Responsible investment at Rathbones

Benefiting society and investors

Thinking, acting and investing responsibly

At Rathbones, we strive to protect and grow your wealth. Building sustainable and enduring value for our clients requires making decisions today whilst keeping the future in mind. This can also create sustainable and enduring value for society.

We recognise the environment, society and financial returns are all intertwined. Along with Our People, Our Society and Communities and Our Environmental Impact, Responsible Investment is one of the four key areas of focus where we believe we can have the most positive effect.

By addressing environmental, social and governance (ESG) issues, a responsible investment approach not only serves to protect the planet and people. It also preserves wealth and generates returns via enhanced risk management and the identification of promising investment opportunities. With responsible investment, building a sustainable future and creating value go hand in hand.

A track record of progress

ESG champion of the year

Investors' Chronicle / Financial Times 2021 Celebration of Investment Awards

"Rathbones' active voting record and commitment to reducing holdings in companies seen to represent an ESG risk show it is prepared to put its money where its mouth is."

- Award Judges

FTSE4Good Index constituent

for over 10 years

Principles of Responsible Investment signatory

since 2009

Over £3 million

given in charitable donations

Over 10,000

16 to 25 year olds engaged in Rathbones Financial Awareness Programme since 2014

38% reduction

in carbon intensity per employee since 2013 baseline

24,154 tonnes of CO_2

offsets retired through our partnership with ClimateCare since 2011

Women in Finance Charter

signatory since 2018

Making sense of responsible investment and ESG

Responsible investment is about preserving the value of your portfolio by considering environmental, social and governance (ESG) issues when making investment decisions, engaging with companies and voting. It also helps to protect people and planet.

Analysis of ESG risks and opportunities is much more than a 'nice-to-have'. It is essential to both understanding how responsible an investment is and our ability to protect your wealth and create value for you over the long term.

In responsible investment, analysis of the E, S and G elements is integrated into the investment process to enhance risk management and generate value - from initial stock selection and portfolio construction to ongoing ownership and stewardship practices.

Risk management

By identifying additional risks to the performance of a company, ESG analysis enhances the risk management process. These additional risks can be regulatory, such as failing to meet mandated requirements, as well as reputational, such as failing to meet society's expectations of corporate responsibility.

Value generation

By identifying compelling investment opportunities that will benefit from the growing demand for sustainability and the transition to a lower-carbon economy, ESG analysis can enhance returns.

And, once invested, active shareholders have an important role to play in influencing companies to improve their ESG performance. Voting on resolutions at a company's annual general meeting for shareholders as well as both direct and indirect engagement with management teams are key tools at the disposal of active shareholders to effect change.

'ESG' stands for environmental, social and governance, the criteria used to evaluate companies on a range of issues outside of traditional financial analysis.

Environmental

The preservation of the natural environment.
This includes considering:

- biodiversity loss
- climate change
- energy efficiency
- resource depletion
- waste management
- air and water quality.

Social

The rights, well-being and interests of people and communities.
This includes:

- equality and diversity
- employment rights
- human rights
- supply chains
- data protection and privacy
- product safety and liability.

Governance

The governance of companies and other investment vehicles.
This includes:

- management structure and compensation
- accounting and auditing standards
- board leadership, diversity and independence
- succession management
- shareholder rights.

Source: Principles for Responsible Investment

We are continuing to evolve our approach to responsible investment

A heritage of responsible investment

Responsible investing is not new to us. In 2009, we were one of the first private wealth managers to sign up to the UN-backed Principles for Responsible Investment (PRI).

For over 20 years, our specialist team, Rathbone Greenbank Investments, has been offering ethical, sustainable and impact investment services.

Taking our responsibility further

We are now integrating responsible investment principles more deeply into our investment and ownership practices. Contributing to a more sustainable world is not only the right thing to do, it also makes good financial sense.

Four core principles guide our responsible investment approach

ESG integration

Where possible, we consider environmental, social and governance (ESG) factors in the evaluation of investments we hold directly for you, to help identify ESG opportunities and risks.

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Voting with purpose

We actively vote across all votable holdings, unless these are very small. This may involve voting against management to help drive positive change.

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Engagement with consequences

We prioritise engagement where we can make a difference in addressing systemic environmental and social challenges. We are prepared to reduce our holdings in companies that present an ongoing ESG risk.

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Transparency

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

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ESG integration

We believe that ESG issues – both risks and opportunities – can affect the long-term performance of investments. We therefore need to think about these factors when building portfolios for clients and making investment decisions.

We aim to develop a more comprehensive view of a business' strategy, the way it executes this strategy and the dynamics of its sector than can be achieved solely through a financial lens. We do this by using ESG data, engaging with companies and exercising our carefully considered judgment. This helps us identify companies with stronger sustainability performance. It also identifies companies where, through engagement, we see potential to improve business practices to create value for shareholders.

