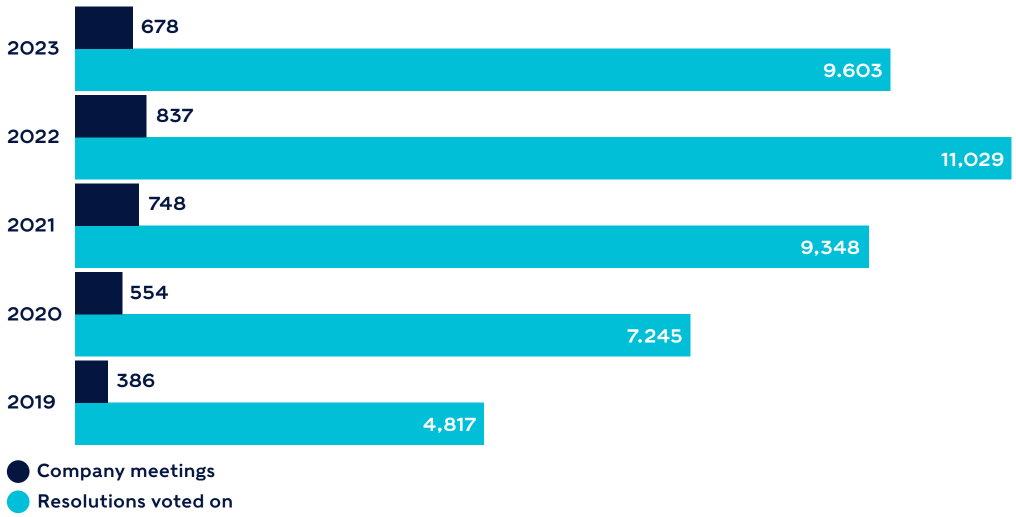
We try and vote on the companies most widely held in our clients' portfolios. We have a target, each year, for our votes to cover above 90% of the value of assets we manage. We also concentrate on the most material issues - the issues that could directly affect the value of a particular company. For example, biodiversity is more material to a global agribusiness, which could suffer consumer and investor boycotts for sourcing beef from pastureland created by destroying rainforest, than to an IT services company.

## A 90% TARGET FOR VOTING COVERAGE

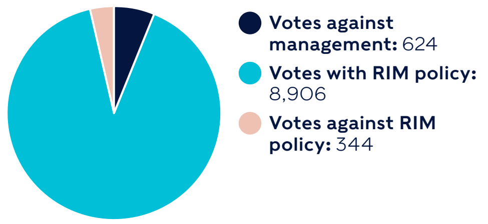
Because our voting is guided by what we're invested in, the number of company AGMs we vote at each year can fluctuate as markets move and the relative values of companies change, pushing up or down the number of meetings we need to vote at to reach our 90%-plus mark. It can also be affected by mergers and acquisitions and other corporate activity causing an increase in AGMs and extraordinary general meetings - shareholder meetings called by companies to deal with urgent matters.

Once we've established our voting lists for the year, we corral the stewardship team, the investment analysts and the top holders of a stock to arrive at the best decision for advancing the long-term interests of our clients.

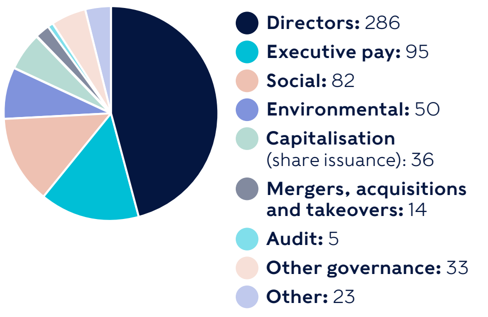
**RATHBONES INVESTMENT MANAGEMENT VOTED ON MORE THAN 9,000 RESOLUTIONS IN 2023**




**VOTING RECORD**




**VOTING AGAINST MANAGEMENT BY TOPIC**




Calculation methods may vary between different sets of numbers

## HOW WE VOTED IN 2023 – RATHBONES INVESTMENT MANAGEMENT CONTINUED

The majority of resolutions at companies' AGMs are about matters that are usually routine. An example is the election of directors to the board, as in many markets all directors have to be re-elected annually. However, resolutions also cover important issues such as executive pay, the appointment of auditors and approaches to managing ESG risk. Moreover, we can use votes on routine matters to show our desire for a change at a company - for a replotting of strategy through ousting the chair of the board, for example.

In 2023 we voted on 9,603 resolutions at 678 company meetings, down from 11,029 resolutions at 837 company meetings in 2022. Although this was less than for 2022, it's still high - almost double the 2019 number, for example. When we vote we concentrate largely on UK companies - in our home market, we voted at 430 of the 479 meetings at which we had the right to vote.

You can check any vote in real time on the vote disclosure page of our website.

### WHEN DID WE OPPOSE MANAGEMENT?

Altogether, we opposed management 624 times in 2023, down from 791 the previous year. The decision not to back management is a relatively serious step, which we tend to take only where significant concerns need raising. This often follows unsuccessful dialogue with the company. The most common issue where we vote against management is over the election of board directors: 46% of all votes against management this year. As already discussed, this can be a way of expressing dissatisfaction with the company over an issue. Our opposition on environmental issues accounts for an increasing share of our total votes against management. This is even more the case for social issues - up from 9.6 to 13.1% of total votes against. This reflects the renewed public interest in social concerns, spawned by phenomena such as the cost-of-living crisis and the lasting impact of movements highlighting issues such as racial or gender inequality.