Our investment managers actively participate in our investment process, from company visits and internal discussions to analysing external broker research, considering ESG factors and assessing investment themes.

Detailed ESG research is an increasingly important part of our investment analysis

We continue to build out our research, data and decision frameworks so that we can better understand and weigh up ESG factors alongside other investment considerations.

ESG integration will inform portfolio decisions and support our conversations with you about the broader risks and opportunities that may impact your investments.

How we are doing this

Our goal is to make informed judgments and incorporate these into our recommendations and investment decisions. We seek to understand not only what a company does, but also how it achieves its objectives and any potential impact its activity may have on society and the environment. We deploy a number of techniques to identify and analyse these impacts.

For example:

We seek to understand which ESG factors are likely to have the most significant effect on the return from an investment

We can exclude specific sectors that don't align with your values, such as tobacco or arms manufacturers

We identify promising securities through the lens of the United Nations Sustainable Development Goals and other sustainability criteria

When selecting investments, we exclude companies that manufacture cluster munitions or anti-personnel landmines, or earn a significant portion* of their revenue from thermal coal

We look out for controversies and factors that might indicate higher ESG risk. By understanding the specific issues, we can identify companies with stronger sustainability performance. We can also identify companies where, through engagement, there is potential to improve business practices to create value for shareholders

We use a range of sources outside Rathbones for ESG and climate data, along with our own research, to inform our analysis

* Applied threshold of more than 10% of revenue.

Environmental

We examine the challenges and opportunities faced by companies through climate change, resource management, new regulations and other environmental issues.

Social

We monitor the legal and reputational risks faced by companies to ensure they have strong policies and procedures to deal with issues, such as employee relations, community impacts and human rights risks.

Governance

We review the quality and robustness of a company's internal structure and practices for governance. These include issues such as executive pay, board composition and audit, as well as standards of business ethics.

Voting with purpose

Issues we consider include:

- Board independence
- Executive bonuses linked to ESG targets
- Diversity on boards
- Audit vs. non audit fees
- 'Say on Climate' votes

When you invest in a company, you gain the right to vote at the annual general meeting (AGM) of shareholders. For most of our clients, Rathbones will submit a proxy vote on their behalf.

Ensuring that the companies we invest in adopt best practice in managing ESG risks is in our clients' best interests. Our vote can influence corporate action and encourage companies to move in the right direction.

How we are doing this

We monitor emerging ESG trends to inform our voting intentions. We vote in line with management recommendations far more often than we vote against them, because we seek to invest in companies that already have sound corporate governance. Voting against management is a significant step, which we only take when dialogue has failed - and we will always follow up with further engagement.

Acting on your behalf

We take our responsibility for proxy voting seriously as representatives of our clients, so we are considered in our approach to every resolution.

The cornerstone of all responsible investment is an active and considered approach to proxy voting.

Proxy voting at Rathbones is overseen by a committee of investment professionals from across the business. This Voting Committee is supported by a stewardship team and an external proxy voting consultant

1. We vote according to our own bespoke policy.
2. Where we hold assets directly for you, we actively vote across all holdings, unless these are very small.
3. Voting is undertaken on our most widely held holdings and on any company if requested by a client who is a shareholder of that company.
4. We are prepared to vote against management to help drive positive change.
5. In 2021 we voted on 11,934 resolutions on behalf of clients.

Case study: Votes against slavery

Following a successful 'Votes on slavery' pilot scheme in 2020, in 2021 Rathbones again led an investor collaboration to urge companies to meet their modern slavery reporting obligations.

Representing a combined £7.8 trillion in assets under management, our purpose is to use our influence to challenge FTSE 350 Index companies that have failed to meet the requirements of Section 54 of the Modern Slavery Act 2015. The Act requires organisations to set out the steps they have taken to ensure modern slavery is not taking place in their business or supply chains.

Working with respected international Non-Governmental Organisations, we compiled a target list of 61 laggard companies to encourage them to achieve full compliance. If the companies did not become compliant, investors resolved to consider voting against the annual report and accounts at the next AGM, which is not desirable for companies.

We expect members of the FTSE 350 to lead in tackling modern slavery, taking meaningful action to identify and address slavery in their supply chains. By combining our influence through voting and engagement, we have been able to achieve substantial change.

By the end of 2021, 59 of the 61 companies had become compliant.

If you'd like to find out more, you can watch our webinar or read our report on our 2020 Votes against slavery engagement.

Engagement with consequences

An important aspect of our approach to responsible investing is the dialogue we maintain with the companies we invest in.

Through active engagement, we use our voice to influence them towards better, more sustainable long-term performance.