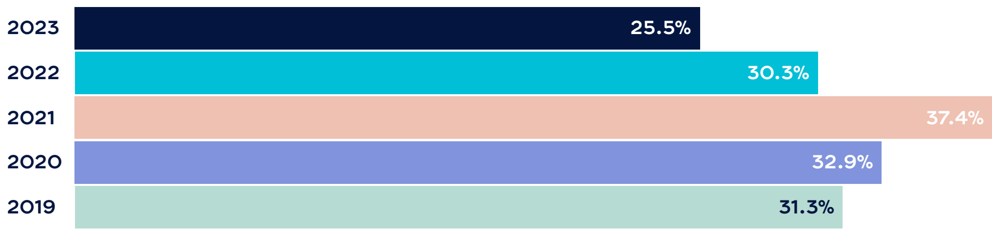
### UNDERSTANDING THE VOTING NUMBERS

It might at first sight seem a high rate for us to support management above 90% of the time. But this reflects the care we take in analysing companies before we invest in them. If we harboured such doubts about many aspects of a company's management approach and performance, we would be unlikely to invest in it in the first place. Instead, our votes against management usually reflect short-term problems or very particular issues at companies in which we retain fundamental confidence in the long term.

One area where we're rightly under scrutiny, by NGOs and other stakeholders, is in our approach to voting on ESG-themed resolutions. These are most numerous in the US, where the process is much easier, but there are also some European cases. Typically these special resolutions, known as shareholder resolutions, are thought up by activist shareholders and not supported by the company. For this reason, we count them towards the total number of votes where we didn't support management.

This number was broadly steady in 2023; we supported 132 resolutions. A theme of the year was the impact of the ESG backlash in the US, which prompted several big investment managers to support far fewer shareholder ESG resolutions than before. We didn't get caught up in this trend, though - we continue to view each case on its merits.

**SHAREHOLDER SUPPORT FOR ENVIRONMENTAL AND SOCIAL PROPOSALS**




Source: Broadridge ProxyPulse – 2023 Proxy Season Preview

> **"It might at first sight seem a high rate for us to support management above 90% of the time. But this reflects the care we take in analysing companies before we invest in them."**

# HOW WE VOTED IN 2023 – RATHBONES ASSET MANAGEMENT

**In 2023 we voted on 5,868 resolutions at 391 company meetings, compared with 6,232 resolutions at 470 meetings in 2022.**

At RAM, the voting list is driven by exposure – we're limited, of course, by how many votable securities are held in our funds. Trends in sales and purchases driven by asset allocation will affect the size of this pool of votable securities.

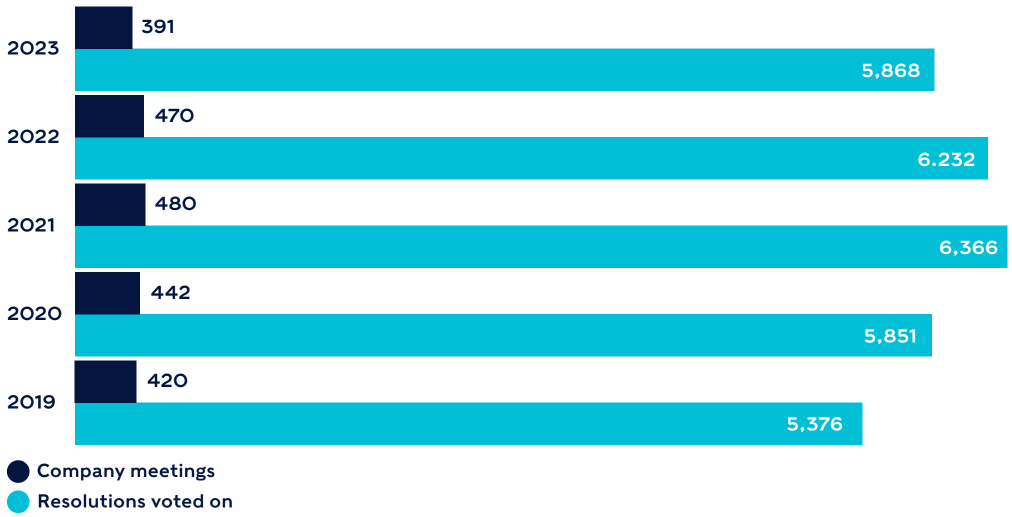
The final voting decision is taken by individual fund managers. However, they're helped by the Rathbones Group stewardship team, interpreting the findings of the sustainability benchmark policy of our specialist provider Institutional Shareholder Services. Votes against management were steady at 7.2% in 2023 - similar to 2022 and higher than in the years before that. As knowledge and experience of ESG issues deepens at RAM, fund managers have been more confident in recent years in challenging boards to meet ever higher standards of ESG risk management.

## UNDERSTANDING THE VOTING NUMBERS

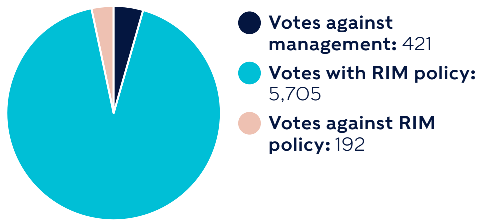
Even though our total number of votes was down on the year, the number of cases where we opposed management through shareholder resolutions covering social issues was up - from 49 in 2022 to 55 in 2023. For example, RAM fund managers supported a shareholder proposal calling on US investment company Charles Schwab to publish more information on its gender and racial pay gaps.

For environmental resolutions, the number of cases - 30 - was slightly lower in absolute terms but slightly higher relative to the total number of votes we cast. For example, RAM managers supported a shareholder proposal for Cintas, a US business services company, to set greenhouse gas reduction targets aligned with the Paris Agreement, as well as plans for achieving them.

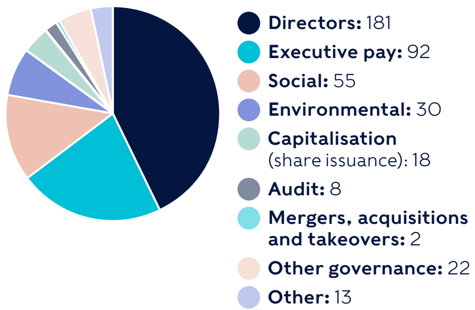
**RATHBONES ASSET MANAGEMENT VOTED ON MORE THAN 5,000 RESOLUTIONS IN 2023**




**VOTING RECORD**




**VOTING AGAINST MANAGEMENT BY TOPIC**




Calculation methods may vary between different sets of numbers

# CASE STUDIES

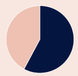
## Unilever: reining in executive pay

**WHAT'S THE ISSUE?**
Companies increasing executive pay without an adequate and detailed explanation could face considerable risks to their reputations. Excessive executive pay could also sap morale inside companies, if employees think it's unfair. Moreover, we expect any new CEO to be paid in line with their predecessor. They need to accumulate experience in the role before an increase in pay can be considered - and that takes time.

Ahead of the AGM of UK consumer goods company Unilever, we had qualms about the high base salary of the incoming CEO Hein Schumacher – 18.5% greater than his predecessor's and considerably more than his current salary at Royal FrieslandCampina, a Dutch dairy company. We acknowledged the experience he would bring to the role. But we felt the salary increase should have been paid in instalments to spread the sharp hike in pay over a longer period of time, since this was his first senior leadership role at a truly large firm and he was new to the job. We also noted that over his career he had mainly worked in the food industry, with little background in various sectors crucial to Unilever, such as toiletries.

**WHAT DID WE DO?**
Following detailed conversations with the team and the equity analyst covering the company, we decided to vote against the remuneration report. Ahead of this, we wrote a detailed letter to the chair of the board, explaining our misgivings about the increase in the CEO's base salary.

**WHAT HAPPENED?**
The shareholder revolt against the pay arrangements secured 58.0% of the vote, making this the second largest vote against a remuneration report of the 2023 UK AGM season. As significant shareholders, we were invited for a meeting with the remuneration committee chair to discuss our vote. We passed on the concerns which we'd previously mentioned in our letter to the company. In August 2023, the remuneration committee chair told us that following conversations with shareholders, it had decided to freeze the CEO's base salary for the next two years. He therefore won't be eligible for a base salary increase in 2024 or 2025, with the next review of his salary due in 2026.



**58.0%**
**Vote against executive pay**

**"Following detailed conversations with the team and the equity analyst covering the company, we decided to vote against the remuneration report."**

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

**CASE STUDIES** CONTINUED

# BP: challenging over climate change

## WHAT'S THE ISSUE?

We commended the UK energy company for the progress made since the launch of its net zero emissions plan in February 2020. We also praised its continued efforts to engage with shareholders on this topic. But we remained troubled that the targets for reducing carbon emissions - short, medium and long-term - were inconsistent with the Paris Agreement's goal of only 1.5°C of global warming. This sense was sharpened by BP's announcement, shortly before its AGM, that it was scaling back planned cuts in fossil fuel production by 2030. BP had previously promised to cut oil and gas output by 40% by 2030 compared with 2019 levels, which would reduce Scope 3 emissions by 35-40% by 2030. But it revised this to a 25% cut in oil and gas output by 2030, resulting in a targeted 20-30% Scope 3 reduction.

We also felt disquiet that BP hadn't disclosed how the targets aligned with the International Energy Agency's (IEA's) Net Zero by 2050 pathway, which sets out a route for the global energy sector to reach net zero emissions by 2050. In particular, we wanted more clarity about how the statement to "not seek to explore in countries where we do not already have upstream activities" aligns with Net Zero by 2050. We also wanted more information about BP's Scope 3 emissions, an issue we raised at the previous AGM.

It's in the interest of our clients for the world to reach net zero, to protect our portfolios against the loss of revenue and damage to assets.

## WHAT DID WE DO?

Because of these concerns, we supported the shareholder proposal for the company to make its 2030 targets for reducing Scope 3 carbon emissions consistent with the Paris Agreement.