Studies have shown that engagement with companies on ESG issues can lead to better investment outcomes. When combined with active voting, and set within a clear escalation framework, it can be a powerful force for positive change.

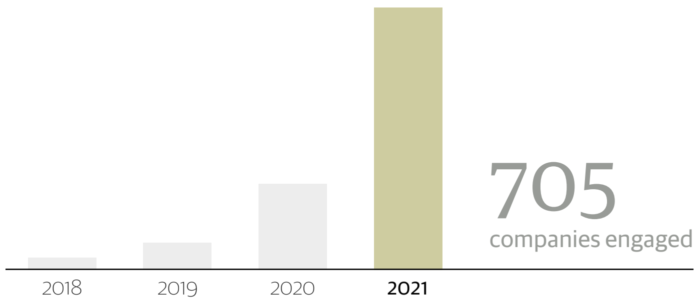
How we are doing this

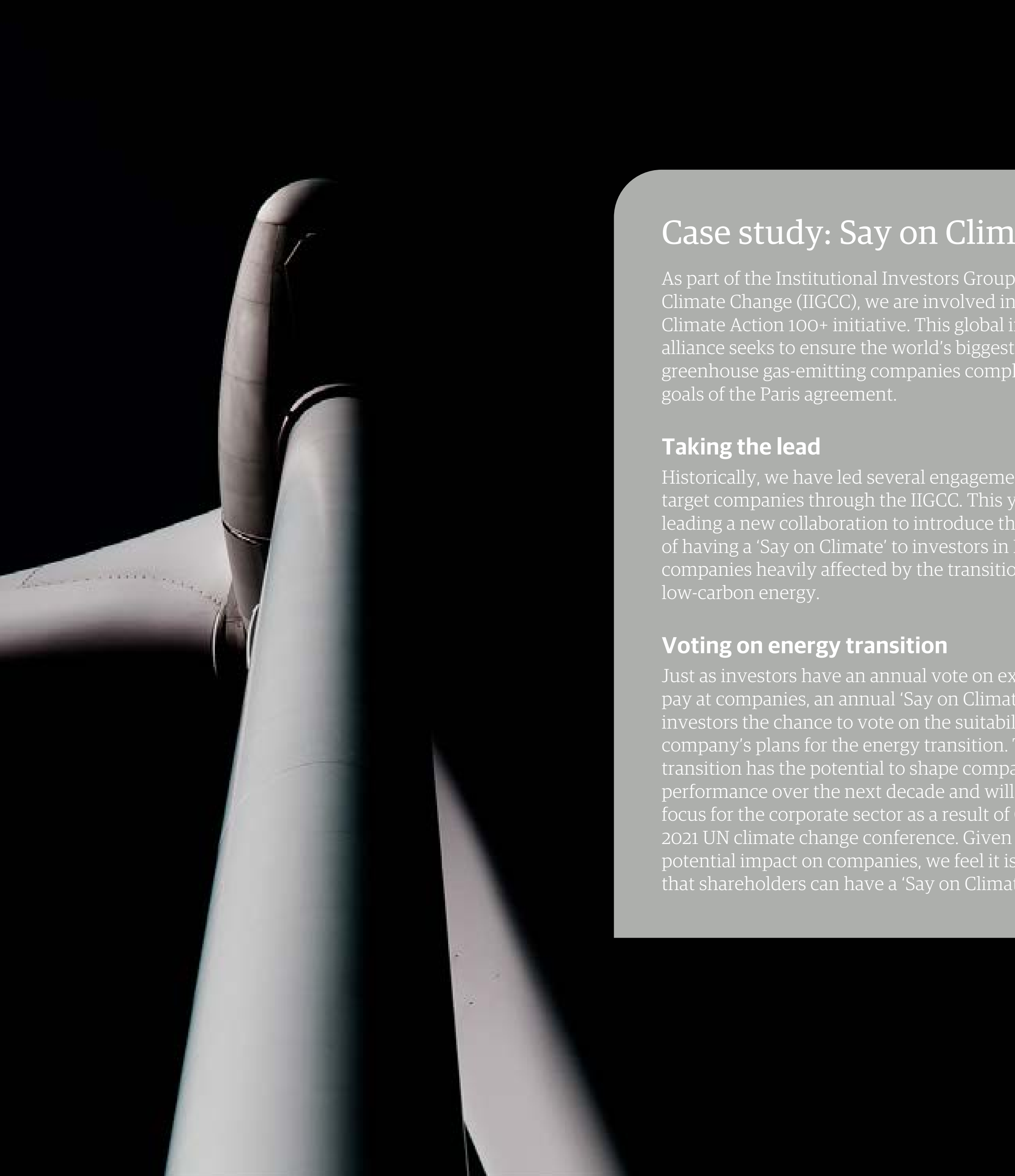
Company engagement on ESG issues has been an important part of our stewardship activities for many years. We prioritise engagement where we can make the most impact towards addressing systemic environmental and social challenges and add value to clients' portfolios. And our engagement efforts are backed up by our willingness to reduce our holdings in companies that continue to present ESG risks over time.