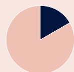
## WHAT HAPPENED?

The proposal earned the support of a disappointing 16.7% of shareholders at BP's 2023 AGM.

At the AGM, Rathbones stewardship director Matt Crossman asked the board why the company hadn't offered investors a vote on its new climate targets after its decision to scale back its previous oil and gas output commitments, which had been approved by shareholders in a binding Say on Climate vote. Through Say on Climate votes, management asks shareholders to show whether they back the company's strategy on climate change.

BP's chair, Helge Lund, said BP respectfully disagreed with Rathbones' assessment of what the company was doing. Lund noted that in extensive engagement with shareholders BP had found little appetite for a vote on the revised targets. He said BP's largest shareholders had told the company they didn't feel it was their role to encroach on BP's strategy. Lund said the company would keep under review the opportunity for shareholders to vote on the climate transition strategy. In the meantime, they would continually update shareholders on progress made against their new targets.

Given the weak support for the shareholder proposal and the comments from the chair, we'll consider possible next steps ahead of the 2024 AGM.



**16.7%**

**Support for stricter carbon emissions targets**

## TIMELINE

**2021**

Abstain on shareholder resolution for publication of targets aligned with Paris Agreement. We are concerned at misalignment with Paris Agreement but acknowledge BP's progress, including 2020 launch of net zero emissions plan.

**2022**

Vote against approval of BP climate plan. Support shareholder resolution for targets aligned with Paris Agreement.

**2023**

Support shareholder proposal for BP to align 2030 Scope 3 targets with Paris Agreement. Stewardship director asks about climate strategy at AGM.

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

# Dollar General: risks over health and safety

## WHAT'S THE ISSUE?

Every company has a duty to look after the health and safety of its employees. Since 2017, US discount retailer Dollar General had faced a total of $12.3 million in penalties from the Occupational Safety and Health Administration (OSHA) for this issue. The OSHA had included the company in its 'severe violator' programme, which includes any company that repeatedly violates safety standards. It had also imposed more than $21 million in fines against Dollar General since 2017 for safety hazards in stores, such as blocked fire exits and electrical outlets, and boxes stacked up in aisles. As well as reducing the risk of fines, there's evidence that companies that look after workers can deliver stronger financial performance and create more efficient and motivated workforces.

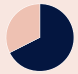
## WHAT DID WE DO?

We supported a shareholder resolution asking Dollar General to commission a third-party audit on health and safety. We believed this would give shareholders improved transparency about the company's policies and practices, including the board's risk management.

## WHAT HAPPENED?

The proposal calling for an audit of the workplace passed, with 67.7% support, although the vote wasn't binding on management. Because Dollar General failed to respond in the months following the AGM, we joined a group of shareholders in signing a letter requesting a meeting with the company to discuss how it would implement what the proposal asked for. After several attempts to organise a meeting with the company, Rathbones managed to meet on its own with the investor relations department to discuss its dissatisfaction.

In November 2023, the company said it planned before the 2024 shareholder meeting to respond to the shareholders' request to commission and publish the audit. We will keep monitoring whether Dollar General fulfils this commitment.



**67.7%**
Support for third-party audit of health and safety

> **There's evidence that companies that look after workers can deliver stronger financial performance and create more efficient and motivated workforces."**

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

**CASE STUDIES** CONTINUED

# Nichols: the case for independent directors

### WHAT'S THE ISSUE?

Remuneration committees decide executive pay. Experts regard setting them up as best practice, even at smaller companies. However, the involvement of independent directors in these committees is vital. Independent directors are more likely to bring objectivity, reducing the risk of the conflicts of interest that can arise from ties between non-independent directors and management. The oversight of independent directors promotes accountability and transparency in pay decisions, fostering shareholder confidence. It's a core requirement of the Quoted Companies Alliance (QCA) Corporate Governance Code to have a full independent remuneration committee. The QCA Code is the code for the majority of businesses on the UK's AIM market for smaller listed companies.

### WHAT DID WE DO?

Nichols is a UK soft drinks company that makes the fizzy drink Vimto, among other brands. We were doubtful that its remuneration committee was fully independent due to the presence on it of a non-executive director who had been executive chair until 2007 and had served on the board for 48 years. This is far above the nine years after which the FRC, a regulator, thinks directors are at risk of no longer being truly independent.

We chose to abstain on the re-election of the non-independent director to the board and wrote a letter to the company explaining why. Although we commended the board for putting more independent directors on the crucial committees of audit and remuneration, we raised concerns that the company was falling short of the QCA Code.

### WHAT HAPPENED?

The chair of the board thanked us for our letter and our willingness to engage. Several months later, Nichols told us that the membership of all board committees would now comprise only independent non-executive directors, with non-independent directors only invited to attend board committee meetings at the discretion of the committee chair. We praised the company for making this change and placing a high priority on alignment with the Code.

**"The oversight of independent directors promotes accountability and transparency in pay decisions, fostering shareholder confidence."**

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

**CASE STUDIES** CONTINUED

# Glencore: calling for more climate ambition

### WHAT'S THE ISSUE?

We were among the 23.5% of shareholders that voted at the company's 2022 AGM against its Say on Climate resolution, which asked them to back its climate progress report. On the one hand, the company had made progress during its financial year, particularly on efforts to:

- improve disclosure
- match capital spending with its targets for reducing carbon emissions
- understand the carbon footprint of its products.

This included assisting with the development of the Global Battery Alliance's Battery Passport, a way of making batteries more sustainable by increasing transparency for the industry.

On the other hand, several questions remained about whether the group's targets were aligned with the Paris Agreement - similar to the questions we had in 2022. Glencore's climate plan also remained heavily reliant on actions taken after 2035. This gave us misgivings about the sense of urgency and the timeliness of the group's initiatives.

Decisive moves by major carbon emitters to move to net zero help protect our portfolios against loss of revenue and damage to assets because of climate risks.

### WHAT DID WE DO?

At the 2023 AGM, we again voted against Glencore's Say on Climate resolution. We also supported a shareholder proposal calling for more clarity on:

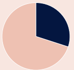
- how the company's goals for reducing greenhouse gas emissions matched those of the Paris Agreement
- how its capital spending chimed with the Agreement.

### WHAT HAPPENED?

Management's Say on Climate proposal was opposed by 30.2% of shareholders, while the shareholder proposal received 29.2% support. That level of opposition put Glencore on the Investment Association's Public Register, which names and shames UK companies that have suffered a shareholder revolt of above 20% of shareholders. We engaged with the company after the AGM to discuss in more detail the large number of votes against management and the concerns raised in the letter sent to the chair ahead of the AGM, declaring our voting intentions. We always send such letters in advance when we plan to oppose management.

In 2023, we also became a lead investor for Climate Action 100+'s engagement with Glencore. This role opened the door for us to have deeper and more constructive engagement with the company to address investor disquiet, which centres around the management of climate-related risks.

We've discussed directly with the company a new, more ambitious Climate Transition Action Plan, which will go to the AGM for shareholder approval in 2024.



**30.2%**
**Opposition to management's Say on Climate proposal**

### TIMELINE

**2021**
Vote against Say on Climate resolution as the company hasn't set further near-term emissions targets or made clear commitments for thermal coal.

**2022**
Oppose chair over ESG risk management, including climate risks. Vote against Say on Climate over the company's exposure to thermal coal and lack of appropriate mid-term greenhouse gas reduction targets.

**2023**
Vote against Say on Climate. Support shareholder proposal for more robust climate plan for 2024, including Paris-aligned goals.

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

**CASE STUDIES** CONTINUED

# Becton, Dickinson & Co: shareholder revolt over severance agreements

**“We supported the shareholder proposal calling on the board to seek shareholder approval of any senior manager’s pay package.”**

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

### WHAT’S THE ISSUE?

A severance agreement provides a pay-out for senior management when contracts are ended for reasons other than 'dismissal for cause', the legal term for being fired for unsatisfactory conduct. History provides examples of senior management benefitting from exceedingly generous severance agreements that don’t reflect the executives’ performance. In some cases the pay-outs are so large that they’re a major cost to shareholders. Because of these issues, it’s crucial that shareholders have an opportunity to vote on severance agreements.

### WHAT DID WE DO?

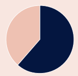
At the AGM of US medical technology company Becton, Dickinson & Co, we supported the shareholder proposal calling on the board to seek shareholder approval of any senior manager’s pay package, if it provides for severance or termination payments with an estimated value more than 2.99 times the sum of the executive’s base salary plus target short-term bonus. Such proposals are becoming progressively more common at large US companies - and often gaining more support from shareholders.

### WHAT HAPPENED?

The resolution earned 61.6% shareholder support. It’s rare to see shareholder resolutions win a majority of votes, particularly given the falling support that we saw in the US 2023 AGM season for them and the fact that they’re advisory rather than binding.

In the months after the AGM, the company engaged with shareholders that supported the resolution, proposing a policy slightly different to what shareholders had approved. The crucial difference was that the directors whose employment was being terminated would no longer have quicker access to awards ahead of the vesting date originally set out in their pay package. The vesting date is the point after which people acquire ownership of various benefits, such as shares under long-term incentive plans.

Shareholders were happy with the proposal so the board adopted it.



**61.6%**

**Support for stricter oversight of severance pay**

**CASE STUDIES** CONTINUED

# Starbucks: support for freedom of association

## WHAT'S THE ISSUE?

The International Labour Organization espouses freedom of association, which it defines as the right for workers to create and join organisations of their choice freely and without fear of reprisal or interference. It also endorses the right of collective bargaining: allowing workers to negotiate their working conditions freely with their employers. This is often done around the world through trade unions. Research suggests that unions reduce employee turnover, which can boost productivity.

The US company Starbucks has interfered with these rights and committed other labour rights violations, according to Starbucks workers, the trade union Workers United and the National Labor Relations Board, a federal agency. Critics say its actions have also created a dissonance between the company's commitments and its actions.

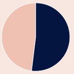
## WHAT DID WE DO?

We supported a shareholder resolution asking the board to commission a third-party assessment of Starbucks' freedom of association and collective bargaining policies and practices. The resolution called for this assessment to go up on the company's website. We felt an independent third-party assessment would give shareholders a better understanding of the company's management of these issues.