Company engagement can take many forms, including:

– meetings with senior management
– public statements
– collaboration with other investors
– tabling or voting on resolutions at company AGMs.

Direct ESG engagement with companies





Case study: Say on Climate

As part of the Institutional Investors Group on Climate Change (IIGCC), we are involved in the Climate Action 100+ initiative. This global investor alliance seeks to ensure the world's biggest greenhouse gas-emitting companies comply with the goals of the Paris agreement.

Taking the lead

Historically, we have led several engagements with target companies through the IIGCC. This year, we are leading a new collaboration to introduce the concept of having a 'Say on Climate' to investors in European companies heavily affected by the transition to low-carbon energy.

Voting on energy transition

Just as investors have an annual vote on executive pay at companies, an annual 'Say on Climate' will give investors the chance to vote on the suitability of a company's plans for the energy transition. The energy transition has the potential to shape company performance over the next decade and will be a major focus for the corporate sector as a result of COP26, the 2021 UN climate change conference. Given its potential impact on companies, we feel it is important that shareholders can have a 'Say on Climate'.

Collaboration for change

Collaboration will increase our ability to drive change. Some of the key engagement memberships we are involved in are:

PRI Principles for Responsible Investment

IIGCC The Institutional Investors Group on Climate Change

Climate Action 100+

Transparency

Transparency is an essential element of responsible investment. By being transparent about our responsible investing approach and activities, we can demonstrate our commitment to, and progress towards, achieving real change. It also helps us communicate openly about the challenges of developing a responsible investment service tailored to the diverse needs and values of our clients.

How we ensure our transparency

We benchmark our performance against industry peers through involvement in the United Nations-backed Principles for Responsible Investment (PRI) annual reporting cycle. We are proud to have achieved an A+ rating for the strategy and governance module since 2018.

We also:

- publish an annual and interim Responsible Investment Reports
- include a responsible investment section in our annual report and accounts
- share live and interactive voting decisions on our website
- publish regular thought leadership articles and host events on responsible investing
- are involved in a number of key membership organisations, which include:

Rathbones and responsible investment: frequently asked questions

Q: Will my fees be higher?

A: No, our fee structure will remain the same - even though we have added resources to our research and client reporting teams to incorporate responsible investment more fully and to provide you with more information on your portfolio. This is largely because the costs of the additional resources, which we will incur, are not high as we already had established teams in both these areas. For example, we've had a specialist stewardship team for many years.

Q: I don't want things to change. Can I opt out of your responsible investment offering?

A: Our responsible investment approach is not new, but an enhancement to our existing standard service. It ensures that we take into account all relevant information when making investment decisions and is designed to make us even better at identifying risks and opportunities and ultimately protecting the value of your portfolio. Our primary goal is to meet your financial objectives. Responsible investment is integral to the approach we use in order to achieve this. Because of this it is not possible to opt out.

Q: I value my investment manager's independence. Will these changes reduce it?

A: Our changes are about giving investment managers even better information to help them make their own decisions. Your investment manager will therefore remain accountable for all portfolio decisions as before. Any investment restrictions, such as cluster munitions, can be found in our responsible investment policy.

Q: I'm happy with the responsible investment approach you've just explained to me, and I don't have any specific investment requests. Do I need to do anything further?

A: No, you don't need to do anything further because we're not offering a new service. Your investment manager will manage your funds as before under your existing agreement.

Q: I try to be green and do good in my personal life by living responsibly and giving to charity. Why do I need to think about investing responsibly too?

A: Responsible investment is centred on protecting the value of your portfolio by considering ESG issues when making investment decisions, engaging with companies and voting. Today, society, the environment, and financial returns are all intertwined. Responsible investment protects all three - by helping people and the planet and by contributing towards the creation of a healthy economy, one that is capable of generating sustainable investment returns into the future.

Learn more

We are committed to expanding and deepening our approach to responsible investment. If you would like to find out more information about our efforts, please visit our website.

We have a section dedicated to responsible investment, or if you would like to learn more about our other responsible business pillars, you can do that too.

We also regularly produce articles and host events on responsible investing, how it impacts you and the world around you. These are available on our responsible investment insight hub.

Thinking, acting and investing responsibly, together

Important information

Rathbones
Look forward

rathbones.com/responsible-investing

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Rathbones Group Plc

rathbonesplc