## WHAT HAPPENED?

The shareholder resolution passed, with 52.0% support. Although the resolution was non-binding, the company decided to carry out a third-party assessment, supervised by the chair as well as the nomination and corporate governance committees. Six months after the AGM, the board disclosed the assessment's findings. These showed that while Starbucks hadn't intended to deviate from the principles of freedom of association and the right to collective bargaining, there were things it could and should do to improve its stated commitments to them.

We were encouraged to see that in response to the report, the board created an environmental, partner and community impact committee to oversee the company's work in this area.



**52.0%**
**Vote for shareholder resolution on workers' rights**

> **"We supported a shareholder resolution asking the board to commission a third-party assessment of Starbucks' freedom of association and collective bargaining policies and practices."**

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

**CASE STUDIES** CONTINUED

# ExxonMobil: a case for escalation?

### WHAT'S THE ISSUE?

We believe that climate risks can harm the performance and valuation of our investments. This includes the physical risk of damage to assets or income. It also includes 'transition risk', the risk that a company may be harmed by the global economy's transition to net zero greenhouse gas emissions. For example, a company may face fines or lose licences for failing to move fast enough for governments. As a wealth manager, we have a fiduciary duty to understand the impact of climate change on what we invest in.

Under the Paris Agreement, countries agreed to limit global warming to 1.5°C by setting out plans to move to net zero greenhouse gas emissions. This is likely to put the US fossil fuel company ExxonMobil under increasing transition risk. That includes regulatory, competitive, legal and financial hazards, because the company isn't aligned with the move to net zero. For example, by continuing to make new investments in fossil fuels, it's at odds with the IEA's Net Zero by 2050 pathway.

Moreover, judged against the Climate Action 100+ initiative's benchmark, ExxonMobil only met two of the ten criteria in full. This benchmark enables investors to assess the robustness of companies' business plans in a range of climate scenarios. We thought the company should respond to these risks with a clear and costed plan for transitioning away from fossil fuels and increasing investment in cleaner energy technologies.

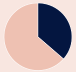
### WHAT DID WE DO?

Because of these concerns, we decided to vote against the re-election of the combined CEO and chair, lead independent director and public issues and contributions committee chair. We also chose to support nine shareholder resolutions – six of them directly relating to the company's climate strategy, targets and disclosure.

### WHAT HAPPENED?

None of the shareholder resolutions we supported passed. But one of them, for the board to issue a report that assesses the reliability of its disclosure of methane emissions, gained 36.4% support. We hoped this demonstrated to the board that a large minority of shareholders had qualms about the issue. Methane is more than 28 times as potent as carbon dioxide at trapping heat in the atmosphere.

Taken as a whole, shareholders favoured the directors, with none receiving more than 6% opposition. However, in line with our updated voting policy, we're considering voting against all incumbent directors at the 2024 AGM as part of our escalation procedure. We mull this step when we don't see change happening quickly enough at a portfolio company following several years of engagement.



**36.4%**
**Support for report on methane emissions**

### TIMELINE

**2020** – Recommend opposing CEO/chair re-election over fears that climate risk isn't being addressed. One fund manager supports re-election.

**2021** – Vote against CEO/chair and lead independent director. Support election of four dissident nominees to board, in response to its inaction in protecting shareholders from climate change risks.

**2022** – Vote against these people again, plus the public issues and contributions committee chair. Also support climate shareholder proposal.

**2023** – Vote against all three people once more and support six climate shareholder proposals.

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

**CASE STUDIES** CONTINUED

# RHI Magnesita: pressing for dialogue over diversity

**There's a growing body of academic evidence that diverse groups of people may make better decisions."**

*The specific securities identified and described are for informational purposes only and do not represent recommendations.*

### WHAT'S THE ISSUE?

There's a growing body of academic evidence that diverse groups of people may make better decisions. McKinsey, the management consultancy, also finds that executive teams with strong gender and ethnic diversity are more likely to outperform their peers on a range of measures of corporate performance such as profitability, compared to more uniform teams. The UK Financial Conduct Authority's Listing Rules now call for at least 40% of the people on companies' boards to be women, and for there to be at least one woman among a quartet of top roles: CEO, chief financial officer, chair and senior independent director. These targets are on a 'comply-or-explain' basis: if companies don't meet the benchmark they must explain why not.

We noted that RHI Magnesita, which is based in Austria but listed in the UK, fell short of the FCA's targets. The company makes refractory products, which are used in high-temperature industrial processes.

### WHAT DID WE DO?

We had to weigh up a number of issues.

On the one hand, only four out of 14 directors were women - at 29%, below the 40% target. The board also lacked anyone from an ethnic minority. We'll usually oppose the re-election of the nomination committee chair where a FTSE 350 company has failed to meet one or more of these targets. The nominations committee proposes new candidates for the company's board of directors.

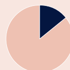
On the other hand, the company has a board diversity policy aspiration of 45% gender diversity. Moreover, a female non-executive director had chosen to step down at short notice - temporarily making the board's gender balance look worse. We thought it was unfair to penalise the company for this.

After considering all these points, we chose to be lenient, abstaining rather than opposing,

### WHAT HAPPENED?

Altogether, 14.2% of shareholders voted against the re-election of the nominations committee chair.

We called on the board to set a clear timeline for when it would meet its own board diversity policy target and the FCA's ethnic target. We said a voluntary adoption of these targets would lead to our full support in future. But despite attempts to get hold of the company, we failed to get a response. We'll therefore consider escalating our approach to an outright vote against the re-election of the chair of the nominations committee if the board is still short of these targets and we still haven't managed to communicate with the board ahead of the AGM.



**14.2%**

**Vote against nominations committee chair**



# TRANSPARENCY

**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.**

# HOW WE WORK TO BE TRANSPARENT

Our fourth responsible investment principle is transparency: this means being open and clear about what we're doing and why. We know that our clients have a wide range of views on ESG issues; we take account of this, while also striving to make sure we are homing in on the issues that could have the greatest effect on the value of their investments. As we seek to meet these two objectives, transparency is key in building trust in our approach – we want to be open with clients about what issues we're focusing on and to what extent.

## THE STEWARDSHIP CODE

In the wider market, openness in financial services is core to the mission of the FRC, the regulator that sets the guidelines for good responsible investment known as the Stewardship Code 2020.[1] This is about more than meeting regulatory expectations for regular reporting – though we do that. Examples of this are our annual Stewardship Code compliance statement and our reporting for the PRI's Benchmark Assessment. We go further by producing reports such as this one, and by publishing our voting record on our website.

In 2023, we enhanced the transparency which this voting disclosure tool offers by producing a rationale for every vote against management. For example, it explains why we voted against BP's board over carbon emissions reduction targets.

We're happy to discuss any aspect of our responsible investment approach in detail with clients. To assist with this, our stewardship and ESG integration teams regularly support client meetings and other ways of communicating with clients.

We expect transparency from others too, to enable us to steward assets to the best of our abilities. In 2023, we took this a step further by engaging with all our biggest providers of managed funds. We wrote to these managers to request additional disclosures about their methods of stewardship and ESG integration.

1 The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

# PRINCIPLES FOR RESPONSIBLE INVESTMENT

The Principles for Responsible Investment, or PRI, are the six principles, backed by the United Nations, which investors voluntarily agree to meet.

It's also the name of the body that assesses how investors are measuring up to the principles and encourages progress in meeting them. The PRI remains the premier global responsible investment network, bringing together thousands of investors around a commitment to these principles.

We've been signatories of the PRI since 2009, submitting our performance for PRI assessment at every opportunity. We're also regular participants in the UK network and the online collaboration platform.

After a period of time when we couldn't produce updated scores while the PRI reviewed its reporting framework. But the PRI has now completed this, enabling us to show our clients scores for the calendar year 2022. After close co-operation between the different teams in charge of our different asset classes, we saw many improvements, with a particularly strong performance from fixed income.

Scores are based on the PRI's assessment of signatories' responsible investment implementation in their investment processes. As a wealth manager, we look after thousands of different investment portfolios for private clients. This means that scores for particular asset classes will reflect the many different investment approaches that different investment managers take on their clients' behalf after considering their priorities and preferences. For that reason, it would be difficult for Rathbones' scores to approach 100%. This is in contrast to some asset managers, such as endowments, that have a more centralised process.

While we provide specialist information to investment and fund managers, they're free to include it in their investment approach in the way that they think serves the interests of each client.

## OUR SCORES

### HIGHLIGHTS:

- **Investment and stewardship policy:** our score was 72% in 2020. For this category, now expanded to cover stewardship activities too, and renamed policy, governance and strategy, we earned a score of 77%.
- **Direct – listed equity active fundamental:** up from 37% in 2020 to 42% now.
- **Fixed income – SSA and corporate:** up from 28% and 29% in 2020 to 67% in both cases. 'SSA' stands for sovereign, supranational and agency debt (mainly government bonds).
- **Confidence-building measures:** 80%. This is a new category, which assesses how we review and verify the data reported to the PRI. Issues considered include our overall approach to review and verification, whether a third party has checked the data, whether our internal audit team has done the same, and the seniority of the Rathbones executive who reviewed the report before submission.

### THE SIX PRINCIPLES ARE:

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.

### SUMMARY SCORECARD

| Module score out of five | | AUM coverage | Score in detail |
|---|---|---|---|
| Policy, governance and strategy | ●●●●○ | | 77% |
| Direct – listed equity – active fundamental | ●●●○○ | >50% | 42% |
| Direct – fixed income – SSA | ●●●●○ | <10% | 67% |
| Direct – fixed income – corporate | ●●●●○ | >=10 and <=50% | 67% |
| Confidence-building measures | ●●●●○ | | 80% |

# GLOSSARY

**Climate Action 100+**
A global investor coalition engaging with the world's largest corporate greenhouse gas emitters to take action on climate change.

**Climate risk**
Risks that can harm the performance and valuation of our investments. This includes the physical risk of damage to assets or income. It also includes the transition risk that a company may be harmed by the global economy's transition to net zero greenhouse gas emissions.

**Collective**
An investment vehicle, such as an investment trust, composed of a pool of different investments.

**Governance**
The system of rules, practices and processes in place to manage and control a company.

**Embedded emissions**
The emissions associated with an investment company's investments. For example, if Rathbones had a 1% share of a company with 20 million metric tons of $CO_2$ emissions, Rathbones' embedded emissions from that investment would be 0.2 million tons.

**Engagement**
Using our voice with companies, industry bodies and policymakers to address ESG issues of concern, improve ESG practices and disclosure, and bring about positive change. It includes many approaches, such as meetings with senior management, public statements, collaboration with other investors and tabling or voting on resolutions at company annual general meetings.

**ESG**
A widely accepted shorthand term – in full, environmental, social and governance – that refers to the three main categories of non-financial risk that must be managed by companies in client and fund portfolios. Originally an adjective but increasingly used as a noun too.

**Ethical investment**
Investment that excludes or promotes investment in certain activities based on personal or corporate values. Common exclusions are weapons, alcohol and gambling.

**Fiduciary duty**
An obligation to act in someone's best interest. We have a fiduciary duty to our clients.

**Impact investment**
Investment intended to generate a measurable, beneficial social or environmental impact alongside a financial return.

**Institutional investor**
Large institutions that invest correspondingly large amounts of money – as opposed to households. Examples are pension funds and investment management businesses such as Rathbones.

**Just transition**
The idea that the transition to a green global economy takes place while also supporting those who stand to lose economically – be they countries, regions, industries, communities, workers or consumers.

**Materiality**
Both the idea that ESG factors can affect the valuation of a company, and the notion that only certain aspects of ESG performance are directly relevant to a particular company. For example, biodiversity is more material to a global agribusiness, which could suffer consumer and investor boycotts for sourcing beef from pastureland created by destroying rainforest, than to an IT services company.

**Modern slavery**
The UK Government defines modern slavery as the recruitment, movement, harbouring or receiving of children, women or men through the use of force, coercion, abuse of vulnerability, deception or other means for the purpose of exploitation.

**Net zero**
Achieving net zero emissions means balancing the release of greenhouse gases into the atmosphere by absorbing or avoiding an equivalent amount.

**Non-executive director**
A board member without a day-to-day management role at a company.

**Paris Agreement**
An international accord to limit global warming, adopted at the 2015 UN Climate Change Conference. Countries agreed to work to keep temperature increases to well below 2°C above pre-industrial levels, and preferably to 1.5°C. This involved reaching net zero emissions by the middle of this century.

**Principles for Responsible Investment (PRI)**
A global initiative, backed by the United Nations, committed to advancing responsible investment through six aspirational principles.

**Proxy voting**
Voting on resolutions at company meetings by a party appointed by the underlying investor, such as an investment manager.

**Responsible investment**
The purposeful integration of ESG considerations into investment management processes and ownership practices.

**Resolution**
An item of business at a meeting of shareholders. A resolution is a formal decision taken at a meeting through a vote. Resolutions are usually proposed by the company, according to local regulatory requirements. However, a minority are proposed, or 'tabled', by shareholders (see shareholder resolution' below).

**Science Based Targets initiative**
Science-based targets provide companies with a roadmap for reducing their emissions at the pace and scale that the science tells us is necessary for a 1.5°C world. In most cases, companies ask an organisation called the Science Based Targets initiative to check and approve them.

## GLOSSARY CONTINUED

### Scope 1, 2 and 3 emissions
Defined by an international body called the Greenhouse Gas Protocol, the scopes are categories used to measure the different types of carbon emissions of companies. Scope 1 emissions are generated directly by the business (e.g. its facilities and vehicles). Scope 2 covers emissions caused by something a company uses, such as electricity. Scope 3 is notoriously hard to measure but covers other emissions for which a company is responsible, such as emissions generated when its products are used, and – for a financial services company – emissions generated by its investments.

### Shareholder resolution
A proposal submitted by shareholders to the management of a publicly listed company. Shareholders vote to accept or reject it at the annual general meeting.

### Stewardship
Investors' use of their rights and influence to protect and enhance overall long-term value for clients, including the common economic, social and environmental assets on which their interests depend.

### Sustainable Development Goals
A set of 17 goals set out by the United Nations, which are designed to make life better for people without harming the ability of future generations to meet their needs. That includes not damaging the planet. Each goal contains a number of targets. For example, Goal 3 is Good Health and Well-Being, and Target 3.b is to create vaccines and medicines for developing country diseases and to make essential medicines and vaccines affordable.

### Sustainable investment
Investment in companies with business models that help the planet or society – or at least that don't harm the planet or society. Sustainable investors often anchor their investing to the Sustainable Development Goals (see earlier).

### Systemic risks
Risks that may impede the healthy functioning of society, ecosystems and the economy – and so may affect the prospects for investment risk and return.

### Task Force on Climate-related Financial Disclosures (TCFD)
The TCFD was created in 2017 to encourage companies to report their annual emissions and include in their annual reports risks to their business because of climate change. In 2022, the UK became the first major economy to require large companies and financial institutions to make disclosures aligned with the TCFD framework. In October 2023 the TCFD disbanded and its work was transferred to the IFRS Foundation.

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